Committed to
professional excellence

बैंक क्वेस्ट

Bank Quest

Rs. 40/-

The Journal of Indian Institute of Banking & Finance

खंड. / Vol. 85 ● अंक. / No. 3 ● जुलाई - सितंबर 2014 / July - September 2014

Special Issue

ASIA-PACIFIC ASSOCIATION OF BANKING INSTITUTES

Talent Management In Banks

APABI

IT MAKES BUSINESS SENSE TO TAKE CREDIT INSURANCE POLICIES

- ECGC has been facilitating and insuring India's exports for more than five decades.
- ECGC offers customer-friendly Political / Commercial risk covers :
  - ✔ Short Term covers for exporters and banks.
  - ✔ Medium and Long Term covers for Project Exports.
  - ✔ Overseas Investment Insurance covers.

ISO 9001: 2008 Certified

ICRA Rating : iAAA
Insurance is the subject matter of solicitation

ई सी जी सी ECGC

भारतीय निर्यात ऋण गारंटी निगम लिमिटेड

Export Credit Guarantee Corporation of India Ltd.

(A Government of India Enterprise)

Regd. Office : Express Towers, 10th Floor, Nariman Point, Mumbai - 400 021

Tel.: +91-22-6659 0500 - 10 • Fax: +91-22-6659 0517 • Toll-free: +91-1-800-224500 • Visit us at : www.ecgc.in

Regional Office : Mumbai : +91-22-6144 8112 • Chennai : +91-44-2849 1026 • Bengaluru : +91-80-2559 1139 • Kolkata : +91-33-2282 0963 • Delhi : +91-11-4152 9912 • London : +44(0) 20 36911471

आप निर्यात पर ध्यान केंद्रित करें. हम जोखिमों से रक्षा प्रदान करेंगे ● *You focus on exports. We cover the risks.*

CONTENTS

Bank Quest

Vol. : 85 ◆ No. : 3
July - September 2014
(ISSN 0019 4921)

CONTENTS

CONTENTS

INDIAN INSTITUTE OF BANKING & FINANCE
Kohinoor City, Commercial-II, Tower-I, 2nd Floor, Kirol Road, Kurla (W), Mumbai - 400 070.
Tel.: 91-022-2503 9604 / 9746 / 9907 • Fax : 91-022-2503 7332
Telegram : INSTIEXAM • E-mail : iibgen@iibf.org.in
Website : www.iibf.org.in

MISSION

The mission of the Institute is to develop professionally qualified and competent bankers and finance professionals primarily through a process of education, training, examination, consultancy / counselling and continuing professional development programs.

ध्येय

संस्थान का ध्येय मूलत: शिक्षण, प्रशिक्षण, परीक्षा, परामर्शिता और निरंतर विशेषज्ञता को बढाने वाले कार्यक्रमों के द्वारा सुयोग्य और सक्षम बैंकरों तथा वित्त विशेषज्ञों को विकसित करना है ।

Printed by Shri R. Bhaskaran, **published by** Shri R. Bhaskaran on behalf of Indian Institute of Banking & Finance, and **printed at** Quality Printers (I), 6-B, Mohatta Bhavan, 3rd Floor, Dr. E. Moses Road, Worli, Mumbai-400 018 and **published from** Indian Institute of Banking & Finance, 'Kohinoor City, Commercial-II, Tower-I, 2nd Floor, Kirol Road, Kurla (W), Mumbai - 400 070. **Editor** Shri R. Bhaskaran.

PART - 1

Contemporary Issues in Banking

Dr. R. Bhaskaran
Chief Executive Officer,
IIBF, Mumbai

Contemporary Issues in Banking

Banking has changed irrevocably. The primary reason for this is the rapid advancements in Banking Technology which has changed the way banking is done and also enabled a variety of delivery channels. Banking is now anytime, anywhere and anyhow! The second reason is the explosion of risk. Despite the fact that banks are known to take risk in the intermediation process never has risks been so varied and so difficult to manage. This leads to the third reason which has impacted banks in more ways. Today regulation is complex, all encompassing and has multiple objectives like financial stability, inflation control and growth. Two more reasons for the change are the ever increasing concerns on security and the increased customer expectations. So how do banks manage the change? What sort of talent management strategy is needed to be ahead of competition? Will the talent strategies be different for PSU banks as against Private Banks? The market for the talent acquisition for both of them being the same how will each of them acquire appropriate talent? Will there be a noticeable shortage of specialists? It is these questions that led us to select "Talent Management' as focus for the Asia Pacific Association of Banking Institutes' (APABI) International Conference scheduled on 25th September, 2014.

Once the topic was identified we approached eminent speakers to speak in the conference It was a natural extension of the thought that a special issue of Bank Quest should be brought out. We thought it would be appropriate if the Bank Quest carries invited articles on contemporary issues on banking such as risk, regulation, governance, capital, retail banking, information technology, financial inclusion and talent management all of which impact the banking today. Further in view of the fact that Mahila Bank is a new innovation an article on sector specific bank was also invited. We received eight articles which are included in part I of this Special issue of the Bank Quest.

How are the banks managing the talent issue? To seek an answer to this we adopted a two pronged approach. Firstly we invited articles from APABI members and other overseas Banking institutes on "Talent Management issues faced by banks in their countries". We received 18 articles of which 13 are carried in part II of this issue. Further, we also carry an article on talent management, competency issues and the capacity building interventions that is needed to meet the challenges written by CEO, IIBF in this part. Secondly to have a good understanding of the issues faced by Indian Banks we conducted a questionnaire based *survey of PSU and Private Banks. 26 banks have responded to the survey. The findings of the survey are presented in Part-III.*

The first article on contemporary issues is by Mr. G. Padmanabhan, Executive Director and Mr. P. R. Ravimohan, Chief General Manager-in-Charge, Department of Banking Supervision, Reserve Bank of India. In their article "the changing face of modern banking regulation" the authors have presented a detailed account of the changes in the regulatory landscape particularly post- crisis 2008. They outline the background for modern banking regulation and the changes in the regulation that have been or being made post-crisis to various issues that impact banks and payment systems. The article highlights the key improvements as well as additions in the existing banking and payment system regulations and discusses the present status of these regulations from the perspective of Indian banks. The article draws one's attention to the defining change in the approach of the regulator in the overall perspective and the explicit recognition of the micro and macro aspects to address individual level as well as system wide risks both independently and in conjunction.

Risks are not new to Banks and risk management is the most important function of banks today. Within this, post crisis, credit risk management has taken the centre stage. Mrs. V. R. Iyer, Chairperson and Managing Director, Bank of India gives her thoughts on "Credit Risk Management-Emerging Concepts" in the second article. The author narrates the evolution of credit risk management as a discipline and practice in the light of modern banking. In addition to explaining the development of various risk management models across many areas from time to time to address risks arising out of growing complexities of modern banking, the author also describes the increasing complexities of Credit Risk Models. Further, the article discusses the concept of model risk and underlines the need for a robust model risk governance structure. Author also explains the emergence of credit derivatives as a means of hedging and diversifying credit risks.

Risk, Regulation and Governance are the triumvirate of the modern banking. Good Governance is the most talked about concept today not only in the case of manufacturing and trading companies but also of banks. The committee headed Mr. P. J. Nayak has made very far reaching recommendations on the Governance issue of banks. In this context Mr. K. R. Kamath, Chairman and Managing Director, Punjab National Bank presents his views on the issue in the third article titled "Governance issues in Banks". He explains the meaning of governance, need for governance in banking, and governance issues over the years. He discusses recommendations of various committees on governance and mentions five phases in evolution of governance structure post-1991 in India. The article also covers reform measures in governance practices in banks initiated by RBI, emerging issues and suggestions to overcome bottlenecks in governance in banks.

The next article is by Mr. R. K. Dubey, Chairman & Managing Director, Canara Bank on "Banking landscape after Financial Inclusion Goal is reached". The author says financial inclusion goes beyond opening of an account with a Bank and explains his bank's firm belief in comprehensive financial inclusion. While presenting current financial inclusion efforts, he also underscores the current reach, extent of exclusion, regional disparities in it and the need to extend not only savings products but also credit facilities to the excluded. He firmly believes that financial inclusion is a business opportunity and says the initial goal (first step) of financial inclusion in terms of providing banking outlets and opening of bank accounts was relatively successful. He emphasizes the need for deepening of financial inclusion in terms of increase in usage of basic banking accounts with financial education and making available suitable banking products etc. He charts the banking landscape for the future in terms of deployment of low cost ATMs, mobile banking and Aadhaar enabled payment system (AEPS). He also emphasizes the introduction of RuPay Card particularly RuPay Kisan Card to facilitate inclusion of farmers through electronic payment system.

Retail banking has been one of the important business drivers in the modern day banking particularly in India. Mr. A. Krishna Kumar, Managing Director & Group Executive (IB), State Bank of India puts forward his thoughts on "Retail Banking - A Modern Driver of Business - Challenges" in the fifth article. In this article he discusses the historical perspective & evolution and the driving forces behind the growth of retail banking in India. He emphasizes the role of technology particularly internet and mobile technologies which has played an important role in the growth of retail banking. The article elaborates on Mobile commerce, digital banking and aggregation of accounts which are the new avenues of retail banking. The article also explains key aspects of retail banking strategy i.e., pricing, product, marketing and government and regulation. According to the author the key challenges facing retail banking are maintaining healthy growth rate, ensuring healthy asset quality, ensuring higher net interest margin, maintaining profitability, ensuring faster and efficient delivery and use of alternate channels to stabilize their cost of operations and other challenges. The challenges include ability to manage demographic changes, poor infrastructure, high capex and fast redundancy.

The sixth article by Mrs. Usha Ananthasubramanian, Chairperson and Managing Director, Bharatiya Mahila Bank, is on "Concept and viability of sector specific banks like Mahila Banks and their role in inclusive Banking". The author explains background and importance of starting a sector specific bank, Bharatiya Mahila Bank in India. The author mentions that the financial and other services provided by the bank are predominantly targeted at women, though men are also eligible for such services. She observes that the challenge of the bank is to work with diverse cultures. The article explains *features of bank's products and its tie up arrangements with different organizations to reach out to various segments of women. The article cites its unique women specific loan products like home catering loan product, loan for setting up day care centers and beauty salons and spas. The author also shares various plans of the bank in inclusive banking such as engaging BCs, extending kiosk banking, mobile banking, plan to issue RuPay Card and Kisan Credit Cards.*

Technology is all pervasive and has changed the way the banking is being done. In his article "Role of Technology in Modern Banking". Mr. P. A. Kalyanasundar, Consultant, IDRBT and former General Manager, Bank of India discusses the present state of technology in banks and impact of IT on banks in terms of organizational structure, service quality and human resource. The author points out that technology coupled with data analytics helps banks to offer personalized banking products and services. The article also discusses the recent developments in IT area such as Near Field Communication (NFC), enlarged display options, cloud technology and use of social media in banking. He underscores the use of mobile phones to access payment and remittance services. IT has played an enabling role in development of new channels of delivery such as ATM, Mobile, and Internet in addition to the latest technology such as card less technology and Instant Money Transfer Facility in retail banking. There are definite "security" concerns relating to the use of technology in banking warranting an emphasis on safe and secure electronic banking.

In view of the issues mentioned in the above articles and in a competitive and customer oriented banking business with efficient and personalized service being the key differentiator for success, talent management becomes an important issue for every bank. Mr. M. V. Tanksale, Chief Executive, Indian Banks' Association in his article titled "Talent Management in Banks" explains the transformation of the Indian banking sector since 1991 and emphasizes the significance of HR function in this process. He describes areas such as manpower plan, performance and merit in promotions, performance appraisal, succession plan, capacity building and knowledge management, incentive system and resolution of staff grievances aspects need the attention of human resource vertical in banks. He also underlines the importance of talent management in banks and documents various best practices.

We hope that you will be enriched by reading these articles on different topics on present-day banking. As these issues are common to many countries, the views will find an echo in different quarters. We welcome your valuable suggestions and feedback for improvement

(Dr. R. Bhaskaran)

The changing face of modern banking regulation

G. Padmanabhan *

P. R. Ravimohan **

On December 16, 2008, when the financial crisis had recently unfolded and the world was yet unaware of its full impact on the financial sector, Mr. Mario Draghi, Governor of Bank of Italy and Chairman of the Financial Stability Forum, Basel accurately identified a fundamental feature of the emerging problems. In his speech for the HKMA Distinguished Lecture he stated, 'one striking aspect of the crisis is precisely how its unfolding has continued to catch both policy makers and private sector players by surprise. It started with defaults in a marginal segment of the financial services industry, then quickly spread to virtually all assets. From being a US-only event, it has become global…. Policies that were reactive, and sometimes even very effective, but never proactive, seem to have been the rule. …One reason for this asymmetry is that our knowledge of all the interactions within the financial services industry in a global world was quite superficial at the beginning of the crisis'. Mr. Draghi's observations underscore the need for comprehensive, knowledgeable, proactive and protective regulations for various segments of the financial sector. This article outlines the changes that have been or are being made post the crisis to various regulations relating to two important segments of the financial sector; banks and payment systems.

Banks are special; their intermediation functions serve to strengthen economic growth. Banks also act as the conduits for payments in the financial system and the economy. It is imperative that the sanctity of these vital functions is preserved and risks and threats to their functioning are either minimized or addressed on occurrence. This can be achieved in great measure through appropriately regulating the banking sector and the payment systems.

Over the years, banking regulation has constantly evolved to keep pace with the developments in the financial sector and the impact of the developments on the real economy, both in the national and international context. Evolving regulations over the last three decades have included the introduction of the Basel capital standards, the market risk amendment, the core principles for effective banking supervision, guidelines for managing risk exposures, dealing with weaknesses in banks, evolving supervisory oversight practices, audit and compliance functions in banks, etc. on the banking side and adoption of international best practices and standards for mitigating risks, essentially credit, liquidity and systemic risks in large value payment systems, designing safe and efficient national payment systems, moving towards central counterparty based systems, authorization and oversight of payment systems including that of financial market infrastructures (FMIs) on the payment systems side. The pace of this evolution and progression has, however, been fast forwarded over the last few years by the financial crisis and this momentum is likely to continue well beyond the medium term with a firm focus on improving regulatory and supervisory practices for the banking and the payment and settlement systems.

Some of the key lessons from the crisis included the recognition of the fact that individually sound institutions need not necessarily translate into a sound and stable financial system, that capital cannot be the panacea for all business ills, the integrity of capital in terms of quality and

* Executive Director, Reserve Bank of India.

** Chief General Manager-in-Charge, Department of Banking Supervision, Reserve Bank of India.

quantity should not be compromised, liquidity problems can lead to serious solvency problems irrespective of the extent of capital available to an institution, compensation practices needed to be realigned with long-term risks rather than short-term gains and that banks need to build on some 'rainy day' funds by making forward looking provisions. These important lessons formed the milieu for the enhanced regulations on the banking side. On the payment systems side, although the FMIs functioned smoothly, the crisis highlighted the importance of effective risk management. The Principles for Financial Market Infrastructures (PFMIs) have accordingly harmonized and strengthened the standards for payment systems (PS), central securities depositories (CSDs), securities settlement systems (SSSs) and the central counterparties (CCPs) as also incorporated additional guidance for over-the-counter (OTC) derivatives CCPs and trade repositories (TRs). The PFMIs also covers principles for comprehensive management of risks, segregation and portability, general business risk, and tiered participation arrangements, and FMI links.

India now has a seat at the high table of international standard setting bodies *viz.,* the Basel Committee on Banking Supervision (BCBS), Financial Stability Board (FSB) as well as the Committee on Payment and Settlement Systems (CPSS). This position imposes two key responsibilities on India; one that it has to ensure that the international standards agreed upon are implemented in the Indian financial sector subject to national discretion, where available; and two that it has to be an active participant and contributor to the debates, discussions and studies that precede the finalization of the standards. Reserve Bank of India (RBI) in its role of the regulator of the banking and payment system as well as Indian banks need to ensure that this responsibility is accomplished without demur.

In this backdrop, rest of the discussions highlight key enhancements to existing banking and payment system regulations as well as new additions post the crisis, the present status of these regulations from the perspective of Indian banks and how the Indian banking sector would need to respond to these developments going forward.

Part-A : Banking regulations

As far as banking regulations post crisis are concerned, three aspects need mention; first the changes to regulations were largely evolutionary in nature since the Basel Concordat of 1975 and till prior to the crisis, with the occasional substantial adjustment for problems; second the changes post crisis extensively emanate out of collective global wisdom, experience and vision; and third, and most importantly the focus of the changespost crisis encompass both the individual entity and the system as whole. This has resulted in augmenting the severity of banking regulations and the rigor of their oversight. The true worth and impact of these changes will manifest more completely by the end of this decade or early in the next, once the transition to the enhanced regulations is complete. It is also the intention of international standard setters to monitor implementation of the enhanced and new regulations across jurisdictions through the process of 'peer reviews' initiated by the BCBS to ensure consistency in implementation across jurisdictions and reduce arbitrage opportunities. The 'impact' of the implementation on banks and the financial system will also be assessed to further modify the regulations, if warranted.

As mentioned above, the defining change in modern banking regulations from the overall perspective is the explicit recognition of the micro and macro aspects to address individual entity level and system wide risks both independently and in conjunction. While the micro prudential perspective targets the safety and soundness of an individual institution, the macro prudential ensures the safety and soundness of the financial system. The important enhancements to the micro and macro prudential regulations are highlighted in the following paragraphs.

I. Banking regulation - the micro prudential perspective

i) Capital standard

Initiated in the late 80s as a global standard to recognize the fact that not all losses in banking business are expected and provided for, it formally introduced the requirement of capital to meet unexpected losses in the course of banking business. Over time, the standard metamorphosed into the Basel II capital standard to address the increasing complexity and risk in banking business. In response to the financial crisis, the Basel II capital standard has been further enhanced as the 'Basel III' capital standard to ensure that banks maintain capital whose quality and quantity is not left wanting in times of need and assess asset riskiness appropriately.

A two dimensional approach was adopted to make the Basel III capital requirement more robust and banks more resilient to problems. On the one hand, the numerator, which identifies the quality and amount of capital required, was reworked in terms of its composition to ensure that the loss absorbency of capital does not deteriorate in times of stress. The changes made to the definition of capital ensure that the highest quality capital is included in Tier I capital. The extent of such 'pure' capital has also been increased while reducing the Tier II or relatively lower quality capital. For the denominator, which relates to risk-weighted assets, stringency has been introduced in risk weighting of certain asset classes which inherently entail higher risk *viz.* securitizations and re-securitizations to ensure that they carry sufficiently higher risk weights thereby reducing arbitrage opportunities.

ii) Liquidity standard

The crisis revealed that maintaining adequate capital is no panacea for all problems that a bank may confront as several 'apparently' well capitalized banks were felled due to their inclement liquidity profiles during the crisis. To ensure that banks remain liquid in times of stress, international standard setters have already made considerable progress in enunciating a global liquidity standard that entails two key ratios : i) The liquidity coverage ratio (LCR), which requires banks to maintain 'high quality liquid assets' (HQLA) as defined by the Basel Committee, in relation to the bank's net cash outflows expected over a one month period of liquidity stress. Not surprisingly, the ratio has been mandated at 100% or more. This will ensure that banks will be ever prepared for a liquidity crisis for at least a minimum of one month. ii) The net stable funding ratio (NSFR), a standard targeted to balance the structural funding profile of a bank, will ensure that assets are backed by stable funding on the liabilities side. This means that structurally, longer term assets of a bank would be funded by longer term liabilities adjusted with appropriate haircuts. While the detailed elements of the LCR have already been finalized, the Basel Committee is currently engaged in developing the details of the NSFR. These ratios will ensure that banks remain prepared for eventualities arising out of liquidity.

iii) Leverage ratio

The crisis also demonstrated that the risk-based capital ratio did not always reveal the extent of riskiness of banks and portfolios due to various inconsistencies that had developed across jurisdictions in their recognition of qualifying capital. Significant arbitrage was also undertaken by banks in their asset composition in a bid to lower risk weighted assets and show better capital ratios. There were also inconsistencies resulting from improper alignment of bank internal ratings to the ratings of external credit assessment institutions, variations in ratings of sovereigns by rating agencies and in different jurisdictions, etc. which had potential to underestimate risk and dilute the estimated capital *vis-à-vis* the actual capital required to be maintained by a bank.

To check and balance the inconsistencies, the Basel Committee has introduced a 'leverage ratio', intended to serve as a 'back-stop' for the risk-based capital measure. The risk-based capital ratio in itself is capable of addressing risk from asset quality albeit if implemented in true spirit and monitored assiduously. However, as amply revealed by the crisis, when this is not the case, the risk-based ratio needs additional support. This reinforcement will be provided by the leverage ratio in its objective of inhibiting a bank from extending beyond the supportable capacity of its capital. The global standard for the leverage ratio has been identified as 'not below 3%' of the common equity Tier 1 capital, which translates to leverage of a bank not exceeding 33.33 times of its core capital.

iv) Risk governance

With the increased complexity in banking business, the accessibility of cross-border operations and increasing risk appetite, it is imperative for banks to actively focus on and managing risk effectively. Pillar 1 of Basel II capital framework is based on assessing the key risks that banks face *viz.* credit, market and operational, and identifying the capital charge for these risks using the appropriate and nationally approved approaches from a menu that ranges from the simple to the sophisticated. In addition, the accord also makes provision for the assessment of other risks such as liquidity risk, interest rate risk in the banking book, reputational risk, credit concentration risk, etc. under Pillar 2. These Pillar 2 risks are to be assessed by banks using their own assessment methodologies as part of their internal capital adequacy assessment process (ICAAP). The ICAAP will then be reviewed by the supervisor under the supervisory review and evaluation process (SREP) to ensure that the Pillar 2 risk assessments undertaken by the bank are appropriate and that the risks do not warrant capital in addition to that maintained for the Pillar 1 risks. Banks will need to embrace the risk culture and adopt risk models to identify and manage all their risks and be alert to developments in financial markets and emerging new risks.

v) Stress testing

The crisis revealed that the stress testing practices undertaken by banks were no more than perfunctory tests, undertaken as a compliance exercise. Post the crisis, the Basel Committee issued detailed guidelines stressing on various principles to be followed in developing stress testing frameworks by banks, which include the use of stress tests for risk identification and control, their integration in risk governance, etc. Going forward, stress testing will play an increasingly important role in ensuring the resilience of banks to various shocks and stress scenarios and their capability in addressing the consequent challenges to business. Stress tests for individual risks serve as an important tool to ensure that capital remains adequate in the face of sudden / plausible adverse events. Stress testing will also contribute significantly in the communication of risk within the bank and external communication with supervisors to provide support for internal and regulatory capital adequacy assessments.

vi)Dynamic provisioning

Post crisis, there were calls for accounting standard setters and banking supervisors and regulators to improve standards on valuation and provisioning. The 'incurred loss' approach to provisioning stipulated by the accounting standard setters through International Accounting Standard (IAS) 39, was not forward looking as it focused on ex-post provisioning, which meant making provisions after occurrence of a loss event. Increasingly there is consensus that provisions also need to be made based on 'expected losses'; the estimated losses on a loan portfolio over the life of the loans taking into account the loss experience over a complete economic cycle. Banks are required to build up a 'dynamic provisioning account' during good times and utilize the same during downturns.

vii)Compensation

To ensure integrity in risk taking behavior and to better align incentives with long-term interests of banks, the FSB developed the 'Principles and Standards for Sound Compensation Practices' in 2009. The core elements of these standards include deferred variable performance payments, paying bonuses in stock rather than cash, and introducing bonus clawbacks. More recently, there have been talks of capping bankers' bonuses to some proportion of their salaries in a bid to curb reckless risk taking. The principles and standards are expected to guide more specific compensation rules across jurisdictions.

II. Micro prudential regulation - The Indian context

In the micro-prudential context, banks in India possess an advantage given their high capital, ample liquidity and the low leverage profile. This is on account of various factors; *viz.* i) the Indian banking sector is dominated by public sector banks (PSBs) with majority ownership resting with the Government of India (GOI), ii) foreign banks are mandated to maintain separate capital for their Indian operations, even if the mode of presence is through branches, iii) RBI requires banks to maintain minimum capital to risk assets ratio (CRAR) at 9%; which is one percent higher than the global minimum of 8%, iv) banks maintain a war chest in the nature of cash reserve ratio (CRR) and invest in GOI and other approved securities as part of the statutory liquidity ratio (SLR) requirement and v) given the traditional banking model pursued by banks in India, the focus on retail lending, the requirement to fulfill social lending targets and the well-calibrated deregulation undertaken by RBI, which restricted any potential of errant behavior, the leverage of banks in India has remained muted.

Whether this favorable profile will continue to prevail going forward remains to be seen as Indian banks will need to address issues relating to capital, liquidity, leverage and asset quality in a comprehensive manner. It may be recalled that despite the initial 'de-coupling' theories, the emerging market economies, including the Indian banking sector were affected by the financial crisis. Though the impact was indirect, through the external sector, export and trade route; as businesses and borrowers got affected, bank margins and asset quality declined, reducing both the capital levels and the ability to raise additional capital through internal accruals. The fiscal deficit has also brought to focus the limit to government's ability to recapitalize PSBs. Market conditions for raising Basel III compliant capital instruments through the additional equity or debt route need to become more conducive given that almost all banks will need to access the markets to raise additional capital.

On the capital front, banks will need to identify ways to optimize the use of their existing capital by ensuring that un-availed limits are reviewed for reduction or consumption by the borrower, asset quality is upgraded through both recognition of non-performance coupled with recovery efforts on the one hand and ensuring that new assets taken on are of high quality. Banks will also need to find the means to raise fresh capital through Basel III compliant instruments through shareholder support and market access. On the liquidity side, the definition high quality liquid assets under the LCR regime will need identification of those SLR securities that fulfill the criteria laid down by the Basel Committee for a separate carve out. Banks may then need to realign their SLR portfolios to meet both the LCR requirement under the global liquidity standard and the domestic SLR requirement. In terms of leverage, the situation may be more comfortable for Indian banks as they are not highly leveraged given the statutory reserve requirements and the focus on traditional banking business. RBI has recommended a leverage ratio of 'not below 4.5%' (indicating a maximum leverage of 22.22 times the Tier I capital) for banks in India taking a conservative view. Most banks are already at or near this ratio.

Risk management is one of the key aspects of the Basel II and Basel III frameworks. Indian banks will need to equip themselves to effectively assess and manage all risks encountered in their business. Presently, banks in India are using the fundamental approaches to assess Pillar 1 risks viz. credit, market and operational risk, and have developed simple methodologies for assessing other risks under Pillar 2. They will need to upgrade and migrate to the advanced approaches for measuring Pillar 1 risks and develop more robust methodologies for assessing other risks. This will require significant preparation in terms of collecting and aggregating various data, ensuring its integrity, analyzing the data to produce credible outputs, developing the required models and also undertaking back testing and model validation.

A key ingredient of sound risk management is a good stress testing framework. Stress tests are to be used to assess the resilience of banks in terms of capital, earnings and liquidity in the face of sudden shocks of varying intensities. They may also be used to assess the robustness of models to possible changes in the economic and financial environment. RBI has advised banks to undertake at the minimum, stress tests relating to credit risk, market risk and liquidity risk using a mild, moderate and severe stress scenario projection. Banks will also have to simulate stress scenarios in which the model-embedded statistical relationships break down as was observed during the financial crisis. Indian banks have been conducting simple stress tests since 2007 when RBI first issued its guidelines on the subject. However, these need to be strengthened in light of the enhanced guidelines issued by RBI in December 2013 and their use better integrated in informing business strategy, decisions and models.

With regard to provisioning, existing RBI guidance requires banks to make provisions for their assets based on specific asset classification guidelines. These ensure that all poor quality assets, i.e. non-performing assets are backed by the mandated provisions that range from 20% to 100%. Banks are also required to make some provisions for performing or standard assets. Over the years preceding the crisis, RBI had mandated that banks make additional provisions, over and above the required standard asset provisioning for certain sectors that experienced high growth such as housing loans, commercial real estate exposures and capital market exposures. However, as of March 2014, provisions for credit losses as a percentage of gross non-performing advances for banks in India was 45.80%, which is lower than what is available across several other jurisdictions. RBI is working on developing a framework for dynamic loan loss provisioning by banks[1]. In time, banks will be expected to compute parameters such as probability of default and loss given default for different asset classes to arrive at the long term average annual expected loss or use the standardized parameters prescribed by RBI to maintain dynamic provisions.

In India, the compensation for senior staff / executives of public sector banks is governed by the Indian Banks Association (IBA) agreement / Government of India directions. Hence, incentives for short-term risk taking are not illimitable. In the case of foreign banks operating in India and private sector banks, executive compensations require prior regulatory approval. To reduce the possibility of misaligned incentives, RBI issued in January 2012 guidelines to be followed by foreign banks and private sector banks with regard to compensation structures of whole time directors / chief executive officers / other risk takers and control function staff. The guidelines are based on the principles and standards issued by the FSB and include effective governance of compensation by banks, reducing incentives towards excessive risk taking, aligning compensation with prudent risk taking and ensuring stakeholder engagement in compensation. Private sector banks have already formulated their internal policies based on these guidelines.

III. Banking regulation - the macro prudential perspective

i) Regulation of systemically important entities

The size and connectivity of banks within the financial system leads to moral hazard issues for supervisors. To effectively regulate large, interconnected and systemic institutions and deconstruct the 'too big to fail' and 'too interconnected to fail' theorems, specific guidance has been provided by the FSB and the Basel Committee for Global Systemically Important Banks (G-SIBs) and Domestic Systemically Important Banks (D-SIBs), respectively.

Starting 2016, G-SIBs will be subjected to additional loss absorbency requirements as 'going concerns', over and above the minimum Basel III capital requirements. G-SIBs will also be required to meet higher supervisory expectations for risk management functions, data aggregation capabilities, risk governance and internal controls. The FSB along with the Basel Committee had identified 28 G-SIBs, as of November 2012 in the first round based on parameters relating to size, interconnectedness, substitutability, financial institution infrastructure, and complexity of a bank. The November 2013 update[2] of the list includes another G-SIB, bringing the total to 29.

An approach similar to G-SIBs has been recommended by the Basel Committee for addressing systemic risk arising out of the existence and operations of D-SIBs. A principles-based, minimum framework to identify D-SIBs has been finalized by the FSB and the Basel Committee in October 2012. National authorities will have to establish a methodology for assessing the degree to which banks are systemically important in the domestic context. The impact of a D-SIB failure on the domestic economy will need to be assessed and higher loss absorbency capital requirements will have to be put in place for D-SIBs from January 2016.

ii) Banking structure

To prevent the ills of 'casino banking' from spilling over to 'basic or utility banking', jurisdictions such as US, UK and European Union (EU) have taken initiatives

1. RBI has already issued a discussion paper on dynamic loan loss provisions.
2. The G-SIBs list will be updated annually every November by the FSB and BCBS.

post crisis to reform banking structures and safeguard systemic stability. Though no specific global standard or model has evolved, there is clear recognition of the fact that combining basic banking and proprietary trading in a single entity may lead to excessive risk for the bank's retail clients. Separately, various jurisdictions have initiated the process to address this issue. In the US, the Volcker Rule separates investment banking, private equity and proprietary trading sections of financial institutions from their consumer lending divisions to minimize conflicts of interest between banks and their customers. The Independent Commission on Banking (Vickers Report) in UK has inter-alia recommended ring fencing of retail and commercial banking operations of UK banks to ensure that these services are not disrupted in case of problems in other areas of bank operations. The Liikanen Report for the EU also states that within a banking group, risky financial activities should be separated from deposit-taking entities within the group to ensure that they remain safe and away from the possible ills of trading activities. These issues are also being looked at in other jurisdictions.

iii) Capital buffers

Banks are susceptible to economic cycles, which may lead to systemic risk. For instance, in boom times, there is more demand for credit and banks tend to lend aggressively leading to the possibility of diminished underwriting standards, which may come to the fore with a lag in the form of non-performing assets. Further, despite higher credit growth in boom times, banks generally do not need commensurately higher capital as their borrowers have good credit ratings requiring banks to maintain lower capital as per Basel capital requirements. However, with the turn of the economic cycle, borrowers' credit quality tends to worsen, non-performing assets manifest and profits decline. With poor financials, banks would not get external capital to support their existing and future credit growth. This results in banks becoming cautious and restricting lending, thereby resulting in credit contraction risk spilling over to the real sector which at that time needs credit the most. Building up a buffer of capital can help achieve the broader macro-prudential goal of restricting the banking sector from indiscriminate lending in periods of excess credit growth that have often been associated with the building up of system-wide risk.

The Basel Committee has recommended the use of a 'counter cyclical capital buffer' to address the build-up of systemic risk over time. The buffer is to be built up in a phased manner and the Committee has identified the credit-to-GDP gap (actual credit-to-GDP ratio less long term credit-to-GDP trend) as an indicator of the build-up of excessive credit growth in an economy and system-wide risk, based on which the regulator/supervisor can mandate triggering of the buffer.

In a similar manner, banks would also be required to build buffers to conserve capital at the institution level through the operation of the 'capital conservation buffer'. The buffer is designed to ensure that banks build up capital above the stipulated requirement during normal times using simple capital conservation rules. The buffer would be available for draw down during periods of stress when losses are incurred. The capital conservation rules are designed to avoid breaches of minimum capital requirements during stressed periods.

IV. Macro prudential regulation - The Indian context

No Indian bank has been identified as a G-SIB by the FSB and Basel Committee assessment. However, several foreign banks operating in India do figure in the G-SIBs list. Their parent office and home country supervisors will be primarily responsible for ensuring their compliance with the additional capital and other requirements. As far as D-SIBs are concerned, RBI has recently, in July 2014, issued guidelines outlining the indicators to be used to assess domestic systemic importance of the banks. These include; i) size, ii) interconnectedness, iii) lack of readily available substitutes or financial institution infrastructure, and iv) complexity. Considering the size of an institution as the most important indicator of systemic importance, it has been accorded the highest weight in the assessment methodology. Other indicators, which include various sub-indicators, carry equal weights. Based on the indicators, systemic importance scores will be assigned to an identified sample of banks. Banks that have scores above a pre-determined threshold will be classified as D-SIBs and will be required to maintain additional capital in a range of 0.20% to 1.00% above the minimum. The D-SIB framework will be made applicable from April 1, 2016 in a phased manner and will become fully effective from April 1, 2019. Identification of D-SIBs is expected to be completed by August 2015 based on the recommendations. In India we also have a system of 'conglomerate supervision', whereby banks and other entities identified as financial conglomerates (operating in two or more segments of the financial sector) are subject to additional oversight by RBI and also through inter-regulatory cooperation.

With regard to banking structure issues, it may be mentioned that existing Indian banks largely pursue the traditional banking model. The use of complex products, including derivatives is limited. The size of the investment banking operations of Indian banks is small relative to the standard business of loans and advances, and investment in government securities dominates treasury operations. Further, in their lending, Indian banks have to fulfill directed lending targets. These aspects help restrict any tendency on the part of Indian banks to move to a 'casino banking' model in any significant and uninhibited manner.

For new banks, however, RBI does intend to ring-fence banking activities from other more risky activities and segments of the group. As part of its new bank license policy, only non-operative financial holding companies (NOFHCs) will be permitted to set up a bank. The NOFHCs will hold the bank as well as all the other financial services entities of the Group regulated by the Reserve Bank or other financial sector regulators. The NOFHC route is aimed at protecting the banking operations from other commercial, industrial and financial activities of the group.

RBI has already laid down capital conservation standards to enable banks to build up their capital conservation buffers through retention of earnings as linked to the level of common equity Tier I capital. Banks will be required to hold a capital conservation buffer of 2.5% of risk weighted assets in the form of common equity to withstand future periods of stress. The buffer will be phased-in over a period of four years in a uniform manner of 0.625% per year, commencing from January 1, 2016. Banks will need to prepare for this requirement. An Internal Working Group has also recently, in July 2014 finalized its recommendations with regard to maintenance of the counter cyclical capital buffer by banks in India in the form of common equity Tier I capital. The report has acknowledged that the trigger (credit-to-GDP gap ratio) proposed by the Basel Committee may not be fully relevant in the Indian context given that the Indian economy is structurally transforming. The report recommends the use of additional indicators such as the gross non-performing advances to credit and interest coverage ratio of the corporate sector to be used in conjunction with the credit-to-GDP gap ratio. The lower and upper threshold for triggering / halting the buffer have also been identified keeping the Indian banking context in view, and hence differ by a few percentage points from those recommended by the Basel Committee. The report has also recommended that over time other indicators such as incremental credit deposit ratio, house price index and credit condition survey output may be made use of over time. These recommendations will be implemented as appropriate.

V. Banking supervision

Banks have several measures to implement and adopt in terms of the enhanced banking regulations. What is the follow-on impact on banking supervision? Post crisis there is increasing acknowledgement of the fact that supervision has to become more proactive, comprehensive and conclusive. There are also calls for greater supervisory co-operation in the supervision of banks with significant cross border activities. Some of the key changes with regard to supervision include :

i) Risk-based supervision

As banks transit to a more risk oriented approach to managing their business, it is important that supervisors also align their oversight with the changing scenario. Risk-based supervision focuses on a comprehensive understanding of a bank and its business, assessing its risk profile and directing focused attention and supervisory resources to the areas of risk in a bank. This is a move away from the time limited 'transaction testing' based approach. The risk-based approach requires significant off-site assessments based on data collected from banks, meetings and targeted on-site visits supplemented with detailed on-site inspections where warranted using a 'deep dive' approach. The objective is to understand a bank more intimately and comprehensively, as also to identify existing and emerging risk areas and address them through dedicated risk mitigation plans. In doing so, the approach also intends to making the most efficient and optimum use of supervisory resources. Several jurisdictions have transited to the risk-based approach either completely or in parallel with the existing approach, while other jurisdictions are in the process of evaluating or developing their approach.

ii) Supervisory co-operation

The crisis revealed the significance of supervisory interaction and co-operation between the home and host country supervisors, in particular when problems arise. The objective of supervisory co-operation is to enhance information exchange among supervisors, improve understanding of the risk profile of a bank / banking group, facilitate more effective supervision of internationally active banks, identify emerging problems and identify issues for crisis preparedness. The Basel Committee has issued guidance with regard to the objective, structure, information sharing arrangements and communication channels with regard to 'supervisory colleges'. Significant progress has been achieved in this regard as supervisory authorities across various jurisdictions have entered into supervisory agreements through various forms.

VI. Banking supervision - The Indian context

RBI had so far used the Annual Financial Inspection (AFI) approach as the primary tool for supervision of banks. Till 2012, all banks were subjected to the AFI with off-site supervision playing a supplementary role. Some of the largest Indian banks that also have presence in other segments of the financial sector were subjected to stronger oversight through additional off-site supervision of RBI and oversight by an Inter-Regulatory Forum. Since 2013, RBI has implemented risk-based supervision for banks that are identified as financial conglomerates[3] and certain other banks (total 28). The identified banks have already been subjected to one round of risk-based supervision focusing on assessing business risks, control gap risk, as well as the quality of the overall governance and controls. The risk assessment is matched with an assessment of the quality and quantity of capital to identify the overall risk of a bank and prepare a dedicated risk mitigation plan. Presently, the process of optimization of the risk-based supervision process is under way as it is intended that other banks will be covered under this approach over time.

The successful implementation of risk-based supervision casts certain responsibilities on banks. Given that the approach is highly data-intensive, banks have to gear up to generate and provide high quality, high frequency and robust data whose integrity is not in doubt. For this to fructify, banks need to focus on their IT systems, data warehousing, data mining, data aggregation and data analysis capabilities. They also need to upgrade their risk management systems, internal audit systems and compliance functions to align with the requirements of the approach. Appropriate human resource skills will also need to be developed over time.

In the field of interaction with other supervisors, RBI is proactively seeking and providing supervisory co-operation with regard to foreign banks operating in India and Indian banks operating abroad. So far, 22 MOUs / Co-operation agreements have been signed. Four supervisory colleges have been set up for Indian banks with large presence abroad. The intention is to ensure that supervisory authorities on both sides remain knowledgeable about issues relating to their banks.

Part-B : Payment system regulations

Just as banks are special in terms of their intermediation function, it is payment systems that enable and strengthen this intermediation of banks by facilitating inter-bank payments and settlements which are crucial for conduct of economic transactions. Though clichéd, payment systems are often compared to 'plumbing mechanisms' which work in the background and might not be eliciting much interest, till of course, they stop working!

3. Financial conglomerates have been defined in India as entities that operate in two or more segments of the financial sector viz. banking, insurance, pension funds, securities, non-bank financial services, etc. Five banks are among the financial conglomerates identified in India.

The Bank for International Settlements defines payment systems as “a set of instruments, procedures and rules for the transfer of funds among system participants”. The Payment and Settlement Systems Act 2007 defines it as “A system that enables payment to be effected between a payer and a beneficiary, involving clearing, payment or settlement service or all of them.” Payment Systems, therefore, encompass a set of instruments generally acceptable in making payments, the institutional and organizational framework governing such payments and the operating procedures and communications network used to initiate and transmit payment information from payer to payee and to settle payments.

Given their traditional function of holding deposits, banks have historically evolved as the natural providers of payment services. They have also been the major participants in the financial markets. Today however, the evolution in the functions of banks as well as the changing contours of financial markets, has also led to significant presence, both direct and indirect, of non-bank entities. Accordingly, there has been a significant and noticeable evolution in the regulatory aspects related to payment and settlement systems. And of course, in most jurisdictions, it is the central banks who are vested with the responsibility of ensuring efficiency and safety of payment system operations, as these systems have a bearing on financial stability, monetary policy implementation and overall economic efficiency. Hence, needless to state, the developments in the financial system since 2007 combined with the turnover that is witnessed in payment systems globally, have had an impact on the policy developments related to payment and settlement systems in recent times.

I. Changing landscape of payment systems in the country

Payment systems can be classified on the basis of the value of transactions being put through them (large value systems and retail systems), settlement modality (gross settlement or net settlement) or on the basis of timing of settlement (real time or deferred settlement). Payment systems can also be viewed from the perspective of the nature of instruments that are used in the systems, that is, paper or electronic. In most jurisdictions, financial market transactions being critical in nature and transacted mainly by banks, are put through large value payment systems and often settled on real time basis. Retail transactions, on the other hand, being voluminous but of relatively low value, emanating from individuals, corporates and even governments are settled under netting arrangements.

Till around the beginning of this century, the payment systems landscape in the country was dominated by cheque-based clearing and settlement systems, as electronic payments were either absent or very minimal in most segments. All large value payments were being made through cheques, including financial market transactions. In mid-1990s, the settlement of government security transactions was enabled on Delivery versus Payment (DvP) basis in the books of the Reserve Bank of India.

However, since early 2000s, the payment system landscape in the country has evolved to include major changes focusing on efficiency and safety in large value payment systems as well as retail payment systems, both in terms of products as well as processes. Some of these developments are highlighted below :

- The Real Time Gross Settlement system, which was implemented in 2004, replaced the paper-based interbank clearing system thus bringing a sizeable volume of large-value and time-critical transactions onto electronic mode.
- The Clearing Corporation of India Limited (CCIL) was set up in 2001 with the objective of providing a safe institutional framework for the clearing and settlement of trades in government securities, forex, money and debt markets. Gradually, CCIL has evolved into a major CCP providing guaranteed settlement for transactions in all financial market segments regulated by RBI, in addition to providing non-guaranteed settlement in the rupee denominated interest rate derivatives (IRF / FRA) and settlement of cross currency trades to banks in India through Continuous Linked Settlement (CLS) bank by acting as a third party settlement member.

- Simultaneously, developments have also taken place in the retail payments operated by the RBI such as Electronic Clearing Service (both centralized and decentralized systems), National Electronic Funds Transfer, and Cheque Truncation System, besides the setting up of the National Financial Switch (for ATM transactions)
- However, the setting up of the National Payments Corporation of India as the umbrella organization for retail payment systems in the country gave the necessary fillip for development of innovative products such as the Immediate Payment Syste (IMPS), National Automated Clearing House (NACH), and Aadhaar-linked payment systems (ABPS and AEPS).

The changes in the legal and regulatory framework have also been a major contributory factor besides the technological advancements that facilitated these developments.

II. Changing regulatory landscape for payment systems -global scenario

This section focuses on the changes in the regulatory framework for payment systems over a period of time when payment systems were given a focused attention globally.

Global attention to payment systems began with the setting up in 1980 of the Group of Experts on Payment Systems to take forward the work on payment system issues identified by the G10 Group of Computer Experts. The outcome of which was the publication of a detailed review of payment system developments in the G10 countries in 1985, which have come to be known as "Red Books", thus drawing international attention of payment system policy makers.

Thereafter began a series work by various Commitees to address specific aspects related to risks and efficiency, design and development of national payment systems, in addition to addressing cross-border impact of major systems, including the need for co-operative oversight.

The report by the Commitee on Interbank Netting Schemes (Lamfalussy Report), published in 1990, contains a set of minimum standards for the operation of bilateral and multilateral cross-border and multi-currency netting schemes and sets out the G10 central banks' framework for the co-operative oversight of such systems.

In 1990 the G10 Governors established the Committee on Payment and Settlement Systems to take over and extend the activities of the Group of Experts on Payment Systems. The CPSS, thus set up as one of the permanent central bank committees reporting to the G10 Governors, is the standard setting body for payment and settlement systems.

The focus then shifted to address the specific risks in securities settlement systems, particularly the adoption of deliver versus payment (DvP) mechanism to address some of these risks. The report of the Group set up for this purpose was published in 1992 which identified common approaches to DvP and also evaluated the implications of the various approaches for central bank policy objectives. Similarly, the report on real-time gross settlement systems which was published in March 1997 largely focused on the architecture of RTGS systems in places across different jurisdictions.

Over the years, with the active involvement of the CPSS, all of the above work culminated in the setting up of certain international standards for payment and settlement systems in the form of core principles for systemically important payment systems (CPSIPS), recommendations for securities settlement systems (RSSS) and the recommendations for central counter parties (RCCP). Of course, the on-set of the financial crises in late 2000s, not only show-cased the critical role played by payment systems in ensuring timely and efficient settlement of financial transactions, particularly those emanating from large-value financial market related transactions, but also necessitated a re-look into the principles and standards for such payment systems. This led to the harmonization of various principles and standards, culminating in the Principles for Financial Market Infrastructures (PFMI).

Systemically important payment systems, central securities depositories, securities settlement systems, central counter parties and trade repositories are now considered to be FMIs. As stated in the Report[4] while safe and efficient FMIs contribute to the maintaining and

4. Principles for financial market infrastructures, COSS-IOSCO, BIS, April 2012

promoting financial stability and economic growth, FMIs also concentrate risk. If not properly managed, FMIs can be sources of financial shocks, such a liquidity dislocations and credit losses, or a major channel through which these shocks are transmitted across domestic and international financial markets.

III. Changing regulatory landscape for payment systems –Indian scenario

i) Institutional arrangements

The focus on the role of payment systems in the country began with the formation of the payment systems group (PSG) within the Bank in December 1997 followed by the Payments Systems Advisory Committee (PSAC) constituted in February 1998. The National Payments Council constituted in May 1999, with industry representation, guided the policy developments in payment systems till the constitution of a statutory body in March 2005, the Board for regulation and supervision of Payment and Settlement Systems (BPSS), as a Committee of the Central Board of RBI.

Subsequently, with the Payment and Settlement Systems Act, 2007 coming into effect, the BPSS was reconstituted and is now the apex body for regulation and supervision of payment and settlement systems and for matters related thereto.

The Reserve Bank of India, being a member of CPSS since 2009, has kept pace with the global initiatives and developments in the field of regulation and supervision of payment systems. The PSS Act has further facilitated regulatory initiatives by vesting explicit powers with the Bank.

ii) Regulatory and oversight framework

The Reserve Bank adopted a multi- pronged approach for regulation and oversight of various payment systems.

The Reserve Bank execising powers under the Reserve Bank of India Act, 1934 had framed the Uniform Rules and Regulations for Bankers' Clearing Houses (URRBCH), governing the operations of clearing houses. The URRBCH prescribed the membership criteria, the limit to presentation, the acceptable percentage of return, etc. Subsequently, with the enactment of the Information Technology Act, 2000, and the amendment to the Reserve Bank of India Act (Section 58 (2)(pp)), regulatory powers governing electronic payments were also delegated to the RBI.

The enactment of Payment and Settlement Systems Act, 2007 and the PSS Regulations, 2008 designates the RBI as the authority to authorize, regulate and supervise payment systems in the country.

Further, till the passage of the PSS Act, most of the obligations of participants (in respect of the operations and procedures) in various payment systems were governed as well as drew legal protection under the Contract Act, particularly systems where the settlement was being done on a multiteral net basis. The PSS Act gave specific recognition to multilateral netting as well as settlement finality.

In terms of oversight, RBI has adopted a variety of tools starting with the URRBCH, Procedural Guidelines laid down for various payment systems, Minimum standards for operational efficiency (MSOE) for select retail payment systems, RTGS Business rules and Membership criteria, the Bye-laws, rules and regulations of CCIL, etc.

With the PFMIs now coming into effect, the assessment of the FMI in the country is now being undertaken against these principles.[5] Based on the monitoring of the FMI against these principles, CCIL has been declared as QCCP (Qualified CCP) for the Indian jurisdiction.

VI. Renewed focus on Retail systems - globally and in India

i) Global scenario

Retail payment systems being diverse in terms of products and process, the CPSS in the area of retail payments had earlier focused only conducting studies / surveys. The "Central bank oversight of payment and settlement systems" (May 2005) and the "General guidance for national payment system development" (January 2006) did cover some aspects of retail payment systems. Gradually, however, the attention of the CPSS has spanned into retail payments area recognizing the importance and system-wide impact that these systems have on economic and financial

5. RBI issues Policy Document for Regulation and Supervision of Financial Market Infrastructures : July 26, 2013 (http://www.rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=29170)

transactions of individual entities, including corporates and government agencies.

This renewed attention has led to the CPSS study on "innovations in Retail Payment Systems" (May 2012) which examined the developments in innovative products and processes in retail payments and observed certain trends therein, including the enhanced role being played by non-bank entities in retail payments. This, in turn, has led to the current work of CPSS on the "Role of Non-banks in retail payment systems."

ii) Developments in India

Even as major developments were taking place in the large value payment systems space, the RBI, given he imperatives of moving from a predominantly cash and cheque-based payments scenario, had never really lost sight of the requirements to provide safe, secure and efficient retail payments in the country.

Towards this end, significant developments in regulation and supervision of retail payment systems have taken place, since the PSS Act came into effect, giving explicit powers to the RBI. Some of these developments are path-breaking not only from a domestic perspective but has also clearly put India on the lead in the global map for retail payments. Further, the regulatory framework has not only recognized the need and the presence of non-bank entities in the provision of retail payment services, but has also proactively encouraged the growth and participation of these entities to augment the provision of innovative and accessible retail payment services. The Vision document, laying out the roadmap for developments within a three-year time horizon, provides the stakeholders a futuristic view of the policy objectives.

A few of the major developments and regulatory initiatives taken by RBI for encouraging the migration towards electronic payments by enhancing the safety and efficiency of retail payment segments such as NEFT, card payments, prepaid payment instruments, e-commerce etc. are outlined below :

- Enhancing the efficiency of critical retail payments such as NEFT by introducing multiple settlements during the day (12 hourly settlements at present) to facilitate faster payments and to address the needs of liquidity; sending positive confirmation to the remitter; continuous release of messages with the objective of enhancing operational efficiency.
- Enhancing the safety and security of card transactions by introducing a system of alerts for all types of card transactions, requirements of additional factor of authentication for all card transactions, setting standards for securing card acceptance infrastructure (TLE / UKPT / PCI-DSS etc.), roadmap for migration from magstripe cards to EMV Chip and PIN cards, mandating threshold limit for international cards in magstripe form, etc.
- The calibrated approach towards the entry of non-banks into retail payments began with their permitted / authorized entry for issuance of semi-closed prepaid payment instruments (PPIs). Besides the gradual rationalization of the PPI norms, including KYC norms and funds transfers, the associated risk relating to funds protection and funds isolation (as these are not covered under deposit insurance) has been addressed by way of mandating escrow arrangements for such funds held by the non-bank PPI issuers.
- Similarly, recognizing the need for safeguarding the interest of the customers and to ensure that the payments made by them using Electronic / Online Payment modes are duly accounted for by the intermediaries receiving such payments and remitted to the accounts of the merchants who have supplied the goods and services without undue delay, a regime of light-touch regulation has been introduced with respect to funds handling by such interdiaries.
- Other modes of real-time retail payments such as the IMPS (by NPCI) have also been encouraged by permitting multiple settlements and putting in place Settlement Guarantee Mechanism.

In line with these policy and regulatory initiatives, it is also essential to have suitable monitoring and oversight framework so as to ensure that the efficiency and safety of these systems are not compromised. Even as the international forums are assessing the role and importance of non-banks in retail payments, the RBI has designed its own templates for the assessment of retail payment systems including those run by non-bank entities, based on the PFMIs as applicable to retail payment systems.

Conclusion

The attempt in the paper has been to capture the regulatory and supervisory changes in the banking and payment system landscape over the years and more particularly in the post 2008 period. Discussions on how India reacted when the global regulatory regime was undergoing a metamorphosis are also highlighted. As would be apparent, India has been in the forefront of ushering in the changes alongside the rest of the world. This has lent greater strength to the Indian banking and payment systems to withstand the hostile external financial sector and difficult macro economic environment, both external and internal.

References

- Bank for International Settlements (BIS) - 'Stepping out of the shadow of the crisis : three transitions for the world economy' - speech by Jaime Caruana, General Manager, BIS - June 29, 2014
- BIS Working paper No. 412 - 'Structural bank regulation initiatives : approaches and implications' - Leonardo Gambacorta and Adrian Van Rixtel - April 2013
- BIS Working paper No 443 - 'Banks and capital requirements : channels of adjustment' Benjamin Chen and Michela Scatigna - March 11, 2014
- BIS - 'Combating the global financial crisis - the role of international co-operation' speech by Mario Draghi, Governor of the Bank of Italy and Chairman of the Financial Stability Forum, at Hong Kong, 16 December 2008.
- Basel Committee on Banking Supervision (BCBS) Publication - 'Basel III leverage ratio framework and disclosure requirements' - January 14, 2014
- BCBS publication - 'A sound capital planning process : Fundamental elements' - January 2014
- BCBS Publication - 'Liquidity coverage ratio disclosure standards' - March 2014
- BCBS publication - 'Basel III : Liquidity coverage ratio and liquidity risk monitoring tools' - January 2013
- BCBS publication - 'Principles for effective risk data aggregation and risk reporting' - January 2013
- BCBS publication - 'Principles for sound stress testing practices and supervision' - May 2009
- BCBS consultative document - 'Basel III - The net stable funding ratio' - January 2014
- Financial Stability Board (FSB) - Update of group of global systemically important Banks - November 11, 2013
- FSB principles for sound compensation practices - April 2, 2009
- International Monetary Fund (IMF) - 'Financial Sector Assessment Programme (FSAP) and Basel Core Principles for Effective Banking Supervision - detailed assessment - India' - August, 2013
- IMF Staff position note - Jose Vinals et al - 'The making of good supervision : Learning to say "No" - May 2010
- Reserve Bank of India (RBI - 'Framework for dealing with Domestic-Systemically Important Banks (D-SIBs) - July 22, 2014
- RBI - 'Report of the Internal Working Group on implementation of the counter cyclical capital buffer' - July, 2014
- RBI - Master circular on 'Basel III capital regulations' - July 1, 2014
- RBI - 'Guidelines on stress testing' - December 2013
- RBI - 'Guidelines on Compensation of Whole Time Directors / Chief Executive Officers / Risk takers and Control function staff, etc.' - January 13, 2012
- RBI - 'Should banking be made boring? An Indian perspective' - Keynote address by Dr. Duvvuri Subbarao, Governor, RBI at the International Finance and Banking Conference organized by the Indian Merchants' Chamber, Mumbai - November 25, 2009
- RBI - 'Perspectives on risk and governance' - address by Mr. Anand Sinha, Depuy Governor, RBI at the Risk & Governance Summit organized by the Indian School of Business, Hyderabad and Deloitte at Mumbai on August 23, 2012
- RBI - 'Indian banking - the new landscape' - Keynote address by Dr. K. C. Chakrabarty, Deputy Governor, RBI at Mint's Annual Banking Conference, 2014, Mumbai - January 31, 2014
- RBI - 'Underlying concepts and principles of dynamic provisioning' - Keynote adress by Mr. B. Mahapatra, Executive Director, RBI at the Conference on "introduction of dynamic provisioning framework for banks in India" organized by the Centre for Advanced Financial Research and Learning (CAFRAL), Mumbai - September 2012.
- CPSS : History, organisation, co-operation : http://www.bis.org/cpss/cpssinfo01.htm
- BIS - Payment systems in eleven developed countries, February 1985
- BIS - Report on netting schemes (Angell Report), February 1989
- BIS - Report of the Committee on Interbank Netting Schemes of the central banks of the Group of Ten countries (Lamfalussy Report), November 1990
- CPSS, BIS - Delivery versus payment in securities settlement systems, September 1992
- CPSS, BIS - Real-time gross settlement systems, March 1997
- CPSS, BIS - Core Principles for Systemically Important Payment Systems, January 2001
- CPSS-IOSCO, BIS - Recommendations for securities settlement systems, November 2001
- CPSS-IOSCO, BIS - Recommendations for Central Counterparties, November 2004
- Central bank oversight of payment and settlement systems, CPSS, BIS, May 2005
- CPSS, BIS - General guidance for national payment system development, January 2006
- RBI - The Payment and Settlement Systems Act, 2007
- RBI - Payment and Settlement Systems Regulations, 2008
- CPSS, BIS - Innovations in retail payments, May 2012
- CPSS-IOSCO, BIS - Principles for financial market infrastructures, April 2012

Credit Risk Management - Emerging Concepts

V. R. Iyer *

Credit Risk Management : A Historical Overview

The word 'Risk' has origins in the Italian word 'risicare', which means 'to dare'. In that sense, risk means an 'option' and throws out a choice on the participants. On the other hand, the word 'Credit' traces its origins to the Latin word 'credo', meaning 'to believe'. Therefore if viewed this way, credit risk has an interesting historical connotation of putting the burden of any loss arising out a transaction at the person making a judgment on the worthiness of the opposite party.

The history of credit is as old as the history of humanity itself and it is much older than the written history of human beings. Hammurabi's Code, which codified legal thinking some 4,000 years ago in Mesopotamia, explicitly emphasized that failure to pay a debt is a crime that should be treated identically to theft and fraud. We even get some mention of the ways and also limits to the ways to treat defaults. Texts and scriptures from different civilizations have mention of credit at different point of time.

On the other hand, risk and uncertainty have always been part and parcel of any human activity, but they have not always been labeled as such. For the major part of our recorded history, events with negative consequences were attributed to divine intervention or to the supernatural elements. No measure of risk was therefore considered necessary because everything that happened was pre-destined and driven by forces outside our control. However, this is not to suggest that the ancient civilizations were completely unaware of probabilities and the quantification of risk.

From ancient to the medieval periods, as trade and commerce grew across the geographies, credit risk started taking newer dimensions. This was the time when the predecessors of modern banks started taking shapes. This was also the time, when the concept of money, loans and interest was evolving momentously. International trade, large-scale lending, joint stock companies and foreign exchange markets started to develop. The Royal Exchange was built in the mid-sixteenth century when London became a center for foreign exchange. Industrial revolution further provided the fillip to the modern day banking and expansion of credit activities. With this went up the risk element in the lending activities and also the need for a formal credit risk management.

Modern Banking and growing complexities

Twentieth century saw a massive growth in banking and ultimately organizing as an industry. Banks' role in the overall economy started becoming pivotal as provider of low-risk short-term deposits into medium- and long-term credits for more risky firm debt and other assets. This in turn, demanded a good risk management and sufficient diversification. As the credit risk management started gaining more specialization and expertise, banks started transforming different types of risk and repackaging it into an appropriate product for all economic agents.

As the banks started growing in size and providing more complex products, their importance in the financial market started taking center stage. Early twentieth century also witnessed one of the greatest financial distress witnessed by the society. Many banks failed during the Great Depression period that followed. Many borrowers defaulted and the bank's assets declined significantly in value. In the last quarter of 1931, more than 1000 US banks failed. As a result of the 1929-1939 crisis, a fixed level of capital, independent of the bank's risk profile was

* Chairperson and Managing Director, Bank of India.

made mandatory in the US. Although the capital level was not risk sensitive, banks were forced to have an equity buffer to protect depositors in adverse economic conditions and severe bank losses. On the international scene, the Bank of International Settlements (BIS) was founded in 1930 to help with reparation payments after the World War I, and with large financial transfers for reconstruction. This task quickly faded away and it focused on the co-operation between central banks. It became the main forum for central bankers and other agencies in pursuit of financial and monetary stability.

With the emergence of Universal Banking concept, banks started assuming different types of risks (credit, market, exchange rate, interest rate risk, etc.) apart from the credit risk. Though, even today credit risk is the most obvious risk of a bank by the nature of its activity. In terms of potential losses, it is typically the largest type of risk. Introduction of securitization and more importantly the derivatives can be seen as a by-product of emerging field of credit risk management. These new instruments of risk dispersion enabled the largest and most sophisticated banks in their credit-granting role to divest themselves of much credit risk by passing it to institutions with far less leverage.

Basel Accords and emergence of risk rating models

Concomitantly, new statistical tools were put in place in banks and rating agencies to select the clientele (e.g. credit scoring) and manage credit risk. These tools facilitated assessment of default / credit risk and risk pricing. The Basel Accord of 1988 imposed a new regulatory vision of risk.

In the late 1980s, high market volatility spurred the large US investment banks to put in place risk management departments. JP Morgan developed the two best-known internal risk management models-Risk Metrics for market risk and Credit Metrics for credit risk-in 1994 and 1997. These two models highlighted the idea of measuring risks in portfolio form by considering their dependencies and using value at risk to quantify aggregate portfolio risk. The publication of the Risk Metrics model prompted broad dissemination of the Value-at-Risk (VaR) risk measure among professionals and academics alike.

These new risk measurement tools are important instruments for calculating banks' regulatory capital under Basel II and Basel III. They were also used to analyze the first major losses sustained in 1994 and 1995 following misuse of derivatives (Procter and Gamble, Orange County, and Barings Bank). Three credit risk crises followed: the Asian crisis, the Russian crisis, and the collapse of Long Term Capital Management (LTCM). The LTCM hedge fund was overexposed to various risks. When the defaults started, LTCM began to run short of liquid assets to meet its obligations; this shortfall quickly turned into default risk.

Therefore, adequate capital reserves became a major concern in the early 2000s following major defaults in the late 1990s and the Enron bankruptcy in 2001. Basel II introduced more rigorous rules for banks. In addition to modifying the credit risk management rules, the Accord introduced new rules for operational risk. Advanced approaches under Basel II rely primarily on the internally developed rating models. Basel III, the third installment of the Basel Accords, was developed in response to the deficiencies in financial regulation revealed by the latest banking and financial crises. It is aimed at strengthening bank capital requirements by increasing bank liquidity and decreasing bank leverage.

The Internal Ratings Based (IRB) Approach for capital charge computation under Credit Risk relies more on the internal rating models of the banks rather than on the external credit rating agencies. Basel Committee on Banking Supervision (BCBS) had issued guidelines for Internal Ratings Based Approach in June 2004. Later on, the Reserve Bank of India came out with final guidelines on the "Implementation of the Internal Rating Based (IRB) Approaches for Calculation of Capital Charge for Credit Risk" on December 22, 2011.

The IRB Approach allows banks, subject to the approval of RBI, to use their own internal estimates for some or all of the credit risk components [Probability of Default (PD), Loss Given Default (LGD), Exposure at Default (EAD) and Effective Maturity (M)] in determining the capital requirement for a given credit exposure.

IRB approach to capital calculation for credit risk is based upon measures of unexpected losses (UL) and expected losses (EL). The risk components and Risk Weight (RW) functions (equations by which risk components are transformed into capital requirements and risk weighted assets) to calculate capital requirements for the UL portion. For EL, the banks are expected to compare the sufficiency of eligible provisions against EL (generally for corporate, sovereign, bank and retail exposures) amounts and adjust the regulatory capital accordingly.

Banks are allowed to use multiple ratings models for different exposures, but the methodology of assigning an exposure to a particular rating system must be logical and documented; banks are not allowed to use a particular rating system to minimize regulatory capital requirements.

Banks are also required to regularly stress test their rating systems considering economic downturn scenarios, market risk based events or liquidity conditions that may increase the level of capital held by the bank. These stress tests should not only consider the relevant internal data of the bank, but also macro-economic factors that might affect the accuracy of the rating system.

The regulations also put burden on the Board and Top Management of the banks for regularly reviewing the rating models and identify areas needing improvement. A proper governance framework should be in place for the banks to demonstrate the efficacy and impartiality of the rating models.

Credit Risk Models : Increasing Complexities

Credit ratings play a key role in today's financial markets and banks. Both external and internal ratings have become very important.

Nevertheless, ratings primarily remain assessments of risk of the future outcome.

The accuracy of the ratings depends a lot on the quality and relevance of the past experience, the quality of the model, the developers and the rating analysts. Wrong ratings can occur via various sources: the use of non-representative data, a poor model or wrong human expert judgment. All these errors contribute to so-called model risk. A bank needs to accept that internal ratings can be subject to wrong assumptions, a risk that needs to be monitored and managed as well, e.g., by an independent internal validation of internal rating systems and internal risk control.

External Credit Rating Agencies (CRAs) have shown a good track record on the quality of the information they provide. It forms the basis of their reputation, but nevertheless, errors in judgment may occur.

The Basel II Capital Accord explicitly promotes the use of internal ratings for risk management and capital requirements. It defines minimum requirements for internal rating systems. Bank's internal rating systems today used for regulatory capital purpose need to have two dimensions. The borrower dimension reflects the default risk. The facility dimension reflects default and loss risk combined in the expected loss or only loss risk when the bank estimates the loss internally.

In fact the entire scope and face of credit rating has evolved a lot in the recent years, primarily due to the scale of data we have and also because of superior computing environment.

While in the early stages, credit scoring and rating models were primarily applied to estimate the default risk of a portfolio, more recently scoring functions and rating models have also been designed to model recovery and/or expected loss risk. Such internal rating models are extremely important, because the model influences on a micro-level the lending policy of the bank on individual transactions. The rating determines not only the risk, but also provides a reference for the pricing, provisions, regulatory and economic capital calculation. Depending upon the management's risk appetite, credit decisions are taken by considering marketing, strategy, risk and return. On a macro-level perspective, accurate internal rating systems give good information regarding the expected losses of the portfolio and allow for correct pricing. Incorrectly calibrated models will either over- or underestimate the risk, where especially the latter may have far-reaching consequences for the bank. The discriminative power of the Probability of Default (PD) scoring function may influence the profitability of the bank. Banks with highly discriminant and accurate rating systems are better able to avoid losses as bad counterparts are better or earlier rejected. At the same time, the number of unnecessarily rejected counterparts is reduced. Less discriminant rating systems yield, on the other hand, higher loss rates and reduced profitability.

Important choices in the development of the rating system are the choices of the overall architecture and of the modelling technique. Improving the accuracy of a rating system can have significant effects on portfolio returns. The choice of the most appropriate rating architecture and technique depends upon the availability of adequate model formulations, data availability and implementation constraints. Not all models in the overview are directly applicable for all scoring and rating problems. The knowledge of alternative formulations yields, nevertheless, interesting information to enrich models.

In structural and reduced-form models the risk parameters are determined with a model that is derived from financial theory. Empirical models estimate and explain the risk parameters by learning from past observations. Expert models and expert analysis reflect human expert knowledge. However developing a practical model requires combination of different types of techniques.

The modelling work starts with the database construction that will be used to design the rating model. The model design step involves the score function design, the segmentation and calibration.

However, if we look at the recent experience of the BCBS on the internal rating models across banks all over the globe, the wide differences in the risk-weighted assets (RWAs) among banks. A number of external studies have raised concerns about whether the implementation of the Basel II framework with regard to the internal ratings-based (IRB) approach to credit risk might be uneven. These studies highlight widespread differences in banks' average risk weights. Although there is broad agreement that the observed variations are driven by a mix of differences in underlying risk and differences in banking and supervisory practices, the relative focus on different drivers varies across these studies. These studies also conclude that investigating differences in risk-weighted assets (RWAs) is difficult due to a lack of appropriate and consistent data.

To address this concern, BCBS in June 2014 has published proposed changes to the Pillar 3 disclosure regime that are intended to restore confidence in banks' stated capital ratios. Since capital ratios are calculated as the percentage of regulatory capital the bank holds versus its RWAs, without confidence in the RWA denominators, the resulting capital ratios can always be questioned.

BCBS believes some of the inconsistencies in RWA arise from different supervisory approaches as well as from the internal-based models that sophisticated banks use to measure their RWA. These changes aim at improving the transparency of the internal model-based approaches that banks use to calculate minimum regulatory capital requirements.

Complex models and the Model Risk

Models bear a specific type of risk : model risk. Credit risk models are used to predict future risk levels : default risk (PD), loss risk (Loss Given Default-LGD) and exposure risk (Exposure at Default-EAD). The model risk is the risk that these model outcomes can be systematically wrong.

Credit risk models are developed, implemented and used by humans, such that these are exposed to errors of wrong development, implementation and use. The aggregate of these risks is called model risk. Like any other risk, this risk has to be managed. A key element of model risk management is good development done by various experts from statistical and financial domains, internal validation at origination and ongoing validation through back-testing, benchmarking and quality control.

The behaviour of real life systems can be quite complicated, and many systems show chaotic detailed behaviour (although their long-term behaviours may be stable), so a complete description of reality may not be simple enough to encompass in a practical statistical model. And, data are often limited so we're forced to use simple models (like straight-line) which we can't expect to reflect that absolute truth of complex systems.

Hence, regardless of the level of sophistication, model usage exposes any bank or financial institution to model risk - which typically involves the possibility of a financial loss, incorrect business decisions, misstatement of external financial disclosures, or damage to the company's reputation. Secondly, some of the statistical models are based on certain assumptions. In these cases, the model may fail when and if the assumptions no longer hold good. Thirdly, environment makes a lot of difference to a financial model. A model will only serve the purpose for which it is built. So if the underlying macro environment undergoes a drastic change, the model will also have to be tweaked to fit with the new reality.

Thus, it is necessary to understand the limitations to appreciate the usefulness of a statistical model. To address these concerns, a robust Model Risk Governance structure is called for. This enables banks in identifying model issues and reducing potential model failures by setting minimum standards around the model development, implementation, validation and maintenance process.

Emergence of Credit Derivatives

Credit derivative instruments have been marvelled as one of the biggest financial innovations which separate and then transfer the credit risk or the risk of an event of default by transferring it to an entity other than the lender. Another innovation during the early 1990s was the synthetic securitization structure. Synthetic securitization represented the extension of credit derivatives to structured finance, that is, to the combining of derivatives with cash instruments or with other derivatives to attain a desired exposure.

Credit derivatives arose in response to demand by financial institutions, mainly banks, for a means of hedging and diversifying credit risks similar to those already used for interest rate and currency risks. But credit derivatives also have grown in response to demands for low-cost means of taking on credit exposure. The result has been that credit has gradually changed from an illiquid risk that was not considered suitable for trading to a risk that can be traded much the same as others.

However, their role in the recent banking and financial crises has created lot of apprehensions and also earned them the name of 'financial weapons of mass destruction.' The role that were played by many of the banks in selling structured products like, the Mortgage-Backed Securities (MBS), Asset-backed securities (ABS), Collateralized Debt Obligations (CDO), Collateralised Loan Obligation (CLO), etc. came under scanner. The mayhem that it created in the banking and financial crises throughout the globe have called for serious discussions amongst different stakeholders- be it the regulators, banks, investors, governments, etc.

In fact, the increased liquidity of credit markets and credit derivative products has reduced the differences between market risk and credit risk management practices.

Credit Risk Management Practices

An important concept of modern banking is risk diversification. In a simplified setting, the outcome of a single loan is binary : non-default or default, with possibly a high loss as a result. For a well-diversified portfolio with hundreds of loans, the probability of such a high loss is much smaller because the probability that all loans default together is many times smaller than the default probability of a single loan. The risk of high losses is reduced by diversifying the investment over many uncorrelated obligors. By the law of large numbers the expected loss in both strategies is exactly equal. The risk of high losses is not equal. Because bank capital serves to provide protection for depositors in case of severe losses, the first lending strategy of one single loan requires the bank to hold much more capital than the second lending strategy with a well-diversified portfolio. The diversification impacts the capital the bank is expected to hold and also performance measures like return on capital and risk-adjusted return on capital.

Portfolio models provide quantified information on the diversification effects in a portfolio and allow calculation of the resulting probabilities of high losses. On a portfolio level, the risk of the portfolio is determined by single facility risk measures PD, LGD and EAD and by concentration and correlation effects. On a more global view, migrations, market price movements and interest rates changes can also be included in the portfolio risk assessment to measure the market value of the portfolio in the case of liquidation.

Portfolio models have become a major tool in many banks to measure and control the global credit risk in their banking portfolios. Idealized and simplified versions of portfolio models are rating-based portfolio models, where the portfolio loss depends only on general portfolio parameters and the exposure, default risk and loss risk of each loan, represented by the PD and LGD ratings, respectively. Exposure risk in such simplified models is currently represented by an equivalent exposure amount that combines on and off-balance sheet items.

Currently, many banks have implemented a number of different credit portfolio models for calculating credit risk economic capital, credit risk stress testing and allocating credit risk for funds transfer pricing. Although implemented credit portfolio models are generally quite complex, a basic setup with idealized assumptions allows the derivation of a loss distribution that captures the most important characteristics of real-life credit portfolio loss distributions. Since defaults in this model are described in the framework of an asset value default model, it falls into the class of asset value credit portfolio models.

Default rates change very much with the state of the economy. In a simplifying approach, this observation can be translated into the modelling world by letting the defaults be driven by only one factor - which, consequently, can be thought of as describing the overall state of the economy. Assuming further that the credit portfolio includes many homogeneous credits with the same values for PD, LGD and exposure, a distribution for the percentage portfolio loss, whose shape depends on two parameters, obtains the asset correlation and the probability of default. The most striking feature of this loss distribution is that it becomes very skewed and fat-tailed with increasing asset correlation. Skewed, fat-tailed distributions are typical of credit portfolio loss distributions.

The Basel II minimum capital requirements for credit risk in the IRB approach are based on a one-factor asset value model. By making specific choices on the asset correlation for different asset classes, the model can account, to a certain extent, for the variety of borrowers and transactions in real-life portfolios.

The nice property of the Basel II capital allocation mechanism derived from the model is that the capital required for a single transaction is determined only by the parameters of the transaction - i.e., notably by PD, LGD and EAD. The total regulatory capital for the credit portfolio is obtained by summing up the regulatory risk capital for all transactions.

Due to its simplicity and its standardization, the credit portfolio model underlying Basel II does not offer the basis for a fine-grained picture of portfolio risk based on the best assumptions a bank can make about the risk parameters. In particular, it does not account for regional and industry diversification, and single name or industry concentrations are not penalized.

Hence, Pillar II risks of the credit portfolio also need special attention. Credit portfolio models differentiate credit risk based on different parameters such as industry, geography, credit grade, etc. A numerical simulation is run to generate a large number of scenarios, simulating various states of the economy and the resulting impact of each on the credit portfolio value. With this analysis, banks can make decisions on what should be the ideal composition of the portfolio, based on their risk appetite and performance targets.

In order to keep their exposure to any single body in check, banks monitor their exposure to a number of entities and categories such as counterparties, bond issuers, issuer type, product type, etc. Banks create certain predefined limits for each entity, and once these limits are reached, any further trades with the entity are blocked until the exposure comes down. This is done to ensure risk diversification so that the firm is not overexposed to any one entity, and in the case of a negative market event, has only limited losses. In some markets these limits are regulatory requirements for certain types of financial banks and their exposures must be reported.

Stress testing is done to overcome some of the drawbacks of risk models that are overly dependent on historical data, and to test the specific risk parameters which define the model. Based on the limited inputs, these models can sometimes cause an underestimation of risk. Stress testing typically allows testing based on a combination of different scenarios including shocks and conceived scenarios, and is often applied to firm-wide portfolios to capture the complete risk along different lines of business. Stress testing is now a regulatory requirement in certain countries since it helps ensure that companies maintain adequate capital levels.

Risk-Adjusted Performance Measurement and Pricing

Another benefit of an internal portfolio model is that it can be used as the basis for risk-adjusted performance measurement (RAPM). A ratio used in this context is the risk-adjusted return on capital (RAROC), which relates risk-adjusted net revenues to economic capital. Originally developed by Bankers Trust in the late 1970s for use in a trading environment, the concept was subsequently extended and adopted by many banks in different variations. Other denominations - like return on risk-adjusted capital (RORAC) or risk-adjusted return on risk-adjusted capital (RARORAC) - are also used.

Revenues include margins, provisions and fees, EL stands for the expected loss, and costs are all attributable to direct operating costs. A RAROC measure can be determined for the whole portfolio, down to individual transactions. The calculations can be made ex ante with expected revenues and costs or ex post with the actual values. In a full-fledged implementation for the bank's total portfolio, the economic capital would include all types of risks. Here, the focus is on credit risk in the credit portfolio.

For the calculation of a RAROC number for an individual transaction or a sub-portfolio, all income, cost and economic capital components must be determined at that level. Since the VaR and the economic capital are computed for the whole portfolio in the first instance, an important step is the allocation of total economic capital to individual transactions.

RAROC can be used to identify which business segments, business units and individual deals create value. To this end, RAROC must be compared with the hurdle rate, which is a strategic benchmark set by senior management. For instance, if the RAROC of a deal is equal to or greater than the hurdle rate, the deal should be done from a RAROC perspective. Thus, during the deal negotiation, the RAROC can be an incentive for obtaining higher margins or additional collateral, or for entering into a cross-selling dialogue.

Given the risk profile of a customer and further transaction specific information, the hurdle rate is a determining factor for a transaction's minimum margin. To calculate the minimum margin, it is important that the bank takes into account the possibility of rating migrations, during which time the margin cannot be renegotiated. This will lead, in general, to higher margin requirements for medium- and long-term transactions. The calculation of a minimum margin is of particular importance for segments in which a market price is not readily available.

However, although the idea of RAPM to relate risk-adjusted revenue to economic capital is simple, the consistent implementation of a performance measurement and pricing practice throughout the whole organization may be difficult.

Conclusion

Credit Risk management, both as a discipline and practice, has come a long way from its good olden days. Economic turmoil after turmoil has shaped our outlook on risk and has forced us to look at newer and robust systems to manage the risks. In the wake of the financial crisis, banks established a variety of credit risk methodologies and metrics across many areas. However, the continuing evolution of effective credit risk management still represents a significant challenge for banks as they seek to enhance their current approaches to measuring and managing credit risk.

While these challenges initially may put a significant burden on banks as they upgrade existing credit risk systems and processes, there is a significant payoff - a transparent, auditable and efficient credit risk management process that enables fast, decisive action in response to market changes, as well as an improved ability to steer the risk profile of a bank's credit risk exposures.

The increased availability of advanced risk analysis, measurement, monitoring and management tools allows the risk management not only to efficiently safeguard the bank's risk profile, but also to take the role of a strategic partner in the bank's commercial development plan. These evolutions are going to enforce further the very criticality and strategic position of risk management functions in the organization.

All the current and future evolutions will make the risk universe a challenging and strategic area in the future for researchers, risk officers and - last but not least - banks and financial institutions themselves. As banks are a major player in the economy, advancements in risk management practices would eventually cascade further on to their stakeholders.

☯

Governance Issues in Banks

K. R. Kamath *

Introduction

Governance can be defined as a system by which the companies are directed and controlled. It defines the roles and relationship between the management of the company, its board, shareholders and stakeholders.

As per Organization for Economic Cooperation and Development (OECD), “Corporate Governance involves 'a set of relationships between a company's management, its board, its shareholders, and other stake holders. Corporate Governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. Good corporate governance should provide proper incentives for the board and management to pursue objectives that are in the interests of the company and its shareholders and should facilitate effective monitoring. The presence of an effective corporate governance system, within an individual company or group and across an economy as a whole, helps to provide a degree of confidence that is necessary for the proper functioning of a market economy.”

For effective governance it has to be ensured that the conflicts of interests between the stakeholders are mitigated. Ways of mitigating or preventing these conflicts of interests include the processes, customs, policies, laws, and institutions which have an impact on the way a company is controlled.

Proper governance has emerged as an important benchmark for improving competitiveness and enhancing efficiency and thus improving investors' confidence and accessing capital, both domestic as well as foreign.

The two fundamental reasons why this subject has acquired a new dimension and has aroused wider interest are :

1. With the opening of the economy the financial markets have become more complex and opened up a large number of opportunities for banks. Deregulation has also shifted the onus of implementation of policies on banks and given them operational freedom. However, with greater freedom comes greater responsibility.
2. The world is a smaller place today as a result of the technological developments that enable real time transfers of funds across continents and across different regulatory jurisdictions. This magnifies the responsibilities of banks and their boards. Wrong policy decisions can have drastic consequences.

Need for Governance in Banking

Banks, by virtue of their intermediation function in the allocation of resources play a critical role in the socio economic growth of the country. Banks accept money largely in the form of deposits from the general public and lend money that is in effect “borrowed” to individuals and companies who can utilize these funds to generate income and give the bank a decent return. The credit creation that takes place fuels economic growth. Banks exercise a choice in dispensing credit and wrong decisions can have significant consequences for the economy. The threat poised by non performing assets has been talked about widely and is now familiar to anyone even with a passive interest in the economy. In this scenario it has become imperative for the banks to ensure that the corporate governance practices that they adopt should be sound and efficient. Some issues relevant to this context are given below.

1. Banks serve as a crucial link in the country's financial system and they serve as the most important financial

* Chairman and Managing Director, Punjab National Bank.

intermediary in the economy by connecting surplus and deficit economic agents.

2. The governance practices of Banks vary significantly differ from those of other entities. Banks are highly leveraged; they accept large amounts of uncollateralized public funds as deposits in a fiduciary capacity and further leverage those funds through credit creation. The presence of a large and dispersed base of depositors in the stakeholders group sets banks apart from other corporates.
3. Apart from their role as lenders, they provide access to payment systems and a variety of retail financial services for the economy at large.
4. With the increasing integration of different market segments the complexity of doing business has increased exponentially. Banks, by virtue of being at the centre of these transactions have a huge responsibility. The inter-relatedness of transactions makes the risk of contagion a reality and consistently poor decisions by one bank can create serious trouble for other banks. In the volatile and interlinked world we live in, contagion can spread instantaneously with potentially serious consequences for the entire financial system and macro economy.
5. Banks, more than other corporates, have to match the conflicting interests of different stakeholders. Thus the interests of shareholders and depositors are often at variance. Shareholders looking for high dividends may want the bank to adopt an aggressive credit expansion policy that would fetch high returns. Depositors, on the other hand may have an overriding preference for the safety of their deposits and hence for lower risk. In this context it is notable that depositors have little say in the governance of banks whereas the shareholders say is pronounced and excessive influence of any shareholder can have a detrimental effect on the interests of all other stakeholders.
6. Banks operate on trust and the funds they receive from depositors are on the basis of this trust. Trust is built up through robust systems and procedures and good governance. Poor governance may contribute to bank failures which have significant reputational risks on the entire banking system. In addition, poor corporate governance can lead markets to lose confidence in the ability of a bank to properly manage its assets and liabilities which could in turn trigger a run on banks and cause a liquidity crisis.
7. In case of Public sector banks the importance of governance is further magnified because of their large share of the banking business and also because of the fact that they are government owned entities.

A broader view of corporate governance should be adopted in the case of banking institutions as banks, though fundamentally not different from other companies with respect to governance, have business features that are not applicable to other companies. Unlike other companies, banks deal in money and have a weight in the economy that is much higher than that of non banking companies, by virtue of the systemic risk that is associated with the failure of banks. The reputational and operational risks are clearly higher in case of banking companies.

Governance issues in Banks with changing times

Over the years, the Banking sector has seen significant changes. The regulatory environment has changed over the years, more so after liberalization in the nineties and greater integration of the Indian economy with the world economy. While deregulation has opened up new vistas for banks to augment revenues, it has entailed greater competition and greater risks.

With increased globalization came more challenges for Banks both in terms of markets for its products and for sources of funds. Banks have had to re-engineer their products and services to suit the ever changing requirements, particularly with respect to adding new features in tune with technological changes and reducing delivery time. To ensure that there are no operational problems with technological improvements, the workforce has to be provided training. There is also the need to impress upon them the necessity of having a professional and competitive approach. There has been a remarkable increase in the size, spread and scope of activities of banks in India. The business profile of the banks has transformed and now includes non-traditional activities like merchant banking, mutual funds, new financial services and products.

Under Basel-III the capital requirement of the banks has increased and they have to access the markets for capital requirement and keeping in touch with the market and investors is a must. The relevance of good governance to an investor can hardly be over-emphasized. Investors believe that a bank with good governance will provide a safe haven for their funds and also give better returns.

The challenges in banking have increased significantly with both customers and the Regulator expecting greater transparency from banks. The customers are more aware than ever in the past and have more choices. As such the price a bank pays for lack of transparency or fairness is often the loss of customers to begin with and possible legal problems thereafter. To attract and retain the commitment of investors, customers, employees, Banks should ensure that they match the global benchmarks in Governance practices.

The Regulator today seeks a higher level of disclosure and demands this from banks, more so because technology enables it. New electronic reporting platforms have been developed to ensure automated data flow from banks and the term offsite banking surveillance has attained a new depth. Mis-reporting or wrong reporting attracts penalties and the bank incurs a reputational risk if it fails to maintain the standards of reporting expected by the Regulator. In this background the role of governance is of great importance.

Greater independence of public sector banks has also been a key feature of the reforms. There is increasing emphasis on greater professional representation on bank boards, with the expectation that the boards will have the authority and competence to properly manage the banks within broad prudential norms set by the Reserve Bank of India (RBI).

RBI has moved to a model of governance by “prudential norms” rather than through direct interference, even allowing debate about the appropriateness of specific regulations among banks.

Prudential regulation requires banks to hold capital proportional to their total Risk Weighted Assets with the Regulator conducting both on-site and off-site surveillance. The objective of prudential regulation is to protect depositors and ensure the stability of the financial system. However, the prudential reforms already implemented in developing countries have not been effective in preventing banking crises, and a question remains as to how prudential systems can be strengthened to make them more effective.

As mentioned above, governance practices assume an important role for banks. Banks are highly leveraged organizations and can secure their existence and ensure efficiency in working as long as they enjoy the confidence and trust of stakeholders.

Best governance practices will enable banks to :

1. Increase efficiency of their activities and minimize risks;
2. Get easier access to capital markets and decrease the cost of capital;
3. Increase growth rate;
4. Attract strategic investors;
5. Improve the standards of lending;
6. Protect the rights of minority shareholders;
7. Strengthen their reputation and raise the level of investors' and clients' trust

Evaluation of corporate Governance of Banks in India

In the mid-term review of the Monetary and Credit Policy of October 21, 2001 the formal policy announcement of corporate governance was made by Dr. Bimal Jalan. A consultative group was constituted in November 2001 under the Chairmanship of Dr. A. S. Ganguly to strengthen the internal supervisory role of the Boards.

Prior to this an Advisory Group on Corporate Governance was formed under the chairmanship of Dr. R. H. Patil in March 2001, which examined the issues relating to corporate governance in banks in India including the public sector banks and made recommendations to bring the governance standards in India on par with the best international standards.

Some other recommendations were made by Shri M. S. Verma group which submitted its report in January 2003 and in 2014 the P. J. Nayak committee has given its recommendations on this issue.

As a follow-up of the Ganguly Committee report, in mid-term review of the Monetary and Credit Policy in November 2003, the concept of 'fit and proper' criteria for directors of banks was formally enunciated, and it included the process of collecting information, exercising due diligence and constitution of a Nomination Committee of the Board to scrutinize the declarations made by the bank directors. The most crucial aspect of corporate governance is to have a professional board which can drive the organisation through its ability to perform its responsibility of meeting regularly, retaining full and effective control over the company and monitor the executive management. Some of the important recommendations on the constitution of the Board are :

- Qualification and other eligibility criteria for appointment of non-executive directors,
- Defining role and responsibilities of directors including the recommended “Deed of Covenant” to be executed by the bank and the directors in conduct of the board functions.
- Training the directors and keeping them abreast of the latest developments

In the pre-reform era the regulatory guidelines covering the governance structure were less as banks were under government control and after 1991 the public sector banks saw a dilution of government shareholding and private sector banks came into the scene. The phases can be divided as :

First Phase : With the entry of private sector banks, competition increased and the banks started paying attention to customer service which became an important variable in protecting and increasing the market share.

Second Phase : After the reforms there was a marked shift from regulation towards corporate governance. Banks got freedom and flexibility to draw up their own business plans and strategies consistent with their competitive advantage. The boards of banks had to assume the primary responsibility of overseeing this. This required directors to be more knowledgeable and aware and also exercise informed judgment on the various strategy and policy choices.

Third Phase : This phase saw two major reforms pertaining to public sector banks - the first was the entry of institutional and retail shareholders and second was listing on stock exchanges. Directors representing private shareholders started having an impact on the strategic decision of the banks. Further the listing requirements of SEBI enhanced the standards of disclosure and transparency.

Fourth Phase : The Public sector banks were given more autonomy with regard to human resources issues, and were also given freedom to undertake acquisition of businesses, close or merge unviable branches, open overseas offices, set up subsidiaries, take up new lines of business or exit existing ones, all without any need for prior approval from the Government. All this meant that greater autonomy to the boards of public sector banks came with bigger responsibility.

Fifth Phase : The phase was marked by structural reforms in banks which included mandating a higher proportion of independent directors on the boards; inducting board members with diverse sets of skills and expertise; and setting up of board committees for key functions like risk management, compensation, investor grievances redressal and nomination of directors. Structural reforms were furthered by the implementation of the Ganguly Committee recommendations relating to the role and responsibilities of the board of directors, training facilities and most importantly, application of 'fit and proper' norms for directors.

Reform measures by RBI

The reform process in governance practices in banks reflects changes in monetary policy, regulatory environment, and structural transformations in the financial sector. Some of the measures adopted by RBI for governance practices include :

Policy Environment

Greater competition has been infused in the banking system with entry of private sector players and foreign banks. To remain in business, banks have to ensure efficiency, irrespective of the ownership.

The reforms have accorded greater flexibility to the banking system to manage both quantity and pricing of resources. Valuation of banks' investments is also attuned to international best practices so as to appropriately capture market risks.

The Reserve Bank of India has changed its role from micro-regulation to macro management. The Regulator issues general guidelines and individual bank board's frame their guidelines on credit decisions.

With changing environment the RBI has imposed prudential standards in progressive manner. While flexibility of taking credit decisions has been assigned to the banks, prudential norms setting out capital adequacy norms, asset classification, and income recognition provisioning rules, exposure norms, and asset liability management systems have helped to identify and contain risks, thereby contributing to greater financial stability.

An appropriate legal, institutional, technological and regulatory framework has been put in place for the development of financial markets. Trading volumes in primary and secondary market operations have increased. Development of the government securities, money and forex markets has improved the transmission mechanism of monetary policy, facilitated the development of a yield curve and enabled greater integration of markets. The interest rate channel of monetary policy transmission is acquiring greater importance as compared with the credit channel.

Regulatory Environment

The Reserve Bank has embarked on the process of moving towards risk based supervision system from the earlier transaction-centric CAMELS and CALCS approach. The new system will change the approach towards regulatory supervision. The regulatory supervision process will focus on inherent risks within the bank's business model and product offerings as opposed to result of past transactions.

The supervisory process will significantly focus on continuous collection of data from banks and a robust off-site surveillance mechanism. This will enhance the supervision bandwidth and move towards a risk indicator based early warning signal.

On site review will focus on high risk areas and industry wise challenges.

The RBI has also initiated certain macro level monitoring techniques, the format of balance sheets of RBI have been prescribed by RBI with disclosure standards on vital performance and growth indicators, provisions, net NPAs, staff productivity, etc. appended as 'Notes on Accounts'.

Structural Environment of Banking

As stated earlier, the structural environment has under gone a great change over the years. The share of Government in public sector banks has gradually declined with the increase in the private stake, as the banks have been permitted to access the stock markets for funds. Though the Government continues to be the majority shareholder, the presence of shareholders' Directors in the Board Room adds a new dimension to the discussions. The Board now has to take into account the interest of the minority shareholders and to that extent the challenges of governance have increased.

The deregulation of the interest rates and the greater autonomy given to banks means that the agenda items placed before the Board on which decisions are to be made are significantly higher than they were before. The Boards have been given greater autonomy in areas such as investments, loans, asset-liability management and recovery of NPAs. All these topics require to be deliberated on and the directors need a greater degree of awareness and capability to arrive at decisions that are in the interest of the organization. The role of board of directors has, therefore, become critical.

The appointment, as well as removal of auditors, in PSBs requires prior approval of the Reserve Bank. There is an elaborate procedure by which banks select auditors from an approved panel circulated by the Reserve Bank. In respect of private sector banks, the statutory auditors are appointed in the Annual General Meeting with the prior approval by the Reserve Bank.

There is need to discuss the implications of government ownership in public sector banks, which is a mixed blessing in some ways. While public sector banks have easy access to capital from the government, this ownership structure also brings them within the purview of the Central Vigilance Commission and Right to Information Act. This makes the process of decision making more complex and places public sector banks at a disadvantageous position when compared with their private sector peers. The government judges these banks on different criteria and this raises the question of whether effective and autonomous corporate governance is compatible with public ownership of banks. However, public ownership with the Government as the majority share holder does instill greater confidence in the public at large, apart from investors and has a brand value of its own.

Government performs simultaneously multiple functions vis-à-vis the PSBs, such as that of owner, manager, quasi-regulator, and sometimes even as the super-regulator. The multiple functions that the government performs sometimes create conflict of interests. While government ownership does provide core strength to PSBs, the structural inefficiencies and lack of management autonomy tend to weaken the ability of PSBs to compete effectively. PSBs also face the problems of dual regulations from finance ministry and the RBI. Being a Regulator, RBI has on several occasions stated that RBI need not have representation on the bank boards, given the fact that it leads to conflicts of interests with its regulatory functions.

The Government has a major role in appointing members to bank boards. Although reforms have given the banks greater autonomy in deciding the areas of business strategy such as opening of branches and introduction of new products, PSB boards have to follow the directives issued by the government and the central bank. One way to do this is to reduce govt. control over banks and give them much more autonomy to act in the interests of all stakeholders. This can be ensured with the appointment of directors with experience and temperament to make positive contributions to governance.

The possibility of the government divesting its ownership to below 50% has been debated vigorously in recent times. In this context, it must be stated that if banks are completely privatized, adequate deposit insurance schemes and supervisory arrangements will need to be established in order to protect depositors' interest.

Emerging issues

The path of governance so far has been one of progressively greater disclosures and increasing convergence to international standards. However, the growth of the banking sector has now raised a new crop of issues, such as capital requirements on the one hand and human resource management issues on the other.

The restructuring of loans done in 2008, post the Lehman Brothers crisis, and subsequent increase in exposure to the infrastructure sector have created asset quality problems for banks, particularly public sector banks. Excessive exposures to selected parties, poor credit quality and inadequate management of risks have been the major causes for financial distress in many countries. The same issues pose challenges for the bank boards as they all demand immediate attention and need to be resolved in the near future. It also points towards weaknesses in the corporate governance practices of many banks. This is the context in which RBI has been emphasizing the need for better understanding and oversight at the board level of key banking risks. Boards of the banks will have to take solvency and other risks systematically into account while making decisions.

The pile-up of bad loans has impaired the profitability of banks at a time when the capital requirement under Basel-III is higher. The norms are more stringent and they require higher levels of capital adequacy to deal with future shocks and improve risk management.

As the fiscal deficit constrains the government from providing the required capital to PSBs other innovative solutions will have to be found. Bank boards will also have to internally restructure governance to deal with the other Basel III requirements relating to capabilities to cope with financial crises.

In its ninth bi-monthly Financial Stability Report the RBI has also expressed its concern that although the financial system remains stable, the PSBs continue to face challenges in coming quarters in terms of their capital needs, asset quality, profitability and more importantly, their governance and management processes. It would appear that the banks need a complete revamp and a relook at their structure.

It is clear that the Banks will continue to face the dual problem of significant asset quality stress and weak capitalization impacting their growth. The current predicament in which Banks find themselves, point to the need for Boards of the banks to focus on the internal control systems covering audit functions and other checks and balances. PSBs are also in the midst of a mid-level human resource crisis, brought on by the huge retirements in the last few years. The challenge before bank boards is to find solutions to this problem, as the gaps created at the mid-management level lead to operational bottlenecks that slow down the growth of business.

Suggestions

The Banks have to be brought under a single act so that the corporate governance regimes do not have to be different just because the entities are covered under multiple Acts of the Parliament or that their ownership is in the private or public sector.

There has to be a level playing field between public and private sector banks in terms of compensation offered, tenure and selection criteria for higher officials. The Chairmen, Executive Directors and non-executive directors on the boards of PSBs need to be appointed by an independent agency.

The quality of governance should be same in all types of banking organizations irrespective of their ownership. The process of induction of directors into banks' boards and their initial orientation may be streamlined. Banks need to develop mechanisms, which can help them ensure percolation of their strategic objectives and corporate values throughout the organization. Boards need to set and enforce clear lines of responsibility and accountability for themselves as well as the senior management. Linkage between contribution and remuneration / reward should be established. Compensation Committees of the board could be set up for the purpose. Nomination Committee to assess the effectiveness of the board and direct the process of renewing and replacing board members is desirable. Disclosures in respect of committees of the board and qualifications of the directors, incentive structure and the nature and extent of transactions with affiliated and related parties need to be encouraged.

The directors appointed should be based on fit and proper criteria and as the banking sector becomes more competitive the Boards of banks have to be made more professional by including technically and specially qualified individuals. There should be a minimum level of qualifications and experience for appointment of directors.

With implementing of Basel-III guidelines, the banks need higher capital and hence the government should dilute its stake in the public sector banks. In this regard, there has been a suggestion by P. J. Nayak committee on setting up of a Banking Investment Company (BIC) to hold equity stakes in banks which are presently held by the Government. This recommendation needs to be suitably deliberated upon.

Dual regulation has been one of the biggest problems of PSBs and it is imperative in the present context that RBI becomes the sole regulator and government should withdraw from giving any instructions to the PSBs. Any development instruction should be issued after consultation with RBI and should be applicable to all banks.

Significant disparities between public and private sector players must be reduced and there has to be a level playing field between both.

The selection of top management must be done by an independent authority. The P. J. Nayak Committee has recommended that a Bank Boards Bureau be set up by the Government. This suggestion also needs to be examined by the govt.

There is also a need to fix the tenure of directors of banks so that they have enough time and scope to strategize and take actions besides increasing their commitment and accountability. The appointments must be made more transparent and the appointed directors should have least economic interest in the banks. They should also include professionals from every field so that they can leverage their expertise to take increasingly complex decisions.

The Boards of the Banks must be fully empowered and should be free to take strategic decisions. They should be, solely entrusted with the governance and oversight of the management of the banks.

Conclusion

The case for giving prime importance to governance is a strong one. We live in a world where technology has brought about a level of integration that was considered beyond the realm of possibility not too long ago. The increasing complexity of financial transactions and their ability to cross international borders and different regulatory jurisdictions has opened up new opportunities on the one hand, while exposing banks to higher risks on the other. The exponential increase in the number and volume of transactions, while giving the bank new sources of revenue and a larger customer base, has also created the need for robust internal control systems that can insulate the banks from attendant risks. Decision making in this environment is challenging and governance has to rise to the challenge.

The competitive business environment in which banks operate today means that banks that project themselves as better governed and can stand the test of scrutiny of the market as well as the regulator will be the ones that will grow and prosper. With the change in the licensing policy, and the possibility of licenses being available on tap, the banking sector is going to see even more intense competition and the new players will require benchmarking their governance practices to the best in the industry if they are to survive. The interest rate cuts, dwindling margins and more players catering to the same client base have all added to the worries of the banks. In these circumstances, banks can no longer look at corporate governance simply as a code of doing business but must utilize it as a tool to lower risk and enhance shareholder value.

Greater functional autonomy is definitely needed for PSB Boards. However, the boards would need to be strengthened before the increase in autonomy would begin to yield better results. The criteria for appointments of directors may need to be revisited so as to bring in individuals with the necessary experience and aptitude to make lasting contributions.

There need to be an appropriate balance between regulatory and voluntary corporate governance requirements. Dr. Y. V. Reddy, the ex-governor of RBI, has rightly said, “Corporate Governance is the only royal road to the portal of corporate success and there is no short cut to achieve the same. A short cut can lead to short circuiting, which can cause colossal loss to the banks concerned”

In conclusion, good governance is ultimately the balancing of the interests of different stakeholders, namely the investors, customers, employees, the government, the regulator and the community at large and the scope of governance has to extend to include all these diverse interests.

☯

Banking landscape after Financial Inclusion Goal is reached

R. K. Dubey *

Indian banking system is on an upward growth trajectory and is poised to be the third largest banking industry worldwide by 2020.The way forward lies in chartering a holistic Financial Inclusion in such a way that it keeps pace with the expected growth trajectory of the Banking Sector, and lays foundation for an economic growth which proves all inclusive.

Basic perspective

The future is decided by efforts of the present. In the present scenario in the country and many developing countries, Financial Inclusion constitutes initiatives oriented towards providing basic banking services, at an affordable cost to the vast sections of disadvantaged and low income group.

Thus Financial Inclusion offers a foundation on which equitable economic development needs to be built. Financial Inclusion initiatives are thereby means for achieving a broader purpose of economic well being of the society. As a cornerstone for equitable distribution of the nation's growth, Financial Inclusion has obviously many layers of reaching the excluded. The essence of Financial Inclusion is to ensure delivery of financial services which include - bank accounts for savings and transactional purposes, low cost credit for productive, personal and other purposes, financial advisory services, insurance facilities (life and non-life) etc. It means not only extending banking facilities to the excluded, but also to provide them at their convenient time and location; and to include not only banking products but also other financial services such as insurance, equity and pension products. Chartering a financial landscape for the future lies in building on the strengths of the current efforts and tweaking the approach to meet the expanding needs of these excluded people, so that they become active partners in economic growth, leading to higher GDP growth and enhanced quality of life of people of this country.

Comprehensive Financial Inclusion

The Financial Inclusion is meant to go beyond means of opening of an account with a Bank, may be a General Credit Card being issued, simple overdraft facility being extended; The Reserve Bank of India and the Banks in India thus have conceptualized the idea of Comprehensive Financial Inclusion (CFI). The banks firmly believe that opening of basic savings bank account is not an end itself but a means to an end, the end being providing access to credit to meet the genuine financial needs of a rural family, that are diverse in terms of Working capital for the existing activity, or additional income generation through livelihood activities, and meeting consumption needs such as, expenses towards marriage, health, house repair, children's education, etc.; also provide means to overcome the disaster situations of the poor, who are more vulnerable to vagaries of nature like drought, flood, epidemic etc. and to have a financial security net in their old age. The main purpose is to provide sustainable economic strength to each household of the underprivileged.

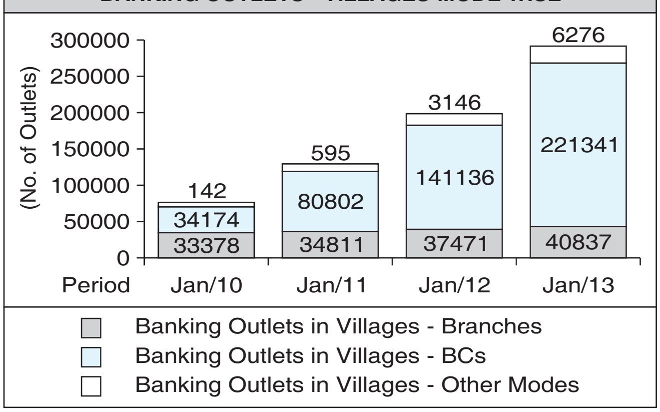
Present Scenario

The Financial Inclusion efforts so far has seen the financial sector take up various options in the last 5 years in terms of enhancing delivery models for reaching the excluded, particularly in the context of skewed distribution of bank branches as observed across population groups with 6000 per branch in urban areas and 24000 in Rural areas.

* Chairman & Managing Director, Canara Bank.

With regard to rural reach, total number of banking outlets in villages increased from 67,694 in March 2010 to 2,68,454 in March 2013 (increased around 4 times during the period of three years). While number of full fledged brick and mortar branches increased from 33378 to 40837, number of BC outlets increased from 34,174 to 2,21,341 during the same period (increased around 6.5 times).

BANKING OUTLETS - VILLAGES-MODE WISE



Though, rural India constitutes 68% of country's population, its share to total deposits (9%) and an advance (8%) is abysmally low compared to urban counterpart. Absence of banking services in villages has lead to growth of informal financial markets with negative features such as high cost of credit at exploitative terms, loss of precious savings on account of fly-by-night operators, inordinate delays in effecting transfer of funds and settlement of accounts. Thus, the financial exclusion has not only widened the 'Rich-Poor divide' but also resulted in 'Social Exclusion'.

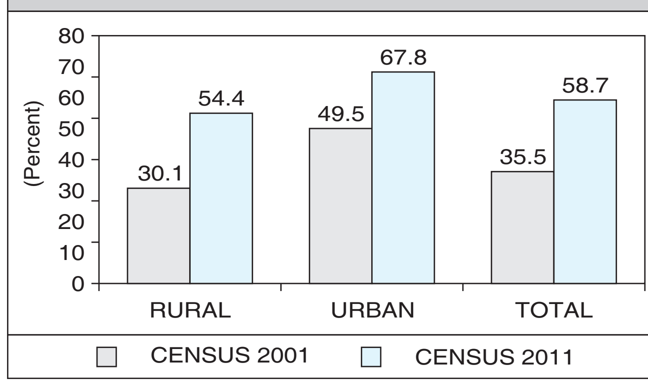
Rural & Urban Banking in India As at 2011

Group	Population (Crore)	Branches (in '000)	Per Branch Population	Share of Deposits	Share of Advances
Rural	83 (68%)	43 (38%)	24	9%	8%
Urban	38 (32%)	59 (55%)	6	91%	92%
Total	121	93	13	100%	100%

Source : Census 2011 & RBI Banking Statistics - Handout Dec'11

As per McKinsey Report published in Bancon 2011, only 54% of India's rural households have access to savings bank accounts and 79% rural households do not have access to credit facilities from formal sources which has shown improvement in the last 3 years.

PERCENTAGE OF HOUSEHOLD AVAILING BANKING SERVICES IN THE COUNTRY



Although 92% of the business in urban areas is covered by Banks, mostly it is garnered from the corporate and upper strata of the society like middle, upper middle and the affluent. Majority of the people residing in unrecognized colonies, colonies on the outskirts of cities and street hawkers do not have access to Banking channels.

As per demographic estimate, India's urban population is expected to rise to 40% of the total population by 2020, placing an increasing strain on the country's urban infrastructure. Future growth is likely to concentrate in and around 70-75 large cities having a population of one million or more. The challenge will remain to bring them into the mainstream by way of providing not only saving products but also extending credit facilities and helping them to be part of national economy.

CRISIL Findings

A recent study by CRISIL has highlighted regional disparities in impact of Financial Inclusion initiatives across the country. As per the report, South India leads the Financial Inclusion drive in the country. Six out of the top 10 states with the highest CRISIL Inclusix score are from the Southern region. The southern region also leads across all three dimensions of financial inclusion - branch penetration, deposit mobilization and credit delivery. Considering these factors, there is a need for concerted efforts in areas other than South India.

Growth in access to financial services - A Business opportunity for Banks

Financial inclusion also needs to provide ample opportunities to serve the financially excluded. Rural Banking and banking for the poor in urban areas is now a large opportunity and will have to capture those outside formal financial system, removing the current barriers on a profitable scale.

Increased infrastructure development across the country is blurring the geographical barriers and making the rural populace on par with the Urban. Hence, the entire gamut of banking in rural areas needs a relook as their needs are beyond traditional products like Basic Savings Bank account and Crop loans. Banks will have to be looking for alternate cost effective business models with appropriate structure to tap this segment.

Rural financial services can be the fastest growing segment on account of large untapped potential driven by the very low penetration in rural market. Today, only around 58% of rural households have formal savings accounts and 20% alone have access to credit from banking system, a long way to go in the context of substantial lift off in the last few years

Need for deepening Financial Inclusion

While the initial efforts at Financial Inclusion has been relatively successful in terms of providing banking outlets and opening of bank accounts, it has not been so in promoting their usage. There has been much discussion about the relatively low rate of usage of basic banking accounts, the low average balances compared to other products, and the low rate of active accounts. There is no doubt that active use of the account, particularly for first-time users, requires on-going education, guidance support and reinforcement. To what extent the lower average balances is the result of the lower income levels of the newly included, being the primary users as opposed to inadequate product features and insufficient client literacy engagement is a moot point; it is probably the result of a number of factors.

Business modules for Financial Inclusion

Banks will be adopting “High Volume - Low Margin” business model leveraging Technology and Human Capital to remain competitive in the fierce dynamic environment and tapping the unexplored potential of the newly included.

In a way, landscape to the future has been roughly drawn by a BCG study on the Roadmap for Excellence in Indian Banking and to potential scenario for inclusive development banking. Creating Lean Processes Through Customer-centric BPR, simplified and minimal number of products, focus on sales (that go with the financial education), Leveraging New Channels for Productivity Enhancement, Building Investment Advisory Capability, Adopting Alternate Manpower Solutions : Critical for Low Cost Banking & Financial Inclusion are certain areas identified for excellence in banking which also can supplement the financial inclusion goals.

Delivery Channels for Financial Inclusion - ATMs

There is scope for deployment of low cost ATMs with basic features such as cash withdrawal and balance enquiry etc, which can be sustainable at Rural / Semi Urban centers compared to normal ATMs which become unviable at villages on account of high investment and low transaction volume. Banks will have to reach out to customers through a variety of cost effective technology driven delivery channels such as, Mobile Banking and Aadhaar enabled payment systems in tune with the present thrust of the Government.

Rupay card - A new hope

The plastic money is becoming 'Desi' and RuPay card is gaining popularity. RuPay is the India's own card payment network developed by National Payments Corporation of India (NPCI). India has become the 3rd country in the world to have its own payment gateway system, the 'RuPay' (signifies Rupee-Payment).

RuPay, being a domestic scheme is committed towards development of customized product and service offerings for Indian consumers. The emergence of RuPay card is one more technology facilitated financial inclusion in the country since RuPay card, which was launched in March 2012 with an objective to offer an alternative to banks in India to provide debit card services to their customers, will tap tremendous growth opportunity of card payment system and facilitate migration from cash to electronic payment systems. This is set to provide electronic product options to untapped / unexplored consumer segments : The future is set to see the map of RuPay take firm banking transaction roots across the country since the transaction processing will happen domestically, it would lead to lower cost of clearing and settlement for each transaction. It is said that the banks will have to pay almost 40 per cent lower fees to RuPay scheme compared to the international schemes. This would be inclusive and empower customers of all types of banks - public, private and co-operative to use card payment mechanism. RuPay also empowers the banks to have a say in the governance of a card payment system which was not available earlier.

There are under-penetrated / untapped consumers segments in rural areas that do not have access to banking and financial services. Right pricing of RuPay products make the RuPay cards more economically feasible for banks to offer to their customers. In addition, relevant product variants would ensure that banks can target the hitherto untapped consumer segments.

A classic case of a variant of the card, that is facilitating inclusion of one of India's largest segment of the financially excluded - the farmers. The product called 'RuPay Kisan Card' is now being issued by all the Public Sector banks in India. This has revolutionized the much needed agricultural credit, tipping the scale rightly in favor of the farmers with freedom of purchase of inputs and their timely application.

Every account holder under the Comprehensive Financial Inclusion is expected to be provided with RuPay Debit Card to empower him to make cash withdrawals 24 x 7. About 60 Crore RuPay Cards are expected to be in place by the year 2020.

Business Correspondents (BC) Model

The viability of the BC model is the most critical issue which probably is one of the main reasons for its not taking-off. The transaction volume is not encouraging since many of the accounts opened are in dormant stage. Absence of sufficient business is causing concern to both BCs as well as banks; and in turn it is becoming difficult for BCs to continue operations on account of mismatch of revenues earned and costs incurred. Banks need to tweak the products and work with the BCs to design products that are suitable to the target market to make the model profitable. Further, to make the BC model viable, the funds pertaining to various government schemes are to be routed directly through the beneficiaries' bank accounts only. The role of Business Correspondents also will be enlarged in the days to come and the system will be expected to play an 'agency role' for cross selling of a wide range of financial services inclusive of insurance and Equity products. The Business Correspondents should be used as Business Facilitators who will become "one-stop-shop" for providing all financial services including that of counseling services. The identification of unemployed and under employed youth in the villages and motivating them to link up with Rural Self Employment Training Institutes (RSETIS) for equipping themselves with skills needed for starting an enterprise in agriculture or in non-farm sector would herald self employment ventures in the villages. If BCs and Banks address the critical element of credit linkage, it will bring flurry of activities creating vibrant rural economy resulting in viable BC model in the whole ecosystem. Well trained BCs can also be Basis Financial Literacy Guide / Counselor.

The Micro Finance Institutions registered as NBFCs or NGOs are doing good job in the rural unreached areas in the field of Financial Inclusion, in certain pockets of the country by serving the last mile customers. There should be integration of their efforts and best practices with the Banking sector.

Mobile Banking

Till recent years, Mobile phone used to be a status symbol or lifestyle product, and now it has become a necessity and inseparable with day-to-day life of the individuals irrespective of age, education and financial background. India accounts for about 1/4th of world's mobile market with 965 million and making inroads into remote rural areas. The share of rural subscribers is around 35% which indicates the huge potential of this segment. The reach of mobile to the remote areas and its usage by the common man has become order of the day. The growth in number of Mobile users and wider coverage of mobile phone networks offer a cost effective platform for extending banking services to large number of customers in a faster manner which enables more people to have access to their bank accounts and carryout banking transactions including funds transfers across the banks, independently without being dependent on Branch / Business Correspondents. Further level of electronic distribution of social grants is bound to have a positive effect sooner than later. Prepaid instruments like Mobile wallets and usage of USSD for financial and non financial transactions will definitely enhance the confidence of rural segments in this channel.

The mobile wallet is a convenient service for money transfer and cash withdrawals, which can be effectively provided to FI customers by Banks at a reduced cost.

Government has already put in place national USSD platform which can work on all GSM handsets (93% of the current 900 million handsets). While 40 Banks have already enrolled to provide the services, 100 Banks are expected to join the platform by 2015. This will enable spreading the habit of mobile banking among FI customers.

Enhanced reach through Post Offices

Post offices (POs) can play an important role in Financial Inclusion due to their vast network and proximity. As on March 31, 2011, there are 1,54,866 post offices in India, of which 1,39,040 (89.8%) were in rural areas. However most of them offer limited services, especially those related to savings and Banking. They can be made active partners by Banks engaging them as Business Correspondents and installing their Micro ATMs in Post Offices. Model adopted by E-governance CSE can be adopted here with suitable changes. Once Post Office is on CBS, they can be involved in payment and settlement systems on par with Banks which will enable seamless remittance and funds transfer facility across Post Offices and Banks.

Up-scaled access to risk mitigation

In future, the financial system would have evolved to provide access to the vulnerable sections to be better prepared with disaster situations-be in terms of insurance products for the crop losses, loss of physical assets, savings to tide over exigencies arising from such disaster situations and secure health problems through insurance products. The banks with their enhanced reach, particularly through the network of business correspondents covering the entire country will create a platform for economic emancipation of the countryside.

Financial literacy

Cornerstone of holistic financial inclusion will be the financial inclusion backed by financial education and financial literacy. Financial education is defined as the process by which people improve their understanding of financial products, services and concepts, so they are empowered to make informed choices, avoid pitfalls, know where to go for help and take other actions to improve their present and long-term financial well-being while Financial literacy is defined as “the ability to use knowledge and skills to manage financial resources effectively for a lifetime of financial well-being. Banks in India have already been taking serious steps to facilitate financial literacy through financial education & counseling centers, the future is bound to witness participation from academic world - Educational institutions, Colleges, Schools, NGOs etc.

Growth trajectory to the future - 2020 and beyond

Banking assets in India presently account for 63 percent of the nation's financial assets and play a crucial role in economic development. The Reserve

Bank of India, which tightly regulates banking assets, is expanding the industry through financial inclusion and priority sector lending. This is increasing the rural and urban population's access to banking services, reflected in the decline in the average population per branch from 15,600 to 12,500 in 2012 as penetration increases and it has come down to almost 10,000 of late.

Looking at the global level, with particular reference to developing nations - through an extensive consultative process, the Center for Financial Inclusion at Accion has developed a set of recommendations to move financial inclusion forward, using the year 2020 to galvanize thought and action. The Center has identified five priority focus areas that are key to achieving financial inclusion and developing an action-oriented blueprint for reaching new and underserved markets with the following focus areas :

- Addressing Customer Needs, with the focus on deepening our understanding of client needs and translating that knowledge into practice while expanding the range of financial services available to underserved markets.
- Technology-Enabled Business Models, the potential of new technology-intensive channels to reach new customers, lower operating costs, increase security, and diversify financial products available to low-income clients.
- Financial Capability, through empowering clients to know their rights as consumers, and have the skills, attitudes, aspirations, and confidence to exercise those rights.
- Client Protection, inclusive of steps to deepen the implementation of client protection measures for the benefit of consumers and stability of markets.
- Credit Reporting, promoting extending credit reporting systems in order to expand access for new clients while managing risk for financial institutions.

New analysis from Frost and Sullivan, Competitive Landscape and Trends in the Indian Banking Industry, finds that public sector banks accounted for 67.2 percent of the total banking assets and 51.1 percent of commercial banking assets, which stood at INR 95.73 trillion in fiscal year 2013. Their analysis forecasts that the Indian banking system is on an upward growth trajectory and is expected to be the third largest banking industry worldwide by 2020, This goal is expected to be achieved by implementing liberalization norms proposed by the Reserve Bank of India (RBI), which focusses on issuing on-tap banking licenses and specialized banking licenses, encouraging consolidation, improving operational performance of small and nationalized banks, complying with global regulations, and increasing overseas presence. Currently, the country follows a universal banking model, where bankers are present across all segments and serve all customers. Nevertheless, a shift in business model is already proposed and expected to keep up with the changing needs, demand and demographics.

A segmented approach international, national, regional and local structure is expected to lead to the emergence of different business models such as specialist, advisory, payment banks, small banks, private banks and priority sector banks. The need for exploring alternate and cost-effective distribution channels will also be felt to reach out to large number of clientele.

The way forward through Small banks and Payment banks

Paving the way for niche banking are the Reserve Bank of India's draft guidelines for two new categories of banks - small and payments. In the futuristic vision of total inclusion these entities are bound to have a great role in enhancing the financial inclusion capability of Indian Banking system and drawing a plan for enhancement of access to a broader spectrum of financial services.

Small banks will be obviously smaller in size and operations compared with existing commercial banks, but carrying a larger objective. And these will offer both deposits as well as loan products. But unlike existing commercial banks, these will be limited to basic products.

Also, they will have operations in limited areas; say in a single state at the initial stage. These banks will be extensively operated on technology, especially to reduce operational costs. They will not deal with sophisticated products. In summation, small banks will act as a savings vehicle to the under-served and unserved sections of the society. Hence, target customers will be micro and small enterprises, agriculture, and unbanked and under-banked population. At least 50% of a small bank's loan portfolio should constitute loans and advances of up to ₹25 lakh.

The Payments banks will be used only for transaction purposes and for deposits. Unlike small banks, payments banks can't lend money to people. Hence, payments banks will offer only a limited range of products such as acceptance of demand deposits and remittance of funds. The primary objective of setting up such banks is to extend financial inclusion by providing small savings accounts and payment or remittance services to migrant labourers, low-income households, small businesses, unorganized sector entities and other such users. In terms of network, payments banks are expected to have access points particularly in remote areas. For a payments bank, the access point can be its own branch, business correspondents (BCs) or other network partners. Just as small banks, technological solutions to lower costs will be the key for payments banks as well. A payments bank should enable high-volume and low-value transactions in deposits and payment or remittance services in a secured technology-driven environment. Like all other bank deposits, deposits in these banks, too, would be covered under the deposit insurance scheme of the Deposit Insurance and Credit Guarantee Corporation of India (DICGC), a wholly owned subsidiary of RBI. The payments banks will be restricted to hold a maximum balance of ₹1 lakh per customer.

While both these Small and payment Banks are set to play a substantial role in financial inclusion, they will bring more outreach to financial inclusion. The future is bound to see natural all round growth of these entities in the time beyond total financial inclusion.

Forward looking initiatives for Inclusive approach

The Budget 2014-15 of Govt of India has triggered another dimension of financial inclusion and set the road map for financial inclusion of the most disadvantageous class. It is proposed in the Budget to provide institutional finance to landless farmers to 5 lakh joint farming groups of “Bhoomi Heen Kisan” through NABARD. In India about 60% of the population have a right over 5% of lands and 31% of the population in the rural areas is landless laborers. This segment of the farming population constitutes the most marginalized of the excluded, with little access to formal sector, though Public sector banks have been endeavoring to reach out to them with small credit limits & simplified procedures for pursuing farming on lands taken on lease / rentals etc. With the added fillip from the Government, perhaps the future banking space will see the landless laborers also within the ambit of regular financial services and productively participating in the country's agricultural growth.

Rural Human Resources Development

In the context of development of agriculture and financial inclusion promotion in the country, NABARD is the leader in rural development and is playing its role as a facilitating agency. NABARD's role is generally that of the refinancing agency for agriculture credit lent by the banking system or nodal agency for implementations of central Schemes. Given the on going thrust on financial inclusion and rural India's vulnerability to monsoonal agriculture, capacity building and rural enterprise creation can have a far more effective & positive impact post-financial inclusion. In this context NABARD may possibly be able to play a more proactive & direct role in association with RSETIs. The Future financial landscape may have the potential for Exclusive Rural Development University run by NABARD and Banks.

Rural Enterprises' Development - scenario of Venture capital funding

Financial inclusion is set to create access to financial services including credit from the formal sector but to create wealth, it requires something more. The ability of participation of the included in an enterprise or improve the current enterprise requires an incentive to be involved; The means to create the involvement, in terms of seed money, can often be lacking with the just included. Venture capital for rural enterprises including farming activities can be a real booster for banking beyond financial inclusion. The future offers scope for rising number of venture capital providers, if only cohesive development of technology, transfer of technology, market, information highway happen in the rural sector, the major gainer of total financial inclusion in developing economies like India.

Overall, the Indian banking landscape is all set to become more competitive as the RBI issues new banking licences. As a result, banks are expected to offer better, customized products, cater to niche segments, focus on customer service, and look for inorganic growth opportunities through mergers so that they can enhance or sustain market share, revenue growth, and profitability.

Financial Inclusion has as its goal, providing means for an equitable growth and a fair share for all in the nation's economic prosperity. It boils down to, reducing poverty as a universal goal. But countries are also finding that it is not enough to reduce poverty, and that growing inequality - of opportunities and in outcomes - can make growth socially and politically unsustainable. In the face of increasingly tight resource constraints, it is becoming harder to maintain high growth rates unless it is environmentally and socially sustainable, and it originates broadly, from across the human resource base. In Asia, there is heightened need for the inclusiveness of the growth process. But that interest needs to be matched by a sharper operational focus - in Inclusive growth or economic growth that is widely shared - that would generally also be pro-poor.

The quality of life also hinges on socio-economic aspects such as education, health, and equitable access to work and markets, lack of inclusiveness of which detract from economic growth's pro-poor qualities. The goal would therefore be to make growth and development (i.e., including the non-income dimensions) as inclusive as possible investing in people and assets that especially enhance the capabilities of the poor. Both the quantity and quality of these investments are vital to make financial inclusion truly meaningful.

Banking landscape after Financial Inclusion

PRESENT LEVEL OF BANKING COVERAGE (CENSUS 2011)			
Households	**Total no. of households (in crore)**	**Those availing banking services (in crore)**	**Percent (%)**
Rural	16.78	9.14	54.4
Urban	7.89	5.34	67.8
Total	24.67	14.48	58.7

- *Thus about 42% of households (about 10 crore) were uncovered*
- *Efforts of last 3 years have covered 2.5 crore households*
- *Yet to be covered - 7.5 crore*

As at March 2011, there are 24.67 crore households of which 14.48 crore households are only availing the Banking services. Taking into account the progress achieved under FI till 2013, present uncovered is estimated around 7.5 crore households, which is expected to be covered by opening at least one account for each household under Comprehensive Financial Inclusion Programme by August 2015.

Once it is achieved, the focus would shift to providing account to every adult members of the household which should targeted to be achieved by 2020.

Taking this into account along with the increase in the population, the Banking system will be handling twice the number of the existing clientele. Policy initiatives like allowing differentiated Banking licences and small banks would strengthen the banking network to handle the increased clientele and the increased level of business. Increase in the players would definitely bringing in the increased competition and increase in the system risk which needs to be addressed by the regulation. These small banks could be brought under the ambit of lead bank scheme, who is leading the financial inclusion efforts in the district.

Banks have to meet the competition by bringing in variety in the products with suitable value additions and emphasis on speedy delivery of the services. Banks will be one stop shop for all the financial products like savings, credit, insurance and pension.

Banking system should bring in innovations like portability of accounts as in the case of Telecom and Gas connections, which will reduce the problem of multiple account opening by customers. It will also reduce the number of dormant and in-operative accounts.

Equally important will be empowering the human resources as well as the customers. While the customers should be empowered to know their rights and exercise those rights, the staff should be made aware of the rights of the customers and their needs. HRD from this perspective should be pursued by the Banks.

The credit expansion from the Banking system covering the large number of clients in pursuit of deepening of financial inclusion would also increase the risk of increase in the non performing assets. The guarantee schemes mooted by the Government of India can be a last point resort. The emphasis should be on containing the incidence of NPAs for which the credit information / credit reporting and exchange of information between multiple lenders becomes important, which can only address / contain this risk for the Banks. Initiatives taken by credit information companies like CIBIL for data regarding SHG groups / members of SHGs needs to be strengthened to include micro and consumption credit. Incentivizing the prompt re-payers and the people with good financial discipline will be an effective motivator for improvement in the repayment ethics of the borrowers.

Conclusion

The goal of financial inclusion is to bring the un served and the underserved to the main stream of banking and create opportunities, supportive structure and enabling environment for distributive and inclusive growth. The banking landscape is going to be totally different once the FI goals are reached as it enhances the earning capacity and opportunities in the rural areas, effectively reducing the divide between the urban and rural areas. A reverse migration is in the anvil with lot of micro and small enterprises coming up in rural areas coupled with various other economic and developmental activities. Banks who make their mark with low cost technology, differentiated products and services, develop connect with the masses understanding their needs and create the markets for themselves locals are the gainers in the long run.

Retail Banking - A Modern Driver of Business - Challenges

A. Krishna Kumar *

A Historical Perspective and Evolution of Retail Banking in India

Banking in India - History and Evolution

Traditionally speaking, Banking is a process of intermediation by which banks bridge the gap between the sources of funds and their utilisation. Banks accept money from depositors and offer loans to the borrowers, and also facilitate payments as part of a country's payment and settlement systems.

In their nascent years in India, Banks provided the basic intermediary service of sourcing funds in the form of deposits and diverting them towards productive sectors of the economy. But over time, as the economy has developed and moved from a production - led growth phase to a consumption- led growth phase. Banks started to lend to the masses to cater to their consumption requirements. Easier access to loans meant that more consumers could buy more products and services and took advantage from a "buy now and pay later" model. This gave rise to the phenomenon now known as Retail Banking.

Retail Banking

In simple terms, Retail Banking starts with a Bank offering basic products and services to individual customers and gradually shifting focus to specially designed products and services to various customer sub segments. These offerings are targeted to cater to the personal, non-business requirements of the consumers.

Basic products and services would include Deposits, Home Loans, Car Loans, Personal Loans, Payment Solutions, Credit Cards and Depository Accounts; and customised products and services would include Financial Planning, Insurance Products, Capital Market Products, Wealth Management and the like.

In a traditional setup, these services are typically offered via a widespread network of brick-and-mortar branches and ATMs. With increasing access to virtual media like the Internet and Cellular Network, the delivery channel for retail banking is now no longer restricted only to branches and ATMs, but also encompasses Internet Banking and Mobile Banking. Today the banks have become a "virtual" marketplace. In fact, some retail banks in the west operate solely via the internet and do not have physical outlets to serve customers.

Driving the Retail Banking Business

Retail banking across the globe has been a showcase of innovation in the commercial banking sector. Countries like China and India have emerged as potential markets with huge investment opportunities. The higher growth of retail lending in emerging economies is attributable to the rising growth of personal wealth, favourable demographic profile, rapid development in information technology, the conducive macro - economic environment, financial market reforms, and several micro - level supply side factors. The retail banking strategies of banks are undergoing a major transformation, as Banks adopt a mix of strategies like organic growth, acquisitions and alliances. This has resulted in a paradigm shift in the marketing strategies of the Banks. Public Sector Banks are adopting aggressive strategies, leveraging their branch network and their customer base to earn a larger share of the retail pie. Banks are also going in for innovative strategies like cross selling and packaged selling of retail products. At the same time, new foreign players are also entering this high growth sector.

* Managing Director & Group Executive (IB), State Bank of India.

What is driving the Retail Growth

Economic Growth, Rising Income Levels and changing consumption pattern are the prime factors that have helped in driving the demand for Retail Industry. India is one of the fastest growing economies in the world with an average annual GDP growth of around 6%. The estimates of the Planning Commission for the 12th Five-year Plan (2012-17) suggest that India would see a growth of 9%+ in its GDP. Growth in GDP has resulted in a rise in the per capita income of the country.

With rising levels of disposable income at their hands, the consumption pattern of the people, especially of the Emerging Affluent (EA) (those who earn between ₹3 lakh and ₹15 lakh per year), have changed at a very fast pace. Various studies have forecast that in the next decade the EA would be the dominant section of the Indian population who perceive banks to be the enablers for "enhanced lifestyle".

If we look at the Segmentation of Retail Banking Customers based on age group, about 24% of the retail banking customers fall into the 18 to 30 year age bracket that requires Quick Financing / Processing of Education, Car and Home Loans. Those who are in the 30 to 50 year age bracket form about 26% of the customer base and focus primarily on Savings and Investments.

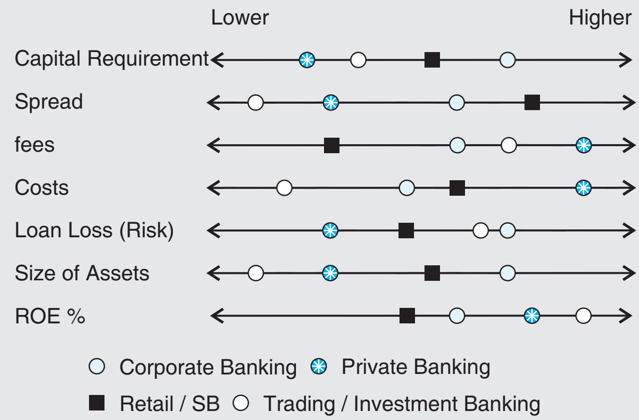
With an increasing proportion of the tech savvy in the population having higher disposable income, there is a clear shift in their expectations, from traditional Banking to a more technology oriented, any-time, any-where banking with expert financial advice available on demand. Come to think of it, the EA segment look at the Banks as their partners in their quest for financial success.

The Importance of Retail Banking

The different businesses within Banking

Banking is not just one business, but several businesses combined into one. These can be called various business lines within banking. The figure given below illustrates the difference between different lines of banking business :

Variations in banking business



(Source : The Art of Better Retail Banking by Croxford, Abramson and Jablonowski; Wiley 2005)

As we can see wealth management (private banking) and investment banking earn the highest ROEs because they generate a higher fee, which is revenue with no regulatory capital. Fee income in retail banking is lower. However, retail spreads are higher as is the asset size of the business.

Why Retail Banking

The Indian Retail Banking market has transitioned from a "Seller's market" to a "Buyer's market" over a period of time. There are multiple products, multiple customer groups, channels of distribution and technology driven information, which make the retail banking market so competitive. According to RBI data, the Retail banking market has grown from ₹5,625 billion in March 2009 to ₹10,367 billion in March 2014, registering a 13% CAGR growth, as indicated hereunder :

(Rs. in billion)

Product	Mar-09	Mar-14	Absolute Growth : Mar-14 over Mar-09	CAGR growth %
Housing Loans	2,794	5,409	2,615	14%
Vehicle Loans	620	1,304	684	16%
Education Loans	286	600	314	16%
Personal Loans (including Credit Card)	1,925	3,054	1,129	10%
Total Retail Loans	**5,625**	**10,367**	**4,742**	**13%**

(Source : RBI data on Sectoral Deployment of Bank Credit)

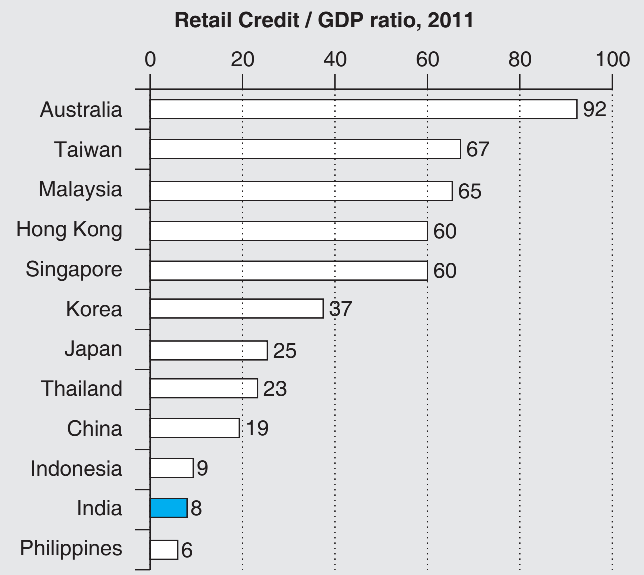
As can be seen from this table, the growth in Housing Loans over the last 5 years contributes to about 55% of the overall growth in total Retail Loans segment. Hence, Banks are experiencing better growth in the Home Loan segment as compared to the other segments. However, the CAGR growth in Housing Loans for the last 5 years is 14% as compared to 16% in Vehicle loans and Education Loans.

This proves that Retail Banking should be one of the major areas of focus for a Bank. The reasons that make Retail Banking sector so important are :

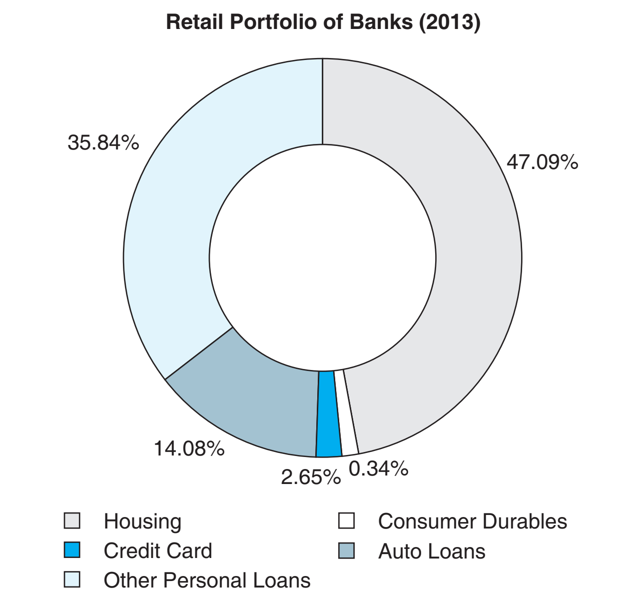
- Stimulating demand and demand driven growth
- Stable and core deposits
- Low Cost of funds
- Contributes substantially to the total revenues
- Better returns
- Helps in forging and cementing relationships
- Long term customer life time value
- Less NPAs, lesser risk
- Automatic diversification of portfolio in lending base
- Opportunity for cross / up-selling

Snapshot of Retail Banking

- RBI Report on Trends and Progress of Banking in India (2012-13) states that in 2012-13 :
  - Retail loans portfolio continued to grow in double digits.
  - Even in a period of overall slowdown in credit growth; retail credit maintained its growth which was mainly fuelled by sustained double digit growth in housing loans followed by growth in Auto Loans.
  - There was a falling trend in the NPA ratio for the retail sector.
  - Retail lending portfolio accounts for 18.8% of the total lending portfolio of the Banks.
  - Housing loans continued to constitute almost half of the total retail Portfolio of banks
- As per a survey conducted by CLSA (Credit Lyonnais Securities Asia), Consumer credit penetration is only 8% of the GDP in India, which is expected to rise further quickly.



Source : CLSA

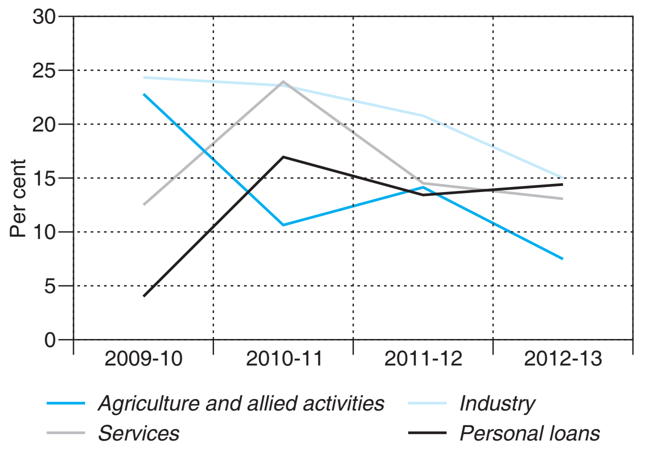


Source : Report on Trends and Progress of Banking in India (2012-13)

Significance of Retail Banking in troubled times

For a developing nation like India a sound and effective banking system is imperative for a healthy economy. According to Report on Trends and Progress of Banking in India (2012-13), the year 2012-13 was marked by a slowdown in the growth of credit to all productive sectors, viz., agriculture, industry and services. The slowdown was the sharpest for agriculture and allied activities.

There was a slowdown in the growth of credit to the infrastructural sector within industry. The slowdown in credit to NBFCs - accounting for about one-fifth of the total credit to the services sector - was an important reason behind an overall slowdown in the growth of services sector credit.



Source : Sectoral and Industrial Deployment of Bank Credit Return (Monthly).

By contrast, “retail” was the only segment, which maintained its growth in 2012-13.

Growth in retail loans was maintained in 2012-13 on account of a sustained double digit growth in housing loans - the largest segment of retail loans, and a rising growth in auto loans - the third major segment of retail loans. The increase in the growth in credit card receivables too contributed to the overall growth in retail loans, although their share in total retail loans was less than 4 per cent.

The way retail banking has evolved over the years, it has now turned into a more service oriented affair from the earlier product oriented one. If we observe the undercurrents, the expectation of the consumer has shifted more towards being offered better and customized services.

Hence over the next few years, though the Brick and Mortar branch will remain the primary channel, other channels will become increasingly important for both sales and service. This will mean that the branches will evolve over the years into platforms for offering different value propositions. The layout will be designed to facilitate customer interaction with the sales personnel.

The branches will be smaller in size and will be used more for cross selling and up selling and less for routine transactions. There will be greater reliance on mobile sales force i.e. sales team members visiting customers at their premises and helping customers in product selection. Customers will use online research capabilities to evaluate the products to make “purchase” decisions. Customers will drive the integration of all the channels. Thus banks would work towards greater integration across cross-channels.

The Changing Scenario of Retail Banking

The influx of consumerism has had a natural spill over in terms of increased demand of retail banking products - cards, loans, customized products and services. The retail banking sector has its task cut out : keeping pace with the fast changing competitive environment through optimum usage of technology, expanding customer base by targeting rural India towards inclusive banking, improving customer service standards and, importantly, strategically designing innovative products and services towards targeted segments.

Acceptance of Deposits and Lending are age old concepts of Banking. Organised Banking Services started in the 15th century in Europe, when Banks began opening Branches in major Towns and Cities. In the early days, London was the predominant Banking and Financial Centre in the world. Advent of Industrial Revolution and growth of Factories and Manufacturing gave a major fillip to the growth of Banking. The 20th century saw emergence of major manufacturing and trading centres in USA, Japan and Europe resulting in rapid growth of Banks. The outlook of Banks also underwent a major shift from Mercantile Finance to Developmental Finance. The resultant growth in income and affluence of the people necessitated the development of broad based Retail Banking which ushered in the era of Branch Banking.

During the days of Brick and Mortar Banking (manual banking as we call it), the customers were required to visit the Branches in person for carrying out their banking transactions, be it depositing cash, sending a remittance, payment of taxes or repayment of loans. Over a period of time this personal interaction between the customer and the bank had resulted in a relationship based on trust and belief, a kind of personal bonding of which there are any number of anecdotal instances. However, the spread of industrialisation and the resulting growth in trade and commerce in general and growth of services sector in particular have forced the Banks to come out with more efficient and faster modes of providing banking services. Adoption of technology by the banks enabled them to not only improve the speed of delivery but also to provide round the clock (24X7) customised banking services. The resulting money multiplier effect also helped the growth of trade and commerce at the global level.

The growing popularity of Computers and Internet heralded an electronic revolution in the global banking arena. In India, developments in the area of telecommunications enabled the Banks to improve the pace, range and reach of their services - onset of Banking Globalisation in India. The dynamic nature of present day electronic communication systems together with their ubiquitous reach has enabled Banks to leverage the same as a delivery platform to offer a range of IT based online banking products and services. Computerisation enabled Banks to offer Real Time Online Banking services aimed at enhanced Customer Convenience and Ease of Access, and monetised the concept of “Time Value of Money”.

Development in mobile technology has turned the mobile device into much more than an instrument of voice communication. Studies suggest that Mobile Banking channel will be the second largest retail banking channel after ATMs in 2020, accounting for almost 22% of total banking transactions. Branch transactions will come down to 15% as alternate channels become popular.

The adoption of the IT Act by Parliament in 2003 gave a major boost to the growth and development of online Banking products and services in India. Wide spread usage of PCs / Laptops, availability of low cost and faster Networking Technologies and increasing Internet Connectivity acted as a catalyst to the growth of innovative IT based solutions in e-Commerce and e-Business. Banks also leveraged the new technology platforms to launch various Online Retail Banking products and services like Internet Banking, Mobile Banking, and Tele Banking.

Some of the important factors which will drive this growth further are :

a) Annual disposable income per household to grow by two-and-a-half times by 2015
b) Discretionary spending expected to form a major portion of expenditure in India
c) Proliferation expected in the sales of tablets and smartphones
d) More Indians increasing time spent online
e) Probability of growth in internet user base, mirroring that of the voice user base
f) Volume and average value of transactions higher for credit cards than debit cards
g) Increase in the number of payment options

M-COMMERCE - A study by SAP indicates an impressive traction of mobile commerce in India and states that consumers in India are leading the demand for mobile commerce services, with 97 percent of consumers asking for more mobile interactions with banks, telcos, retailers, utilities and other businesses.

The study found that India scores high in using mobile phone for banking transactions when compared to other countries in the world. As per the statistics, excluding voice messages, most of the mobile phone owners turn to these instruments for bill payments (78 percent), bank transactions (72 percent) and for setting up a new account (74 percent).

However, it is vital that organizations looking to develop products and services in the mobile banking sphere in India are able to balance the desire for ease and convenience with security requirements because :

- In the study, 57 percent of the users in the country believe that once they gain confidence in mobile security, they will increase their mobile payment activity.
- Providing services that are lower cost (24 percent) and personalized (33 percent) will encourage mobile phone owners to make more bank transfers through their mobile phones, in turn increasing the mobile based consumption in India.

DIGITAL BANKING - Another new avenue of staying "digitally connected" to the customers is the concept of Digital Banking. New age methodologies like use of Tab Banking (for customers opening Savings Bank accounts, Housing Loan applicants and e-KYC) and launching of Digital stores are steps towards revolutionising the way banking is done in India. By using these platforms, Banks can increase their reach to the new age customers, specially the youth. The major advantages of using these digital platforms are :

- Customer convenience
- Larger reach
- Faster processing
- Reduced Turnaround Time (TAT)
- Improved brand image of the Bank

Aggregation of accounts: The recent announcement by the Finance Minister in his Budget Speech proposing aggregation of financial assets in a single demat account, can be a game changer in the retail financial services industry. With this customers will be able to view all their connections with the banking industry, insurance industry, and securities markets, on a single screen. Getting a 'single view' does not require using a 'single Bank'. The implications for Banks are huge.

The Key Components of Retail Banking Strategy

[Source for Sections The Components of Retail Banking Strategy, Pricing, Product, Marketing, Government and regulation : "The Art of Better Retail Banking" by Croxford, Abramson and Jablonowski; Wiley 2005]

Banks have to take a lot of factors into consideration while forming their retail banking strategy. These strategies have to be framed keeping in mind the customer needs and the changing market scenario. The following observations need to be considered :

- In our country, Consumers make few financial product and service decisions. Instead, the triggers are stages in the life cycle, unexpected life events and decisions to upgrade or downgrade lifestyle.
- Society is evolving rapidly. Banks will have to keep track of the rapidly evolving society if they are not to be left behind. Here, an appropriate presence on social media is critical. It extends your reach to an audience that might have never known about you, and also helps in predicting and discerning trends relating to banking among them.
- Retail banking in India prior to the 90s had all the characteristics of a mature industry with few innovations. Since then it has become a growth industry. The strategy and action appropriate for a mature industry are not relevant for the stage in the industry life cycle that retail banking is in at present.
- The key determinant for adoption / modification of technology is now almost wholly driven by IT engineering considerations. This must change and be driven primarily by customer convenience.

Keeping these factors in consideration, a few key components to the retail banking strategy can broadly be classified as under :

Pricing

Pricing is a key component to a retail banking strategy. However, at present the received wisdom is that pricing is a critical component for corporate banking whereas for retail banking there should be only a go / no go decision where after uniform pricing should be applicable. Thus, the pricing that exists at present tends to subsidise the smaller relationships. While a large base of smaller customers has its advantages, and must be serviced particularly from the standpoint of financial inclusion, this results in lower unit profitability. Customers expect that all declarations of "valued customers", "relationship managers" and so on, will result in Banks "walking the talk": that is, there should be visible proof of actions behind words. Relationship pricing would enable a bank not to have to compete on price / rate for every banking product and service.

Product

Our products are generally not designed to handle events in the life cycle of a customer. We need to have products for example that facilitate parents to help their children transform into adults, to include savings for children's education and thus minimise educational debt. Likewise, we could have products to save for the first home which links the history and quantum of these savings to the home loan. A similar product was introduced by the National Housing Bank some years ago. This would make the home loan process easier.

Marketing

Marketing has been mainly about advertising / announcing what the Bank offers, not actually changing what it offers. In other consumer facing industries, marketing actually contributes to the design of the products and services that their companies sell. It has not been like that in retail banking where marketing has usually operated as a advertising / presentation agency.

Their job has been to sell what is available, not to decide what to put on offer. Like retailers, if a retail Bank cannot sell what is in the stores, then it may have to change what it is putting in the stores. The new marketing will also drive Research and Development. Few Banks have any such function since historically it has been about copying a competitor rather than researching or developing products.

For the Research and Development to take off, there has to be a major commitment to staff learning sponsored by the Banks. This learning will be at a far higher level than the training that Bank employees receive today. Bank employees themselves are going to be helped to move upmarket in their knowledge.

Government and regulation

Both Government and the regulator take keen interest in retail banking matters. They have concentrated on financial inclusion and mis-selling of financial products. The inability of citizens to afford housing, health insurance and higher education for their children leading to high levels of indebtedness coupled with insufficient funds to live on in their older years are issues which going forward will have significant impact. These issues will also engage the Government and the regulator.

Retail Banking - Key Challenges

The key challenges being faced by Banks today in retail banking can broadly be categorised as under :

Maintaining healthy growth rate

As we have discussed above, "retail loans" was the only segment which maintained its growth in 2012-13. Going forward, we can expect to see a phase of cautious, steady but sustained, growth in retail loans driven by both secured and unsecured segments. Under penetration of retail credit in India coupled with recent asset quality issues experienced in corporate lending and infrastructure finance implies that across all lenders, retail segment is the area of focus. However, an element of caution can be seen among the market players with the backdrop of global economic uncertainties and below expectation performance of the Indian economy. Maintaining a healthy growth rate in the times to come will be a challenge for the Banks, given the signs of stress being visible in the economy and the fierce competition in this segment.

Ensuring healthy Asset Quality

During the past couple of years, asset quality of banks was severely impaired, as revealed by the steep increase in non-performing assets (NPAs) of SCBs, particularly for public sector banks (PSBs) owing to their significant exposure to troubled sectors such as power, aviation, real estate and telecom. As per RBI, this increase was due to inadequate credit appraisal process coupled with unfavourable economic situation in the domestic as well as foreign market. The slowdown in the economy increases the risk of default and restructuring of loans can increase which could further lead to deterioration of asset quality.

Similarly in Retail segment, there is significant pressure on Banks to maintain a healthy asset quality, given the low margins with which Banks operate in this segment. Retail NPAs are highly effort elastic. Some of the methods generally adopted by Banks while dealing with retail NPAs are as under :

- Contact and follow-up with the borrower right from the instance of first default
- Use of soft recovery measures
- Using the various reports and analytical tools offered by the various Credit Information Companies (CICs)
- Hard recovery measures such as notice under SARFAESI Act, seizure and sale of vehicles, as applicable

Recently, Banks have started sale of NPAs to Asset Reconstruction Companies (ARCs), particularly in the Large Corporate, Mid Corporate and Small and Medium Enterprises (SME) segments. Of late, ARCs have started showing interest in the acquisition of retail NPAs as well. Going forward, this might be a viable option for Banks for managing retail NPAs.

Ensuring higher Net Interest Margin (NIM)

Banks have focussed on retail loans to drive business during the slowdown in the economy, but the trend may impact their core income growth. Both private sector banks and their nationalised peers have given preference to retail loans, since the offtake from the corporate sector suffered.

Lenders have earned higher profits in absolute terms by putting a larger share in retail lending. They have also benefited on asset quality as defaults are lower in segments such as home loans compared with corporate loans.

However, the stress on retail loans may slow down the net interest income (NII) growth of banks. This is because yields in the retail segment are generally lower *vis-à-vis* corporate borrowers. Moreover, given the fierce competition in this segment and with new Banks coming into the market, maintaining a healthy Net Interest Margin in retail segment will remain a key challenge for Banks.

Profitability

The challenge in retail Banking is how to maintain profitability when the spreads drop to 2% or less, from 3%. The business plan, particularly the customer value proposition and the cost model are very critical. Some of the perspectives from the customer's point of view are :

- Need for Banks and opportunities to fill the need are growing
- Brand, service and quality carry less weight now. Brand is trust and public trust is with the regulators and media as much as it is with the Banks themselves. Quality is indistinguishable.
- Customer relationships will matter. Customers want solutions, not products.
- Customers are most likely to open or close accounts at life event points.

  Consequently, there is a lag between introduction and take-up.

Ensuring smooth delivery to customers

Over the past couple of years, the Indian banking sector has displayed a high level of resilience in the face of high domestic inflation, rupee depreciation and fiscal uncertainty in the US and Europe. In order to stimulate the economy and support the growth of banking sector, the Reserve Bank of India (RBI) adopted severe policy measures such as increasing the key monetary policy rates such as repo and reverse repo and tightening provisioning requirements. Amidst this economic scenario, the key challenge for the Indian banking system continues in improving their operational efficiency and implement prudent risk management practices.

Hence, an effective credit process becomes critical in an economy where the demand for credit has slowed down. With the competition set to increase with more Banks expected to start functioning shortly, it is important that credit delivery is made more customer friendly.

In today's market scenario, pricing is not the only measure of success. Banks are increasingly using efficient delivery mechanisms to ensure faster delivery and providing better services to their customers. To facilitate faster delivery, many new age technologies are being increasingly adopted by banks. Online application for retail products on Bank's websites, Tab banking and e-KYC are some examples in this regard.

The key is to maintain an efficient Turn Around Time (TAT) and at the same time building a sound credit appraisal system with prudent risk management practices, to bring good borrowers in the Bank's books.

Stable cost of operations

With increasing competition, emerging customer demands and higher shareholder expectations, Indian Banks are being forced to constantly review and revisit their operating models. The resulting changes are making Indian Banks more cost-efficient, better focussed on customer services and witnessing good returns through fee based products and services. Indian banks are constantly optimising the use of technology as the change agent, in order to improve operational efficiency and enhance customer experience.

Emergence of low cost channels like internet banking, mobile banking and mobile ATMs have been successfully implemented by many players and have also found wider acceptance in the customer base. This has led to enhanced focus on digital banking and self service channel usage to reduce the cost of operations. The challenge for Banks is to further enhance the usage of Alternate Channels to stabilise their cost of operations.

Ensuring Customer Delight by effective Grievance Redressal Mechanism :

As Retail banking is a high volume segment, a major challenge is to ensure customer delight. A robust grievance redressal mechanism is the need of the hour. Many initiatives have been taken by Banks in an attempt for better customer service. Customers can now track the status of resolution of their complaints through Banks' call centres, SMS and websites.

Other challenges

Apart from those mentioned above, the other key challenges for retail banking are as under :

Demographic Challenges - India has 18 official languages spoken across the country. The State Governments also correspond in their regional languages for official purposes. Additionally, a large section of the population in India is illiterate, creating difficulties in deployment of technology driven banking solutions. For a pan-India tech driven banking solution, these barriers will have to be overcome.

Infrastructure Challenges - The success of Retail banking also depends on the level of Internet penetration. Access to the Internet / connectivity is a major problem, especially in the rural and remote areas which is a major obstacle to the growth of e-banking. Moreover, it is difficult to predict the usage of e-banking on an hourly or daily basis. These 'scalability problems' can give rise to a slowing down of the website, or even a website crash (temporary unavailability).

High Capex and Fast Redundancy - The tech platforms and solutions require huge capex by the Banks for a pan India full scale rollout. The speed of evolution of the technology and advent of newer and faster hardware and software require continuous up gradation / upscaling to stay contemporary with the customer expectations.

Way Forward

Any Bank which is serious about retaining and / or growing its retail space will have to continuously reinvent its products and processes to grab the attention of its customers. Keeping up with the competition is not enough, as Banks will have to continuously strategize to stay ahead by :

- Offering an array of customized products and financial advisory
- Constant product innovation to match the requirements of the customer segment
- Quality service and quickness in delivery
- Introduction of new delivery channels
- Tie-up arrangements
- Keeping in mind the masses, while reaching out to the classes
- Focused marketing through proper Customer segmentation / differentiation
- Renewed emphasis on superior execution by front-line employees so as to provide customer experience that lasts for ever

E-banking / mobile banking has become a necessary survival tool which is fundamentally changing the banking landscape countrywide. Today, with a touch of the screen the customers are able to access various products and services, thereby saving them from the botheration of visiting places in person. This is affording the option of choosing the low cost service providers choice according to their specific needs. At the same time, technology is allowing the Banks to rollout newer products and services, improve the operating efficiency, raise the staff productivity, seamlessly expand their reach globally and compete on a global scale. However, the Banks should anticipate and factor in the concerns, expectations and needs of customers while developing products and services on these new age alternate channels.

As the new age tech based banking channels come into the main stream, Banks have to continuously innovate to stay ahead of the curve. M-wallet, Virtual Cards, Plastic Money are some of the new products / services which will drive the growth in the Banking Industry in the days ahead. However the increased usage of technology in mainstream banking also exposes the banks to higher risks and Banks will have to develop robust, reliable and fail proof infrastructure to safeguard the interests of the customers. Use of bio-metrics, encryption and digital technologies will help the Banks to improve the reliability and safety of their services. Some banks are already in discussion to introduce bio-metrics as an option for authenticating phone banking. Further with the introduction of fingerprint ID authentication in some of the mobiles, the day is not far when mobile banking transactions will authenticated based on Touch ID and bio-metrics rather than User ID and password as is the case now. It is evident that in the days ahead, Banking products and services are poised for taking a tech leap forward to not only stay in sync with the next gen customers but also to fulfil their ambitions and aspirations. The challenge would, however, be to simultaneously remain the friendly neighbourhood Banker with a humane core.

Concept and viability of sector specific banks like Mahila Banks and their role in inclusive Banking

Usha Ananthasubramanian *

Women as a group constitute almost half of the population but they are **the most underleveraged economic asset across economies and more so in our country**. In India, the status of women has been subject to many great changes over the past few millennia. Women in India need to have equal access to, control over economic and financial resources for achieving total economic empowerment. Women's access to Banking and financial services is essential to allow them to benefit from economic opportunities.

India with around 1.2 billion population is the second most populous country in the world; 10th largest economy with $1.84 trillion GDP (2012) (equivalent to approximately 111.14lakh crore INR) and the most populous democracy in the world. Of the total population of India, women account for around 49%. It is a bitter truth that only 26% of women have regular, formal Bank accounts and only a very negligible percentage of them have formal access to Banking and still a lower number to insurance of any kind. In terms of economic empowerment of women, according to a study by Booz and Co., India is ranked 115, out of 128 countries. This ranking is based on two metrics - (1) the level of enabling measures for economic empowerment like literacy, work policies and entrepreneurial support and (2) the observable indicators of women's progress like labour participation, degree of advancement at work and equality in wages. Countries like Argentina and Brazil find a place in the bracket of 30 to 50 as they have clearly shifted focus on women empowerment. World over tools of development are being looked at closely and in this context empowerment of women, more so economic empowerment of women has now been taken as one of the significant tools for development. Near half of the total population of our country is, women. It has been observed that their empowerment accelerates the process of development of the country. The participation of women in various entrepreneurial activities has been emphasized from various corners and by different development practitioners.

According to Global Findex, World Bank, Demirguc-Kunt and Klapper 2012, overall financial inclusion in India is much lower compared to other developed and developing economies. Only 35% of adults in India have an account with formal financial institution compared to an average of 43% for developing economies. This gap is even wider in comparison to developed economies. While more women are engaged in some activity irrespective of the education levels, a significant percentage of them are engaged in the farming activities. Only 7% are engaged in formal sectors.

Indian women have a long history of saving and borrowing. In India, generally most of the decisions relating to money and finance are taken by the male members on behalf of women. Rural women for their financial needs depend mostly on the local moneylenders, despite knowing that it would be too long before they get out of their clutches. It is a fact that the Indian woman, irrespective of her literacy level, is shy of going to a Bank; shy of entering into the Bank and interacting with the officials of the Bank. The regular Banks have less or no time to interact with the customers. Especially, with the women customers who come to the Banks, seeking help and guidance. In women focused Banks, the interaction between the Bank employees and customers happen more quickly and the customers walk

* Chairperson and Managing Director, Bharatiya Mahila Bank.

into the Bank with a lot of hope and with the confidence that their requirements will certainly be met. These gave rise to the intense need for a Bank catering specifically to women. Considering these facts, there was a compelling need for such a bank.

The concept of Sector Specific Banks has been in existence in many parts of the world. Tanzania Women's Bank Ltd., Tanzania, Banco Santander Santiago, Chile:, First Women Bank Ltd, Pakistan:, Gramin Bank, Bangladesh:, RHB Bank Berhad-Easy by RHB, Malaysia are some such Banks. In India, we do have smaller gender centric Banks like SEWA, Mandeshi Bank and some Women Co-operative Banks. However, the first Bank for women was conceptualized and started in Germany under the name “Independent Women's Joint Stock Bank”, which was staffed wholly by women and only women can be customers. The venture was started in order to meet the requirements of the largely increasing number in Germany who were business proprietors and members of professions. The Bank also advised clients on legal points affecting business and money matters. The Bank folded up in 1914 with the start of the World War-I.

Bharatiya Mahila Bank as a Sector Specific Bank was conceived and conceptualized by the Government of India. On 28th February 2013, Shri P. Chidambaram, the then Finance Minister, Government of India proposed in his budget speech that the nation shall have its first Bank geared towards women, a Bank that lends mostly to women and women-run businesses, that supports women SHGs and women's livelihood, that employs predominantly women, and that addresses gender-related aspects of empowerment and financial inclusion. He also announced an initial capital of ₹1,000 Crore for the Bank.

The Government constituted a Committee under the chairmanship of Mr. MBN Rao, former Chairman and Managing Director, Canara Bank alongwith five other members to examine and firm up the Blue-print of the women's Bank, including broad policy framework; business model; expansion plan; business strategy, etc. of the Bank including the measures to outreach the targeted population of the Bank, to suggest measures and sources for accessing cost effective funds for the Bank and any other suggestions or recommendations, the committee may like to make for more effective functioning of the Bank to achieve the desired objective of establishment of the women's Bank.

The creation of the Bank was piloted by a team of Bank officials engaged in laying the road map and implementation of the same. The name Bharatiya Mahila Bank Ltd. was chosen to have a universal appeal and to symbolise a strong empowered woman. The Bank had the unique challenge of operationalizing the Bank in just 55 days from the day of licensing by the Reserve Bank of India.

As for any sector specific bank, the search for creating the manpower for the Bank was on top of the agenda and the staff were drawn from various public sector Banks on a 3 year deputation basis and they have been incentivized by placing them one grade above their parent Bank grade.

The Bank being born in the era of peak IT has been positioned as a tech savvy Bank and it was decided from the very first day all the branches would be on Core Banking Solution. For any Sector Specific Bank particularly a startup Bank, high end, customer friendly, high secure Information Technology platform is essential. Being aware of the limited time availability, the Committee had recommended the Application Service Provider model or Opex model. Bharatiya Mahila Bank started banking operations with state of the art IT infrastructure through CBS platform “Profile” provided by the Bank's Technology Partner Fidelity Information System (FIS). All the branches operate on Core Banking platform. All the branches have onsite ATMs. Perhaps, this is the first Bank in the Indian Banking space to embrace the ASP model and is unique to this Bank.

In the initial stage, as most of the branches were housed in the buildings of Government companies / institutions, premises finalization for various locations across the country was tided over given the timelines.

The Bank today has 23 branches and proposes to add 57 more at various centres including rural unbanked centres. The Bank positions itself as a commercial, viable, profit making entity and continuously works at it. Sector specific banks need to ensure that the capital allocated for specific purpose and specific target groups are utilised for the same and not deviated for other purpose or targets. For example, if the target audience is women, the focus needs to be on women. At the same time, such sector specific banks cannot completely exclude other target groups. Bharatiya Mahila Bank, in line with this concept ensures that its banking and financial products, services and facilities are made available to both men and women. Also, with a view to create the deposit base, the Bank decided to take / accept deposits from all genders. Then what makes this a Mahila Bank is an oft asked question. The predominant loaning to women and women related activities makes it women centric.

For any 'Just born' Bank, the concentration needs to be on growth. Sector Specific Bank can reach their target only through simplified and better procedures than the other regular Banks that might have rigid and complicated procedures. Bharatiya Mahila Bank, with an intention to render banking services to more & more women, made the procedures to open an account with the Bank, very simple. The Bank ensured that ATM Card and Welcome Kit were given at the time of opening of the account itself. In line with the Vision and Mission, the Bank took to a multi-pronged approach to empowering women economically.

Sector Specific Banks can help in setting right the imbalances and volatility in the economy. To achieve this, it is very important that such Banks operate with great speed. Bharatiya Mahila Bank, with great speed, designed and delivered many innovative, women-centric Deposit products, Loan products and third party products. All these products were designed keeping in mind the benefit of women - individual women, SHGs, urban working women, MSMEs and Corporates. The Bank adopted a unique banking model - a capricious blend of both traditional, conventional banking with the most modern, highly sophisticated, high secure technology banking.

While much has been written about the do's and don'ts for the Bank by several writers and columnists, the challenges the Bank faces are very different. The Bank needs to establish its brand and create a recall in the minds of the people. The country being big and the scatter of 23 or 80 or 100 branches is a very tiny number. Given the Banks which are 100 years plus and their network, the Bank is young, small and has a thin network.

The Bank comes as a multicultural organization and needs to create a culture of its own. In merger of two organizations, culture is feared as the biggest challenge, imagine a Bank with at least 23 cultures within it operating. The Bank presently has over 150 directly recruited officers as well. The entire workforce at Bharatiya Mahila Bank is committed to providing a qualitative difference in their services to customers.

Supporting women entrepreneurship is undoubtedly a positive, practical and an important choice for a sector specific bank like Bharatiya Mahila Bank. It is a stark reality that there are many women across countries like ours who donot receive any encouragement or support. As a result, these women are unable to pursue their dreams and a major source of growth is left untapped. As Hillary Clinton stated at an international forum, "Limiting women's economic potential is for every country like leaving money on the table. It doesn't make sense, especially when we are still struggling to grow our way out of the economic crisis."

Women entrepreneurs are looked upon as an important untapped source of economic growth since a lot of them have not got the right opportunities to launch their own enterprise. They are known to bring innovative ideas to the table when it comes to business management and experts have predicted that their active involvement at a larger scale would be a blessing for the SME sector. Women-owned businesses are generally younger and smaller in size than other businesses. Some studies have pointed to the trend of women being more visible when it comes to the services or cottage industry sector or farming in India.

Studies indicate that in India, there are nearly 3 million micro, small and medium enterprises with full or partial female ownership. Approximately 78% of women enterprises belong to the service sector. Almost 98%

of women owned business are micro enterprises. Over 90% of finance requirement of women in MSME sector are being met through informal sources rather than formal finance sector. The total supply of formal finance to women owned MSME in 2012 was around ₹2.31 trillion ($42 billion). This resulted in a finance gap of ₹6.37 trillion ($116 billion) or 73% of total demand. Considering all these and as a sector specific bank, being a Bank born with the purpose of economic empowerment of women, BMB concentrated on MSME sector as well.

To create and encourage women entrepreneurs, the Bank designed products unique to women and those that leverage on the strengths of women. Women have a natural instinct towards certain portfolios like catering and childcare. The Bank introduced many women-centric products keeping in mind, the core strengths of women so as to enable them to engage in economic activities and help them contribute to the growth of the nation, particularly through the MSE Sector. The loan product on setting up day care centres comes unique to women and is also a solution to working mothers to be hassle free at workplace. Yet another product that was introduced based on the innate skills of women is the Home Catering Loan product, which facilitates the homemaker to set up an activity and with word of mouth publicity earns customers and business. Beauty considered generally, being the business of women, a loan product was drawn for setting up beauty salons and spas. The Bank does not merely introduce products but guides women transform themselves into entrepreneurs so that they can make significant contribution to the economy of the country.

The Bank understands the inability of women to provide collaterals for loans as they seldom come with properties / lands in their names. Further, the Bank understands that women promoted enterprises are small, young and need small to medium loans. In this background, the Bank has tied up with CGTMSE to provide collateral free loans upto a crore of rupees to women. This in a way helps the woman entrepreneur tide over the asset ownership problem. Thus the Bank, encourages women transform into entrepreneurs, with collateral free loan of upto ₹1 crore.

Sector specific banks play a significant role in inclusive banking. To achieve inclusive banking for all, there needs to be a rapid, marked shift in the strategies formulated and methodologies adopted in almost all aspects of Banking. As a sector specific Bank, Bharatiya Mahila Bank has made a paradigm shift from the regular practice in the strategies and methodologies even while strictly complying with all the guidelines, rules and regulations of RBI, Ministry of Finance and other regulatory bodies. The Bank has simplified the KYC documents. The Bank introduced simple procedures for Zero Balance accounts.

As a sector specific bank, BMB gives more importance to create awareness and educate the masses towards achieving inclusive banking. The Bank accorded top priority for empowering women under priority sector. In the recent years, there has been a significant increase in migration of men from rural areas to urban areas, resulting in increased participation of women in agriculture, and agri-related and allied activities.

Loans to weaker sections were distributed through Micro Finance Institutions. To reach out to the people in rural, remote areas and in deeper pockets, the Bank adopted lending through Self Help Groups, Joint Liability Groups (JLG) Models. The Bank started several initiatives in tie-up with NGOs and other organizations of repute to extend financial support to the weaker sections of the society. The Bank tied up with reputed NGOs and Organizations like Dhan, Drishtee and Bharatiya Micro Credit to encourage Micro lending and SHG / JLG lending models. Under lending through SHG model around 46,000 persons involved in dry-land farming and other allied activities were benefitted. Lending under JLG was effected through Bharatiya Micro Credit for financing for Rickshaws and sewing machines. Two thousand rickshaws and 1,000 sewing machines were distributed. With a view to help rural women to become micro-entrepreneurs, the Bank, in tie up with Drishtee initiated the project "Momo-Rangoli" in the interiors of Malihabad, near Lucknow. This is a Women To Women (W2W) concept of retail shops by, for and of women. Keeping in mind the women of the weaker sections of the society, the Bank also launched simple Deposit products like Basic Saving

Bank Deposit Accounts (BSBDA) / Small Accounts, Flexible Recurring Deposits and Term Deposits.

The network of branches being small, the Bank uses the reputed NGOs, Foundations and similar organizations to extend loans to women who are engaged in various activities and establish a last mile touch with women.

Financial Literacy programme has been a key driver in the Bank's activities since inception. The Bank took up Financial Literacy as the first step to promote Financial Inclusion and Financial services. As part of International Women's Day Celebrations on 8^{th} March 2014, the Bank embarked on a Financial Literacy programme at the 12 branches which were operational by then. This was done in collaboration with 25 prominent NGOs. In these camps, the Bank was able to impart financial awareness to 11,000 participants on pan India basis, providing greater visibility to the Bank. Since then, on every Saturday, the branches conduct Financial Literacy Camps and reach out to the Groups / Community around them. Financial Literacy programmes of the Bank bring in increased awareness about various banking products, facilities and services. The participants are also exposed to various aspects regarding savings, investment, insurance and other financial products.

Through the Financial Literacy Programmes, the Bank emphasizes the need for women to plan and save for their education, marriage, housing, pursuing personal interest and retirement. The Bank exposes women to financial crisis management. Women are explained about the various investment options in fixed instruments like Fixed Deposits and Insurance products so that investments can be made after thoroughly considering the risk factors. The participants are also taught as to how they can turn their interests and passion into income generating activities.

The Bank's Financial Literacy programmes focus on women at the bottom of the pyramid so that whatever money is kept in the kitchen utensils are also deposited with the Bank and their money is safe and also grows at the same time. The Financial Literacy Programmes of the Bank help women participants to establish a 'connect' with the Bank so as to enhance the quality of their life.

The unbanked become easy victims of the various Ponzi schemes. The ponzi scheme operations should be completely eradicated and stringent punishment are to be awarded for such operators. Millennium Development goals need to be met. The efforts to eradicate poverty by 2030 need to be supported. There can be a major contribution by sector specific banks towards all these.

It is essential for any sector specific bank to have a well defined road map. The Bank has also constituted a road map for the ensuing years, to ensure maximum outreach. During the Financial Year 2014-15, the Bank proposes to open 20 rural branches. The Bank is exploring all possible mechanisms for reaching out to the last mile. Bharatiya Mahila Bank is keen to take all the high secure tech based banking and financial services and products to reach the last mile.

The developments initiative by the Government in various sectors including infrastructure sector will help the Bank in including women from different segments and women from the unorganised non formal sectors. Reserve Bank of India has proposed setting up of at anytime anywhere bill payment system Bharat Bill Payment system with an objective to implement an integrated bill payment system. This will enable the people to pay school fee and municipal taxes and utility bill through an integrated platform at their own convenient anywhere anytime.

Bharatiya Mahila Bank will ensure that the various schemes reach the real beneficiaries. The Bank officers have been visiting slums, localities inhabited by migrant labourers, villages etc. and conducting camps to provide financial literacy and also to open accounts for the hitherto unserved. As a sector specific bank - particularly one providing services to women the Bank takes all efforts to reach maximum number of women at their doorsteps through its “Reaching the Unserved' camps. The Bank thus saves them their time and money to visit the Bank just to open a Basic Bank account.

The Bank is looking at engaging Business Correspondents, Business and Development Facilitators and their Customer Service Points. The Bank envisages the BCs and BFs playing a development role besides regular activities like enrolment and transactions. The Bank proposes to tie up with Chambers of Commerce & Industries for easy financing of small SMEs and Micro loans, with simplified procedures. The Bank proposes to finance WSHGs with the support of NABARD.

All rural connect of the Bank is proposed to be enabled through technology. Information and Communication Technology (ICT) based systems and procedures, other technological solutions like Web based kiosk banking solutions and Mobile based FI Solutions are also under consideration. The Bank looks at amalgamating these technological platforms with the existing Core Banking Platform in consultation with the Technology Service Provider, FIS.

The Bank has consciously taken up issuance of chip and Pin cards in line with regulatory requirements. To play an important role in Financial Inclusion and Micro finance in rural areas, the Bank launched BMB RuPay Card with chip and pin. The salient features of RuPay Card include free unlimited transactions at Bank's ATMs and five free transactions per month at other Banks' ATMs and free transfer of funds from parents' accounts to children's accounts.

The Bank proposes to issue Smart Cards and introduce Biometric Authentication Technology to financially include maximum number of women from lower economic strata households. The Bank will soon introduce Kisan Credit Cards.

In the recent years financial transactions through mobile devices is rising steadily. While many private banks have made a quantum leap in mobile transactions, the public sector banks have also made a significant jump in mobile banking transactions. As a sector specific bank, Bharatiya Mahila Bank proposes to cover the ever increasing, mobile using population of all economic strata of the society. This requires a strong, highly-secure, powerful tech platform to evolve quick and accurate delivery.

It is also vital for Sector Specific Banks to forge into alliances which will help in achieving their goals. Bharatiya Mahila Bank entered into many tie ups since inception.

- The Bank has entered into an MOU with Institute of Chartered Accountants of India and Institute of Cost Accountants of India, for providing finance to students pursuing Chartered Accountancy and Cost Accountancy courses. The Bank has also entered into an MoU with these institutes to encourage women professionals to set up own practice, by offering finance at a concessional rate of interest.
- Credit Card : The Bank entered into an MoU with SBI Cards and Payments Services Private Limited (SBICPSL) for issuing of white label credit cards to its customers.
- The Bank signed an MoU with New India Assurance Company to deliver unique and innovative customised package health insurance policies to women account holders of the Bank. The Product BMB Sakhee is aimed at benefitting rural women with cover upto ₹50,000, BMB-Nirbhaya provides cover for many accidental situations uniquely faced by women with a loan limit upto ₹5,00,000 and BMB-Parivar Suraksha offers family floater facilities.
- The Bank entered into an MoU with Tata Motors, or financing its passenger vehicle customers. The Bank offers 90% finance.
- Considering the tremendous potential in the beauty industry for the growth of women, the Bank partnered with Naturals and TIV, Cavinkare with an objective to support banking needs of women who aspire to set up franchise.
- The Bank entered into an MoU with Gujarat Chamber of Commerce and Industry BWW to promote the cause of Women entrepreneurs and address their financing needs in terms of Technology Upgradation, Marketing, Diversification and Joint Ventures etc by utilizing the services of each other. As per the MoU, BMB and the Business

Women Wing of GCCI-BWW would jointly conduct training workshops for GCCI-BWW members on the procedure for availing financial assistance. BMB has set up a simplified application process for loans of less than ₹5 lakhs by the GCCI-BWW members.

- The Bank entered into an MoU with Mahila Arthik Vikas Mahamandal, Mumbai, a Women's Development Corporation of Government of Maharashtra for providing mutual assistance in micro finance activities to accelerate the process of bank linkages of Self Help Groups in Maharashtra.

The Bank proposes to engage itself through various tie ups with a view to reach out to various segments, like entrepreneurs, professional bodies and State Government bodies etc.

All sector specific banks need to be focussed on the purpose for which they are created. Bharatiya Mahila Bank ensures that all the activities are focused towards the purpose for which it was born-the purpose of economic empowerment of women. The Bank has been encouraging women entrepreneurship in every possible way. Bharatiya Mahila Bank aims to position woman as the economic head of the households in India. While it is important to script local success stories, sector specific banks need to also achieve global glory.

Bharatiya Mahila Bank is being watched closely by some of the countries like Japan, Germany etc. The Government of Zimbabwe is keen to promote a bank of this kind and has had consultations with Bharatiya Mahila Bank. The Bank over a period of time can emerge as a model for the sector specific banks of the future.

Role of Technology in Modern Banking

P. A. Kalyanasundar *

Given below are three scenarios of how a consumer used to access some of the services about thirty years ago :

1. Buying of a cinema ticket : There were only single screen theatres and the copies (reels) of the movies were very limited. People stood in long queues, praying the ticket window would not close just before they reached it. People used to return disappointed with the tickets for a particular show sold out just before they could reach that window.
2. Making advance reservation for a train journey : For this one had to stand in a queue for that particular train, and if by chance there was no vacancy, finding alternatives and taking on-the-spot decision was well-nigh impossible. This was if the train was to start from the place of one's stay. What about onward or return journey? Well…
3. Urgent need for cash or a demand draft / banker's cheque : For some urgent need like admission in a college wherein one had to deposit cash, demand draft that particular day itself one had to rush to the bank and the chances were high that by the time one reached the bank it was closed for transactions for that particular day.

Now fast forward the scenarios to 30 years. Imagine someone having gone into a deep and long sleep at that point of time and waking up after 30 years! It would take her lot of time to believe that she is not dreaming and that the transition in these types of services is a reality. Not only that, there are many new types of devices, services and products available today, about which one could not have even thought of thirty years ago. And note that the device need no longer be only a computer. Who would have thought about a decade ago that a mobile phone would be replacing the PCs and laptops? Would anybody have thought that a mobile device costing about \$150 today has more computing power and memory than a Mainframe computer had in the 1970s? Cost of Mainframe computer ran into millions of dollars.

These and many other things that are available today have happened today due to the power of Information and communication technology. More particularly due to the continuous innovations that have happened in I.C.T over the past three decades. All that is needed today is a computing device and connectivity, and what all choices that these offer? With the device and using the network, it is possible to access a service / product anywhere, anytime, manage bookings, reservations, shopping, pay bills etc. Not only that, all the payments can also be made on-line. The merchants, the buyers / customers and the banks, payment service providers are all linked to provide an easy, highly available, seamless experience of e-bookings, e-payments, and e-commerce.

Impact of Technology

The advancement in technology has caused a tectonic shift in the entire eco-system. While earlier the consumer was at the mercy of the sellers, today she is the queen. She is more informed, and in control of the situation. The merchants and the service providers have to constantly innovate and find ways to get the business. Armed with better control, information and access from anywhere, anytime the consumer gets the best deals and best value for money. Banking cannot be an exception to this paradigm shift. Hence, banks will have to keep changing the strategy and constantly innovate in order to be in the race, if not ahead of the competition. What exactly is the impact of technology in the banking industry today? Let us discuss, in the following paragraphs the present situation and the future scenario.

* Consultant, IDRBT and Former General Manager, Bank of India.

Use of technology in banks

Banks had started use of modern technology about thirty years ago. The process has matured in a gradual way, with all the banks having set up the basic infrastructure of a core banking solution with various delivery channels like Internet banking, ATMs, Mobile banking, call centres etc. Essentially the technology takes care of the transaction processing of large volume of transactions, and increased customers and business volumes. It is worth recalling here that the growth in banking business in the two decades; post nationalisation till early 90's came through massive branch expansion. As against this, in the last two decades there has been an exponential growth due to technological innovations in banking business as can be seen from the following table.

Table - 1 : Financial Highlights of Indian banks. (Amt INR in billions)

Parameter	March 1994	March 2004	March 2014
Aggregate Deposits	3,236	15,423	80,541
Bank Credit	1,668	8,656	61,976
(Source : Reserve Bank of India)			

Advancement in technology area has enabled the following to the banks and customers :

- Providing new and innovative banking products and services, consistently, uniformly and across geographies and more importantly at very minimal and affordable cost to the customer.
- Offering service to customers through various delivery channels like ATMs, Internet / Phone / Mobile banking at all times
- Fast and efficient payment and remittance facilities across banks. Customers can transfer funds from one bank to another almost instantly. Cheques are becoming redundant.
- Also for the bank, technology helps in establishment of a reliable centralised data repository, which facilitates data warehousing and data mining technologies for business intelligence

In the process, banks today are repositories of huge amount of transaction data. With the arrival of mobile banking and social media, geo-location data and behavioural patterns are also getting stored. Together all these constitute the 'Big data'. Given this Data Analytics is the tool that is going to be the game changer. Data Analytics would enable banks to offer personalised products and services, with innovative ways of delivery. In this background, globally, the banks are recognising the need to embrace technology in the area of products and services to compete successfully in the years ahead.

Information technology at the very basic level is defined as

Input ⇨ Process ⇨ Output

Co-incidentally, banking is also somewhat similar from a process point of view.

It is due to this similarity that commercial banks, the world over, are among the largest consumers of information technology. Banks have realized that the future of the financial services industry is heavily dependent on electronic delivery mechanism which alone can bring banking right into the customer's homes.

In the recent years there has been a noticeable tilt towards technology-driven products and services. Following trends are visible in the banking systems :

- Banks are installing more and more ATMs for enabling transactions. The scope of ATM centers is getting expanded to accept cheque deposit, cash deposit etc
- To give the customers more choices for collecting their cash, banks are resorting to self-service kiosks, cash accepting machines in e-lobby and other similar installations
- Mobile banking and debit cards are finding increased acceptance of the customers. Credit cards also find a significant usage.
- Though smart cards are currently offered by only a very few of the banks, almost all the banks plan to offer these in the future.
- Internet banking is another service which is finding wider acceptance. The growth of internet banking is faster than other products discussed above.

Use of electronic mode of delivery for banking services is constantly going up. It is seen that in case of Public Sector banks in India, still the branch is the preferred channel for many of the customers while Private sector banks score higher in the use of technology. It is estimated that about 70% of the transactions are in electronic mode in case of some of the private sector banks.

Table - 2 : Penetration of Electronic Modes of Payment in various demography

Percentage of population of 15 years and above using	World	Income Level					India
		High	Upper Middle	Middle	Lower Middle	Low	
Credit Card	14.8	49.8	11.8	7.1	1.8	1.9	1.8
Debit Card	30.4	61.4	38.6	24.8	8.4	7.4	8.4
Electronic (wire, on-line)	14.5	55.2	8.2	5.3	2.0	1.9	2.0
Mobile phone	2.0	-	1.7	1.8	2.2	2.6	2.2

(Source : Reserve Bank of India statistics)

Impact of IT on Banks

Due to technology, the organizational structure of the banks, the job roles of various staff and the approach of banks to customer needs are undergoing a perceptible change. Technology has helped banks to strategically look at customer needs to offer newer and more efficient product & services, and ensuring that the staff is able to cope with the newer demands of technology and customer requirements. It has also helped banks to increase productivity and efficiency.

One of the efficiency parameter that is studied is the cost-to-income ratio. As per BASEL II norms, banks have to strive to achieve a cost-to-income ratio of around 40%. Indian banks are more or less almost near that number, down from a ratio of more than 50% a decade ago. Technology has played a major role in achieving this favorable number by banks.

Organizational impact

Information technology is a means for increasing productivity. It can bring about newer concepts of self-regulating systems and principles in the organization. The impact of IT with regard to organizational structure and orientation of the banking sector are as follows :

i) IT leads to faster access to information and better control which has a direct impact on reducing the tiers in the hierarchical systems in the banks. This helps in establishing a closer and direct link between the top management and the field functionaries.

ii) Managerial attitudes also undergo a change under the impact of IT. This is manifest in the way the top executives look at IT as a functional requirement and apply it for improving organisational efficiency and effectiveness. IT helps in engineering a change in the overall orientation of the management.

iii) The organisational change can facilitate the increased involvement of information systems in the mainstream product offerings in the banking and financial sector.

vi) Finally the impact of the IT is best felt, when banks dovetail their processes to the IT systems, in order to derive maximum advantage.

Impact on Service Quality

Banking is primarily a financial service industry. The most visible impact of technology on banking is seen in the way banks respond to challenges in making IT's effective use for efficient service delivery. The impact of IT on service quality can be summed up as follows :

1. Small and relatively new banks, by integrating IT in their operations albeit with a limited network of branches become better placed to compete with big and well established banks. Technology is helping banks irrespective of their size to have a level playing field for pricing their products.
2. Technology has helped in commoditising some of the financial services. Technology is compelling banks to develop a strategy for an on-line delivery of almost all of its products to broaden and deepen the customer relationship and to retain customer loyalty.
3. It has been seen that technology pushes the delivery of services out of the bank and the focus shifts from cost reduction to maintenance of market position. Further, when properly adopted, technology helps in accelerating the service delivery to customers providing control over account relationships.

Customer expectations

As mentioned in the beginning of this article, earlier, customers had few choices. At that point of time what differentiated one bank from another was pricing, and possibly the quality of service. But today with the emergence of various alternatives, thanks to banking technology, the customer expectations are expanding from pricing and quality to include brand, content, and mode of delivery and finally timeliness of delivery. Needless to say all these are required to be packed into a fast and efficient mechanism. In the not so distant future the expectation will include customized products!

Banks are able to do these things because; tech-savvy new generation personnel are joining it in large numbers. Banks are able to leverage their skills in use of technology for maximizing productivity and achieving excellence in customer service.

Impact on human resources

Technology, when introduced in a planned manner, results in enhanced productivity with better placement of employees. At the same time it is seen that with increased use of information technology, there is an ever increasing demand of the specialized personnel in the fields of IT management resulting in a high turnover rate of computer-skilled manpower. Banks must have appropriate talent management policies to retain these professionals within the organizations.

Development of the I T area in the new millennium

At the client end, the accessing device is no longer only a PC, desktop or a laptop. The PCs of yesteryears have to now compete with the smart phones, the tablets and other mobility devices. Google's android operating system is being used in many of these smart devices. While Apple has its own iOS operating systems, Microsoft uses the Windows operating system. Note that Microsoft pioneered first the DOS and then the Windows operating system for the PCs and the lower end servers. Not to be left behind in the race for the accessing devices, Microsoft has acquired the handset business of Nokia. However, these devices with the Windows operating system are yet to make an impact in the market.

In the year 2007, Bloomberg had predicted that Apple will sell a few iphones to its fans, but the iPhone will not be able to make any impact on the financial services industry. But today we are talking of about a billion users of smart phones raring to go all out to use their devices for all kinds of transactions, including financial transactions.

Gordon Moore, co-founder of Intel made an observation that the number of transistors in Very Large Scale Integrated circuits would double every two years. This conjecture known as Moore's Law was made in the year 1965. The prediction seems coming true today. The way the processing power is being packed in a micro-processor chip, devices are going to be smaller and smaller and yet more powerful.

Combined with Moore's Law is also Gilder's Law, according to which improvements in bandwidth will occur at thrice the speed of Moore's Law. People who are older than GenY or the Digital Natives (i.e. born before 1978) would re-call the constraints faced due to poor speed of connectivity in getting through a dial-up line in 1995. It was an incredible 8 kilobits per second. Even today the broadband in the landline in many of third world countries is of the order of 256 Kbps or may be 1 Mbps. But as per Gilder's law, in the year 2016, you can look forward to 1 Gbit per second download speed on your mobile devices.

Since 2010, there has been a paradigm shift in the field of software development. This has been in the area of the client end or from user point of view. Earlier application development used to be under the assumption that it would be accessed by someone through a desktop or a laptop computer. Now focus is on accessing it through these smart and mobile devices. This has resulted in millions of apps being available for all types of needs of the end-user.

Communication Media

In 1995, media was mostly a physical wire for common people. Organisations did have some RF (Radio Frequency) and Satellite connections. Today there exists a plethora of media, mostly wireless. While CDMA and GSM are mostly used for voice and data, GPRS, cellular Wi-Fi and the 3G technology are used for video, images and much more, in addition to voice and data. Though these devices are mostly wireless, still communication between two devices is largely happening through a service provider. With Bluetooth, data and information can be exchanged between two devices provided they are within a range of say about 10 meters. The latest development, however is Near field communication (NFC). It is a set of standards for smartphones and similar devices to establish radio communication with each other by touching them together or bringing them into proximity, usually no more than a few inches.

Present and anticipated applications include contactless transactions, data exchange, and simplified setup of more complex communications such as Wi-Fi. Communication is also possible between a NFC device and an unpowered NFC chip, called a "tag". For example, Google Wallet allows consumers to store credit card and store loyalty card information in a virtual wallet and then use an NFC-enabled device at terminals that also accept MasterCard transactions. Many countries are running trials with NFC ticketing systems for public transport. Australia's Bankmecu and card issuer Cuscal have run trails which makes uses stickers attached to mobile phone communicate through NFC. India is implementing NFC based transactions in theatres for ticketing purposes. In Kenya Google has partnered with Equity Bank to introduced NFC payment systems for public transport in the Capital city Nairobi under the branding "Beba Pay".

The display options

Initially PCs started with monitors with CRT (cathode ray tube) displays. Soon this was overtaken by LCD (Liquid Crystal displays), LEDs and much more. These developments led to touch screen capabilities, such as iPhones, iPads and tablets et al. The development in this area is veering towards haptic technology, which would enable the user more interactive capabilities. The user would be able to have an on-screen keyboard that would feel almost like a real keyboard in its interaction.

The next step in this direction would of course be that the keyboards and mouse may soon disappear. The Table or the desk itself would serve the purpose. Already there are keyboards and mouse which communicate with the computer without any physical media. Simultaneously the “screen' as it is known today will also disappear to be replaced by a table, desk or a wall!

Today the digital signage or OOH media is used for advertising and publicity. In future, shops, malls and banks would be using their walls for this purpose. As a customer walks into a bank, she can be recognised with say an RFID tag and a personalised welcome message may be displayed on the wall. However, if you need privacy, then the bank will be able to set the privacy settings accordingly

On Cloud 9

With the above developments, there has been a tremendous shift in providing the technology backbone to a bank at the back-end. Currently the data and applications are all maintained at central servers in a network of data centres. Cloud services obviate the need for each user to have his/her own storage and application requirements, by centralising this infrastructure. All the user needs is a device that can access the application and data using a communication media. Organsiations have their own Private cloud which is accessed by the employees in the form of a CUG (closed user group). Now there are hundreds of organsiations offering services on the cloud. The simplest users of cloud are almost anyone who has an e-mail account like Gmail, Hotmail, yahoo etc.

The mere mention of cloud services, immediately raises issues of data privacy, security concerns etc. Amazon, Google, Face book, Microsoft and many others are all building huge networks of data centres to provide such services. This major development of application / data on cloud with access from anywhere using any device is going to revolutionise the way services are provided, including banking and financial services. Though about 1.30 billion people in the world are sharing all their personal and location data through Face book, will a bank be able to share its information in a similar fashion is an issue that is being probed.

Current Trends in Technology

An unintended outcome of the technology implementation is that banks today are becoming information behemoths. Banks are now repository of terra-bytes of data. Another development is that the customers have tasted the power of technology in their day-to-day life including the way banking is done. Currently, banks are offering services that they feel would attract customers. Herein the customer has to adapt to the processes laid down by the bank. Can a bank offer products and tailor the processes in such a way that they are as per the customer needs? Banks have to now think seriously along these lines. Technologically this is feasible, thanks to the emergence of SMAC. It is the banking processes that need to evolve to achieve customised products.

The currents trends and development in technology are in the areas of **Social Media, Mobility, Analytics and Cloud**. Collectively they are referred to as **SMAC**. SMAC will drive banking or banks will leverage SMAC for their business and providing products and services. Analytics and Cloud would form the backbone and be at the back-end. Social media and mobility is what people and customers would use to access these applications.

Social Media

Banks the world over are traditional and conservative. The mere mention of use of social media for banking would send shivers down the spine of bankers. But the time has come, when they can no longer ignore the power of social media. Social media is enabled by the internet. Easy availability and cheap tariffs have boosted Internet adoption which in turn has played a significant role in the emergence of a completely new medium called “Social Media”. Further, the advent of the smart phone coupled with all the 'apps' that are available, make adaptation to social media very easy.

It is often said that after China and India, Face book is the third largest population in the world, having about 1.3 billion users. Studies have revealed that more than 80% of the people who access on-line content are active on social media. Even in respect of seniors (65 years and above) and baby- boomers (between 50 and 65 years), more than 55% are active on social media. In India, 40 million use internet on the go on mobile handsets and 82% of these users use social media.

Indian Banks have started using social media in their regular operations in various forms and are at different stages of maturity. As of now, some private banks provide regular updates on the latest offers and allow basic customer operations through popular social media sites. A large private bank in India has hosted Face book application on its secure servers allowing balance amount check, cheque book request, giving stop payment instructions, etc. Some of the private banks are using their Face book page to provide customers, exclusive offers, product details and customer care services. As some of the banks have taken the lead the direction is set for other banks to offer online financial services through such platforms in the immediate future. ICICI Bank offers e-purse for the Face book users.

Will banks adopt social media?

Psychologists offer the following facts about human behaviour when it comes to adaptation to change :

1. Anything which is available when a person is born is taken as normal
2. Innovations taking place till a person is of thirty years of age, excites her very much. Adaptation is immediate and many make even a living or career out of it
3. However, developments that take place in the later stage of a person's life are considered as against natural order of things, but here again if these developments sustain for say, about 10 years, we adapt that also.

Social media has proved appropriate for all the above three stages. As such it can be said that it is about time that this is adapted by banks. Social Media has some issues about freedom of expression. Banks feel they may not be able to face the onslaught of such feedbacks once they are in this space. But they have to remember that people may already be inter-acting with each other about their banks on this media. Better to be at the centre of action, and make use of the opportunity to speak about their product and services rather than shy away due to possible bad publicity. This platform also provides a huge opportunity for customer grievance redressal and to put forth the banks point of view.

Mobility

The number of mobile phones in the world is almost reaching 7 billion, which is equal to the population of the world. Of these only about 6 percent are smart phones, but the smart phone numbers are growing at more the 50% CAGR. It is estimated that, currently about 600 million people in the world use smart devices for banking and the number is expected to cross the 1 billion mark in the year 2017.

Reserve Bank of India's 'Payment Systems Vision Document 2012-15' reflects the commitment towards provision of safe, efficient, accessible, inclusive, interoperable and authorised payment and settlement systems in the country. The performance indicators of various payment system segments show that, during 2012-13 the share of paper-based instruments in the volume of total non-cash transactions has been lower than that of electronic payments. In addition to the growth in volume as well as value processed by RTGS, the retail electronic segment too has registered a significant growth of 35.2 percent in volume and 54.9 percent in value. Though overall volume of transactions in mobile banking is low, there has been significant growth in the volume this year as compared to previous years.

Table - 3 : Data on Mobile based transactions.

Year	No. of Users (Million)	Volume (Million)	Value (Billion INR.)
2010-11	5.96	6.85	6.14
2011-12	12.96	25.56	18.21
2012-13	22.51	53.30	59.90

(Source : Reserve Bank of India)

Will Mobile be the preferred channel?

The above are the figures for a country which has about 900 million mobile phone connections. About half of the adult population does not have bank account, but almost all of them have a mobile phone connection. Mobile banking is a trailblazer in the world today. Yet why it is not able to make a substantial impact on the banking penetration in India? The main reason is that in India the policy thrust is towards bank led financial inclusion wherein the consumer is first required to physically open an account with a bank even for enablement of mobile banking services. Of course, there are security considerations and the regulator is gradually easing the guidelines in this regard. A committee set up by Reserve Bank of India has given its recommendations for increasing the penetration of this channel for the purpose of remittances and payments.

In some of the other countries, the mobile channel has had a tremendous impact. In Kenya, more than 50 percent of population uses simple SMS messages for sending money. The immigrant worker from Philippines remits money to his family with the use of mobile devices. In that country, people even transfer airwaves, instead of money. So airwaves is becoming a sort of virtual currency.

For Financial inclusion, there may be no alternative but the use of mobile banking and payment services. Dvivienda, one of the largest banks in Columbia has successfully used this platform for Financial Inclusion purposes. It has about 2 million users, which is huge looking at the population of that country.

Ideally, on this platform, the consumer, banks, payment service providers, merchants and the government all can be seamlessly integrated to have an efficient payment and remittance service. Governments in several countries, provide social security and subsidies of various kinds. These can be directly transferred to the beneficiary's account. Today, the solutions are all looking at ways to enable the consumer to withdraw that money and do the transaction in cash for purchases and family expenses. Ideally, the consumer would be simply using her mobile phone and simple services like SMS or USSD to transfer the money to either the merchants for making payments, or to her family for their consumption.

This potential has also been realised in India, where while issuing a National ID for the population called Aadhaar, the Government has started direct benefit transfer (DBT) to the beneficiaries' account that is linked to his/her Aadhaar number.

It is in the Asian and African countries that this model will prove to be very successful. For a large financially excluded population in these countries, this will be the only channel available for accessing banking payments and remittance services. Several estimates have been made in this regard. As per these, by the year 2017 about a billion people will be accessing banking and other payment services by mobile.

Payment Banks

Recently, Reserve Bank of India has issued draft guidelines on allowing payment banks to be set up. As per these guidelines, payment banks will be allowed to take deposits and facilitate payment and remittance services. Obviously these banks will have to play the technology card effectively. Ideally large Telecom companies, to whom already limited license has been given for issuing e-purse, would be best placed to setup these banks. Combined with technology, they have a huge network of retailers to be leveraged.

Mobile phone as POS device

Various delivery channels are offering customers the convenience of banking from their Office or home. Traditionally card based transactions require the card to be swiped on the POS terminal at the merchant end. Next came the “cards not present” transactions using Internet. However, the next step in the process of evolution is mobile payments at POS terminals. Already all major card operators are upgrading or replacing the POS terminals that also facilitate NFC based mobile payments. NFC based communication can support both the legacy card transactions as also mobile payments.

While this is at one end of the spectrum, at the other end is a mobile device which does away with the POS terminal itself. Ezetap, a Bengaluru based start-up has done just that. It has developed a very cost effective card reader, which can be attached to any mobile phone. Now merchants can collect payment from consumers at the latter's doorsteps. Payment happens in three simple steps :

1. Merchant representative enters data in the mobile device
2. Swipes the card of the customer on the card reader
3. Customer either 'signs' on the display screen or enters his PIN and
4. The payment is made.

For all the on-line retailers, struggling with ways to secure the cash collections by the delivery boys in the COD (cash-on-delivery) model, this will be a boon where there is no need to handle cash at all. E-tailing is growing with geometric progression and such solutions will only be adding to the boom.

Role of Channels in Retail banking transactions

As per Brett King, in his book Bank 3.0, the rate of interactions of customers with various channels by the year 2016 is predicted to be

- Mobile : 20 to 30 per month
- Internet / Tablet : 7 to 10 times per month
- ATM : 3 to 5 times per month
- Contact Centre : 5 to 7 times per month
- Branch 1 or 2 times per month

Given these indicators it makes sense for both bank and the customers to move to newer delivery channels, in view of cost efficiency, in addition to the ease and convenience of banking. As per Bank 3.0 referred above, whereas Cost per transaction at the branch could be about ₹50, it is about ₹15 at ATM, ₹5 through Mobile and negligible when done through Internet. The economic aspect is also going to play a big role in the transactions shifting to the delivery channels. Of course, as far as Financial Inclusion of the non-banked is concerned, it can only be done with innovations using technology

Going Card-less

So how long will the plastic cards continue? We are approaching an era where whether at the shopping malls at homes, consumers will not be required to fish out their plastic card and swipe at the POS terminals. Wallet applications on the mobile phones, waved near the POS device of the merchant would complete the transaction quickly and efficiently.

And what if the customer needs to withdraw money. Well now it is possible for a customer to withdraw money from ATM WITHOUT A CARD!

Box - 1 : Instant Money transfer.

Some private sector banks and Bank of India, a Public Sector Bank has introduced a facility called IMT (Instant Money Transfer). The mechanism is very simple. IMT is an innovative, safe and simple domestic money transfer with cash out facility. It allows Bank's customer to send money to a beneficiary/ receiver only by using the beneficiary / receiver's mobile number and secret code; from either bank's IMT enabled ATMs or its Retail Internet Banking facility. The beneficiary / receiver can withdraw money from Bank of India IMT enabled ATM without using a card, i.e. card less withdrawal. The beneficiary / receiver need not be a customer of Bank of India / any Bank. The withdrawal details including secret code are partially communicated to the beneficiary / receiver on his/ her mobile phone and partially by the sender.

Security concerns

While banks and their customers embrace technology, so do fraudsters. The challenge is that the most of the time the perpetrators of fraud can be faceless, sitting far away in any part of the globe. Even if one is able to track the place and the device through which fraud is committed, bringing them to book will be a challenge.

Fraudsters and tricksters come up with innovative ways to steal customer identity, with which the transactions are made. For the banks' systems these appear genuine as they are done with the identity of the customer (though stolen). Credit card data is easily captured through card readers and cards are cloned in no time. Possibly insiders are also involved in these nefarious practices. As per Basel II guidelines, banks are required to take care of operational risk and it is worth remembering that technology contributes to a big part of operations risk in banks today.

Technology has solution for fraud prevention and detection also. So while banks invest in technology, they will have to invest equally if not more in fraud prevention and risk management solutions as well. As there is tremendous cost efficiency in use of technology, a portion of the saving will have to be invested towards providing a safe and secure electronic banking environment.

Will we have banks in the future?

Bill Gates once said : "we will have banking, but we may not need bankers......"

Considering all the process and product changes in the banking space one must ask the question, where will all this technology take us to? It appears that transaction banking and delivery of banking products will undergo more customer friendly changes but Banking will remain and in the emerging markets and developing countries, there still will be scope for the brick and mortar branches. But the shift which is already towards branch-less, paper-less, contact-less and card-less banking will continue with more technology emphasis. Banks are already trying to bring customer foot-falls back into branches. To conclude, in order to cope up with the fast changes in the technology, regulation and market space, banks will have to gear themselves up for the following :

- Constantly innovate and try to remain ahead of the curve. The saying goes that only those, who innovate change, lead. Others who adapt, may at best be able to survive
- Be prepared to constantly invest in technology and embrace the new developments taking place in technology
- Constantly sanitize, update the data, and keep it current. Banks that are able to leverage the huge amount of data it is sitting on, would always have an edge
- Bring the GenY and millennial (those born after 1978) into their folds, the services have to shift to social media and through mobile channel. Mobile channel is important for financial inclusion
- Invest in security and risk management solutions as these issues will pose a big challenge in meeting with the expectations of the stake holders
- Last but not the least, employees will have to be trained and skilled on an on-going basis. At the same time efforts will also be required to educate the customers, in safe use of technology. This is no small task.

References

1. Reserve Bank of India : Select Banking Indicators
2. Reserve Bank of India : Annual Report 2012-13
3. Reserve Bank of India : Payment System Vision document 2102-15
4. Institute of Development & Research in Banking Technology : Framework for Social Media in banks
5. Brett King : Bank 3.0
6. Ben Hamersley : 64 things you need to know for then
7. http://ezetap.com
8. http://bankofindia.com
9. http://www.wikipedia.org

Talent Management in Banks

M. V. Tanksale *

Talent management in an organization is an ongoing process of analyzing, developing and effectively utilizing the talent to improve business value and to achieve the organizational goals. Everything done to recruit, retain, develop, reward and make the employees perform forms the process of talent management. When the economy is opening up, so are the job opportunities for talented executives. How to attract them and retain them has become a challenging task for any organisation. Things have started changing with the entry of numerous non-banking financial companies as well as private and foreign banks. Similarly, the nature of business of the banking sector has also undergone a lot of changes over a period of time. As a result the demand for specialized manpower is also increasing. In a competitive environment attracting and retaining right kind of talents is very crucial. As a result, Human Resource Management function of a bank become extremely significant. This article dwells on the following areas :

1) Transformation of Indian Banking Sector

2) Significance of HR functions

3) Importance of Talent Management

4) Best Practices for Talent Management

5) Way forward

1) Transformation of the Indian Banking Sector

Pre- independence period in the Indian financial sector was characterised by existence of large number of private banks. Their size was small and their operations were limited to small geographical areas. Many of them failed subsequently. Money lenders and indigenous bankers played a prominent role during this period. Early independence period was also not much different. However, with the formation of State Bank of India and its subsequent massive expansion in the under-banked and unbanked centres, helped to increase the coverage of institutional credit in unbanked centres. Things started changing drastically after the nationalisation of banks in 1969. This period was characterised by rapid branch expansion that helped to draw the channels of monetary transmission across the country. Recruitments were high during this period. But banks lacked operational flexibility as lending and deposits rates were administered. Core areas like risk management and profitability did not receive proper focus throughout this period.

During the last three decades, beginning with the introduction of financial sector reforms in 1991, the Indian banking sector has undergone a lot of changes. The main issues faced in the first phase of the reforms (1991-92 to 1997-98) were the weak health of the banking sector, low profitability, low capital base and lack of adequate competition. The reforms in the initial phase, focused on strengthening the commercial banking sector by applying prudential norms, providing operational flexibility and functional autonomy and strengthening the supervisory practices. To infuse competition in the banking sector, several measures were initiated such as allowing the entry of private banks into the system.

The focus in the second phase of reforms (1998-99 and beyond) was on further strengthening of the prudential norms in line with the international best practices, improving credit delivery, strengthening corporate governance practices, promoting financial inclusion, strengthening the urban co-operative banking sector and improving the customer service.

* Chief Executive, Indian Banks' Association.

While strengthening the prudential norms, it was necessary to ensure that risk aversion, which had surfaced in the previous phase, did not aggravate. Focused attention, therefore, was paid to put in place appropriate institutional measures to enable banks to recover their Non-Performing Loans. The impact of these measures was encouraging as banks were able to bring down their non-performing assets sharply. This was the most important achievement of this phase. As the asset quality began to improve, banks also started expanding their credit portfolio. Capital position of banks also improved significantly. Competition intensified during this phase as was reflected in the narrowing down of margins. This phase also witnessed some significant changes in the use of technology by banks. Increased use of technology combined with some other specific initiatives helped improve the customer service by banks. Table -1 below captures the progress of all Scheduled Commercial Banks (Domestic) in the various efficiency parameters to show that the financial sector reforms have helped a lot in improving the efficiency parameters during the last three decades :

Table -1 : Efficiency parameters of all Domestic Banks (In Per cent)

Ratio	1991-92	1995-96	1998-99	2004-05	2010-11	2013-14*
Intermediation Cost	5.79	5.27	3.98	2.79	1.65	1.59
Cost Income Ratio	58.44	65.34	65.26	49.60	45.43	45.48
Net Interest Margin	3.26	3.10	2.73	2.80	2.61	2.53
Other Income to Total Income	10.69	13.25	11.95	17.25	12.95	10.72
Business per Employee (₹ in lakhs)	44.42	68.89	111.57	335.98	1005.17	1224.00
Business per Branch (₹ in Crore)	8.59	13.79	21.32	53.00	128.41	141.99
Return on Assets	0.30	0.03	0.45	0.86	0.94	0.89
Return on Equity	11.62	0.55	8.24	14.53	14.67	13.23

*Source : RBI & IBA data base. Excludes foreign banks operating in India. * provisional*

As competition intensified, banks started focusing on certain areas where they could differentiate themselves from their competitors. Appropriate use of technology and customer service are considered as two important enablers for this differentiation. Around this time Human Resource Management started getting recognition not only as a specialised function in banks but also as a function to be embraced with the business strategies of the banks.

2) Significance of Human Resource (HR) functions

Conventional HR measures are ineffective in the face of the steep challenges faced by the banks. According to a Boston Consulting Group report, on an average the HR function of Indian banks has about 0.6 per cent of its staff. Globally, the average for banks for HR function is 1.5 per cent. Hence it is quite obvious that banks in India typically work with less than half of the benchmark staff strength for Human Resource Management. The key issue in HR is not about cost reduction but expertise and capability enhancement to implement best-in-class performance measurement systems and HR practices to improve employee productivity. Considering current levels of under investment many banks will benefit by augmenting their HR teams with expert skills. Experience shows that HR practices should be flexible enough to adapt to the changing business strategies of the organization. Some of the measures to be taken by the Human Resource vertical of banks are as follows :

a) Strategic HR Manpower Plan : The corporate business plan which is drawn annually depicts the business expansion plans and also the business areas of focus the bank is aiming at in the ensuing plan year. HR department has to estimate the employees required for meeting the goals set by the corporate business plan. The process of acquiring right skills from external and internal sources are planned well in advance with definite time-frames so that the skills are acquired timely thereby the business continuity plans are not impaired.

b) Performance and Merit should be given maximum weightage : There is a need to give importance to “Performance” and “ Merit” in the place of “Seniority” in inter-cadre / inter-scale promotions with a view to motivate talent and to encourage innovative ideas to flow.

c) Transparent and value-driven Performance Appraisal Systems : Due to constant changes taking place in the Banking Sector and the competitive atmosphere prevailing in the Banking space, the business priorities and strategies of the banks are changing rapidly. To motivate the employees and also to retain talents, there is a need to revamp the Performance Appraisal Systems to give thrust to efficiency and value and make it more transparent. The performance appraisal has to be a tool for measuring actual performance of an employee.

d) Transition from Successive Plan to Succession Plan : Owing to competition, banks are facing attrition problems in almost all areas of banking. With a view to ensure that the operations are carried out uninterruptedly, as a part of its business continuity plan, the bank has to not only have a simple replacement planning but also to have a strategic succession plan. For this purpose, the HR department has to strategically look across the entire employee population and identify high potential talent who promise to climb the organizational hierarchy in a definite time frame and pro-actively develop their leadership capabilities. Various steps involved in this aspect is given as under :

- Assessing and projecting the manpower requirement in post Core Banking Scenario.
- Identifying the requirement of critical roles and the timing of requirement.
- Assessing the retirement profile of employees and identify / spot suitable successors within and outside.
- Developing the identified successors from within through intensive training well before they could be placed in the relevant positions.
- Evolving pre-plans to fill these gaps timely on account of retirements and also the requirement of critical roles etc through suitable successors from within and outside.
- Maintaining and developing talent pool through providing constant learning opportunities, timely promotional avenues and viable motivating techniques.
- With issue of succession gaining utmost prominence in the entire gamut of HR function, each banks has to develop both short term manpower planning and long term Strategic Succession Plan which could address the succession issues in future as well.

e) Capacity Building and Knowledge Management : Quality training is the cornerstone to build healthy succession and to nurture a sound managerial team. Accordingly, “Training and Development” function is another important area where the HR department has to give focused attention. The focus of the training should be integrated to corporate goals of the organization. In this context, the following points are important.

- A comprehensive training policy is a must for any organization which should be flexible and adaptable to the changing landscape of the economy.
- Imparting strong induction and orientation programmes.
- Provision for constant learning opportunities and rigorous training and development from technical to soft skills to leadership development programme.
- Training focus should be “need-based” rather than on “nomination- based”
- Mandating training for each and every employee of the bank depending on the area of operation and the Key Responsibility Areas.
- Explore the option to tie-up with reputed training institutions.
- Creation of exclusive Knowledge Management Cell which would be headed by Chief Knowledge Officer.

- Training intervention as a tool for recognition and motivation of employees.
- Constant monitoring of efficacy of the capabilities of the in-house Trainers.

f) "Performance - linked Incentives" is the need of the hour : The competitive edge of modern organization is to create high performance culture and as such the organisations have to be successively more sophisticated high-performance systems. Organisations succeed when they continuously nourish the top performers and improve the performance of the poor performers. The big challenge in this process is how to encourage and retain the top performers and how to motivate the non-performers to perform better. In this situation, "Performance-linked incentives" play a vital role. Here again a transparent yard stick for measurement of performance is quite significant. In the absence of a transparent approach, these efforts will create the opposite impact.

g) Creation of a Web Portal for expeditious resolution of staff grievances : It is a known fact that it is not possible to make everybody happy. Hence it is absolutely essential to develop a good staff grievances mechanism to address the problems of the aggrieved staffs of the organization. Otherwise, the working environment would be not conducive enough for the overall progress of the organization. With a view to know and appreciate the type of grievances being raised by the staff members and also to provide impetus to fasten the process of resolving these grievances, a web-portal could be used by banks to address this problem. In this arrangement, if an employee feels that his or her grievances relating to various service matters has not been dealt with by the concerned authority, he may mail the same to senior management including the Chairman or Executive Director of a bank. This mechanism will ensure quick address of the grievances of the employees and it will create an environment of confidence, transparency amongst staff so as to benefit them as well as the institution in terms of productivity and performance.

h) Use of Technology to connect the grass root employees : Very often, in-house developments of the banks are not known to the grass root employees. At the same time they are the people who acts like connecting links with the public. The top management could use the web portal to communicate to all the staff on their vision or goals set for the year or a new product launched by the bank or any new initiative started by the bank. This will improve the communication from top to bottom and vice versa and all the employees feel that they are important for the organization.

3) Importance of Talent Management

Talent Management describes the process through which employers of all kinds anticipate their human capital needs and set about meeting them. Getting the right people with the right skills into the right jobs, a common definition of talent management, is the basic people management challenge in organisations. Presently, in the PSBs, talent acquisition at the base level is only a small part of the overall crunch. As per estimates, close to 1,00,000 employees of Public Sector Banks will be retiring by 2015. These are seasoned, experienced people of whom around 7% would be in the middle and senior management grade. Replenishment at leadership positions is also a major requirement and in Public Sector Banks, we have EDs and CMDs even for one or two years. We need a larger pool of leaders to work as General Managers, Executive Directors and CMDs of Banks. While at lower levels, programmes can be developed for equipping the recruits with the right kind of skills, it would be challenging to get leaders. If there is freedom to leave the organisation at any level, and talented people do indeed leave, then the solution would be to acquire the talent back from the market place - go in for lateral induction / recruitment at senior levels. It is not necessary that only monetary benefits attract good talents. Monetary benefits are important to some extent. But after a level, it is the challenges the job throws up make the job quite attractive. In this context, banking sector does provide ample challenging opportunities. Very often we hear about a person leaving his high flying carrier and move to set up his own venture or join an NGO to serve the down trodden and the needy. This means something other than money also attracts talents.

Though Public Sector Banks case is highlighted in the above paragraph, private and foreign banks also face the same problems of talent management because all have to search for the right person from same pool of people. Again, the case of public sector banks the problem of talent management is quite acute due to skewed demographic profile of the employees. In the case of Public Sector Banks, almost 80.0 per cent of the middle management and 50.0 per cent of the junior-most officers will be lost through retirement within the next 10 years. Crucial competencies and know-how will be lost with the departing executives. Even if the banks go for aggressive recruitments and induct younger population of 20-30 year age group, the banks will have to sort out the generation gap problems within the organisation. Considering the competitive environment and opportunities available to the banking sector, banks have to recruit talent and devise various innovative methods to retain the same. At the same for public sector another challenge is to contain the employee costs or wage bill. About 62.0 per cent of the costs of the public sector banks comprise employees costs as against 37.0 per cent in the private sector. Globally, this ratio is about 50.0 per cent for most banks. At the point in time, the employee costs of public sector banks are fixed in nature. There is a need to bring in variable components in employee costs also so that banks have the leverage to adjust the variable components depending on the performance and economic conditions prevailing in the country. In the case of Private and Foreign banks, this is very much being practised along with some degree of outsourcing of non-core work. Public Sector Banks are yet to fully adopt these methods now. This is an aspect to be kept in mind for talent management.

Another important aspect in the talent acquisition exercise would be to adapt to the new generation and strike a blend of fresh and experienced talent. Now, it would be difficult for us to get people who join us and stay their whole lives with us. Hence there is a need to unlearn the long-standing practices that are no longer a best practice. Today, Public Sector Banks follow confidential appraisal system. Perhaps a change to 360 degree development feedback may go well with the new recruits. Hence these unlearning of the old practices which are obsolete could be encompassed in the HR policy of the banks.

4) Best Practices in Talent Management

Talent management is a professional term that gained maximum exposure in the late 1990s.It basically deals with sourcing talent, integration and aligning talent, developing talent, engaging and rewarding talent, strategically developing talent and it leads to strategic goals. The idea of developing new talent is not a new concept in any business. Despite intense competition being the key to market development and success, organizations have failed to identify some of the major reasons which highlight why 'good performers' leave. Past Studies clearly states that one major reason why people leave their organization is because of the organization's failure to bring about a correlation between pay and performance. Human Resource experts in the industry believe matching the right blend of talent with the right job profile can lead to superior performance.

Talent Management Systems' broadly have the following components :

a) Recruitment

b) On Boarding / Induction

c) Training and Development

d) Performance Management.

e) Succession Planning

f) Employee Retention initiatives

g) Employee Separation

Under the HR policy, this article has touched upon all the above aspects of talent management because, HR function essentially focuses on talent acquisition, management and retaining the talent for the overall good of the organisation. Perhaps an area which could be looked into is the possibility of creating leaders at all levels right from Branch manager level to Regional manager and so on. Leaders have to be nurtured at each stage by giving them challenging opportunities which help them to grow within the organisation and also through proper mentoring and hand holding.

In the case of talent management, younger the employees, the more powerful are their aspirations to move up in the ladder. Hence more focus needs to be given to enable them to meet their aspirations. Otherwise they are bound to leave for greener pastures. In the case of Public Sector Banks, the average age of the employees is 41.14 years and that of private and foreign banks is 32.89 years and 33.97 years respectively. Average age of officer employees in Public Sector Banks is 41.62 years, that of private and foreign banks it is 32.83 years and 33.03 years. Regulatory changes like introduction of risk management, KYC / AML practices, NPA norms etc. made the banks to look at their existing employees skill sets and identify the skill gap and cover these gaps by training and exposure to the employees. With regard to attrition rate the average level of attrition in the case of Public Sector Banks varies from 5.0 per cent to 5.62 per cent. While attrition at senior management level was negligible, it was highest at junior management level. In the case of private sector banks, the average attrition rate for junior employees varied from 4.0 per cent to 28 percent. The attrition rate among middle management level employees varied from 4.0 per cent to 10.0 per cent. At senior management levels, attrition rate is lower than the junior management levels. For foreign banks average level of attrition varies from 2.0 per cent to 20.0 per cent at junior management level. Hence, it could be concluded that attrition rate is the highest in the junior management level across all bank groups. This is also the pool where talent has to be nurtured. Though attrition cannot be completely ruled out in any segment, the focus should be to reduce the attrition rate.

Second and Third layer in any organisation is the Middle and Senior Management. This layer can make or break any new initiative or management or change programme. The top management need to pay attention on four levers to recharge and re-engage these layers. Four levers could be taken into consideration :

Enrich the roles : The organisation has to review and take measures to make the role exciting and to motivate the executives. Make the roles exciting by increasing the responsibilities, enriching the roles and reduce the control to the optimum level.

Empower the executives : A feeling of disempowerment at this level could act as a major dampener of new initiatives.

Enable the person : The middle managers have to lead officers and the non-officers to drive performance. However, they have not been explicitly trained in leadership skills. The programme to nurture future leaders cannot use classroom training but rather on-the-job learning, involving a variety of interventions such as special projects, personal coaching, peer assist programs and a customized job rotation program.

Engage the employee : Engaging the senior and middle management to create complete ownership of the organisation. The working environment in the organisation could be such that, the employee feels as the owner of the organisation. He realised that the growth of the organisation essentially creates more opportunities for him or her to grow also. The realisation is that one's commitment towards the organisation is such that he feels constantly to do something to improve the organisation.

Way forward and conclusion

The article extensively touched upon the various aspects of Human Resource Management and Talent Management. Creating career tracks, mapping skills and competencies, filling up gaps etc have to be looked upon with the usefulness of various approaches in the present situations. Critical areas in talent management were also covered in the above sections. Another area which could be taken into consideration is incentivising the average employee.

The present system of incentivising the top performer is a prize for winning a race against one's peers. Actually, not much is gained by celebrating only a few top performers. This demoralises the vast majority of the staff that is the average performers. Hence, there could be some way to incentivise the average performers. Similarly, there is also a need to look at the non-performers. An exercise to assess the reason for non-performance by an employee could be done to understand the reason behind. If by changing a person from one vertical to another of his choice, turns him into a performing employee, that is a success for the organisation. Similarly, the top and high potential staff could be moved horizontally also to groom them into having a handholding in almost all verticals. This on the one hand helps to retain the highly talented individual within the organisation and on the other hand the individual is gaining the knowledge which helps him or her to assume the leadership position during the course of the career. Hence, both the organisation and individual are benefitted. Further, the HR vertical also need to be re-looked to introduce new practices in the organisation.

References

1. Talent Acquisition and Management : (Key Note Address by Dr. K. C. Chakrabarty, Deputy Governor, RBI on May 31, 2011 at the Seminar on Talent Acquisition and Management organized by IBPS, Mumbai).
2. Indian Banking 2020 : Making the Decade's Promise Come True : BCG, FICCI, IBA publication.
3. HR & Leadership Awards - Central Bank of India.

PART - 2

Talent Management in Banks

Talent Management in Banks

The first article in this section is "Banking on Talent" authored by Mr. Jamal Ahmed Al Jassmi, General Manager, Emirates Institute of Banking and Financial Studies, Dubai. Dubai is a well developed financial market. Like all Middle East countries it needs talent both in conventional banking and Islamic Banking. The article portrays the role played by expatriate talent pool and the need to develop domestic talent pool. In the Middle East, grooming domestic talent is a State driven agenda. The author advocates investment in creating a performance culture and creating multiple talent ladders and leadership pipelines. The article provides various talent management strategies adopted by Middle East banks including non-compensation strategies to retain talent. The author in his article narrates evolution of Human Resource into Talent management, challenges and eight step process of Talent Management.

The second article is on "Talent crunch & Knowledge management and other emerging HR issues faced by the banks in Bhutan" by Mr. Sangay Wangdi, Construction Committee Member of FITI, Royal Monetary Authority of Bhutan. This article covers information about the country, people, society and economy of Bhutan and also the background of membership of the Financial Institutes Training Institute (FITI) with APABI. In his article the author gives an account of banking business in Bhutan and talent management issues faced by banks in that country and envisaged role for FITI to resolve those issues. Given the stage of banking development in Bhutan the talent crisis is bit heavy on the banks and training seems to be the main source of building critical talents.

The third article is by Mr. Joel Duke Ramaphoi, Senior Manager, Risk Department, Stanbic Bank of Botswana on "Talent Management in Banking : A case for Botswana". The author has used banks' annual reports, academic and business press articles and documents a case study of Talent management in banks for Botswana. The fourth article is by Mr. Tshepo Moshaga, Performance Consultant, Learning, Leadership and Talent, Barclays Bank of Botswana on "Optimizing Talent Management in the Banking Industry : An observation of Botswana". In this article, the author with the help of non-empirical observation explores the understanding and appreciation of *talent management, its practice and its perceived importance in the Botswana Banking Industry. The author sees a lot of threats and challenges to talent retention in local banks of Botswana and equates banks talent management to a journey. Both articles highlight the talent crisis in Botswana and the need for academic and training institutions to work together.*

The fifth paper is by Ms. Solveig Nicklos, Director, and Dr. Vijayalaxmi Moovala, Programme Manager, Bahrain Institute of Banking & Finance, Kingdom of Bahrain on "Talent management in Islamic retail banks : Kingdom of Bahrain" In this paper which is a study of three banks namely Al Salam Bank-Bahrain, Bahrain Islamic Bank, and Ithmaar Bank authors explain the importance of the banking sector in Bahrain, the significance of Islamic banking in the region and the role of Central Bank of Bahrain which monitors talent management through its regulatory role and stipulations regarding appointment, training, and compensation of bank employees especially that of approved persons' / material risk-takers.

The sixth article is by Mr. Abeleje Kayode Richard, Associate member of the Chartered Institute of Bankers of Nigeria on "Nigerian Banks and Effective Talent Hunt in the Knowledge Era". In this paper, the author explores the challenges of getting the best manpower and through review of literature, explains five stages for effective talent hunt in the banking sector. He identifies three HR challenges viz., talent crunch, building value and competition effects faced by Nigerian Banking sector. In another article from Nigeria, Dr. Onafowokan Oluyombo, Head, Department of Financial Studies, Redeemer's University, on "Talent Management in Nigerian Banks" evaluates the talent management in Nigerian banks with the help of information collected from 14 banks' websites and documents about the best practices. Nigeria faces the issue of its talent migrating to neighboring countries. The author points out that due to deficiencies in Education system -both banking and general the country faces shortage in availability of manpower both in terms of quality and number. Talent shortage exists in Nigeria banking sector and it may continue for few years more because of the growth in expansion of banks in Nigeria as one of the emerging financial centres in Africa.

The eighth article on "Taking a More Flexible Approach to Recruiting Talent in the 21st Century" is by the Hong Kong Institute of Bankers. The article illustrates talent shortages and difficulties in filling jobs in the Asia Pacific region. While attracting talent *from abroad, the article underlines the importance of choosing the right channels and communications.*

The ninth article on "Abstract Report on Study on Demand and Supply Factors about Personnel in Key Position of Banking Industry in Taiwan" by Mr. Lin, Wu-Chin, Executive Vice President, Mr. Edward S. Hsieh and Mr. Peng, Sheng-Pen, Taiwan Academy of Banking and Finance (TABF) examines the supply and demand of key personnel and explores the challenges faced by Taiwan Banking Industry. The paper provides an insight into the Taiwan Banking Industry in relation to talent management. The authors conclude that Human resources area, in particular, requires some realignment in order to cope with challenges from those emerging market such as hiring strategies, and revising training or education contents from time to time.

Articles from Banking Institutes

As regards the role of Banking institutes the first article is "Reforming banking education in Malaysia" penned by Mr. Tay Kay Luan, Chief Executive Officer, Asian Institute of Chartered Bankers, Malaysia. He narrates challenges faced by banking industry in Malaysia in terms of talent shortages. He also explains the steps initiated by Asian Institute of Chartered Bankers, Malaysia (formerly Institute of Bankers of Malaysia IBBM) in addressing this challenge. These initiatives included change in content / curriculum, delivery of courses, use of IT & innovative teaching facilities, more choices to the learners and enhanced member service etc.

The second article with a focus on banking institutes is "IBF Singapore-Elevating Capabilities & Guiding the Industry in Developing Professional Development Roadmaps for Compliance Practitioners" by Ms. Ong Puay See, Chief Executive Officer, The Institute of Banking and Finance (IBF), Singapore. The article talks about the increased demand for compliance professionals on account of global regulatory reforms and IBF's efforts in developing standards for compliance and introducing certification for compliance profession through three levels (IBF qualifies, IBF Advanced and IBF Fellow).

The next article is "Banking Industry and capacity development issues in Nepal" by Mr. Sanjib Subba, Chief Executive Officer, National Banking Institute, Nepal. In this article, the author explains about banking industry in Nepal in brief, its characteristics and importance of human capital. Further, he also explains the present scenario of banking *education prevailing in Nepal and role of National Banking Institute in banking education.*

The fourth article is 'Keeping the priced assets of banks : a contribution from the Bankers Institute of the Philippines" by Mrs. Teresita S. Galvadores, President, BAIPHIL. In her article she explains people as priced assets and the role of BAIPHIL in education and training of bankers.

The last article in this section is on "Talent Needs of the banking and finance sector and the role of a banking Institute" by the CEO, IIBF. In this paper the author has presented a comprehensive picture of the changing banking landscape world over and the consequent challenges and opportunities ahead. The article briefly captures the changing profile of bank structures, emerging operational, leadership and regulatory challenges, talent management concerns, emerging skill set gaps, need for competency mapping and the possible strategies to address the same. The paper has also attempted to identify the training needs from the officer to top management level in banks and also the role that training institutes can play in this regard. The paper ends with a brief write up on the role played by IIBF in meeting the education, examination and training needs of the banking sector in India.

(Dr. R. Bhaskaran)

Banking on Talent

Jamal Ahmed Al Jassmi *

"The most important corporate resource over the next 20 years will be talent: smart, sophisticated businesspeople who are technologically literate, globally astute and operationally agile. And even as the demand for talent goes up, the supply of it will go down." McKinsey & Company 1998 study - "The War for Talent"

Introduction

Generally, Talent Management in Banks has been synonymous with recruitment - in the US it is about finding the right people to fill job positions. In Europe it's focused on identifying and developing high-potential staff; in Asia and UAE it remains centered on retention and financial rewards. The move from "personnel" to "human resources" was part of a struggle by Banks to make their human capital a strategic asset. Most modern western Banks have a number of intangible asset classes that they deliberately try to grow into strategic assets, including intellectual property, brands, business processes, risk management and, of course, their human resources. There is no doubt that Human Capital has the potential to act as a strategic asset. Many Banks' are famous for their ability to identify and grow people to become great assets for the organization. The importance of good people has been recognized for many years. "People are not your most important asset: The right people are!"

Global organizations including Banks are awakening to the alarming realization that significant demographic, economic, sociopolitical, and technological changes are dramatically altering the workforce. Changes in birthrates, retirement trends, and job requirements are reducing the size of the workforce and creating significant skills shortages, while eased trade barriers, communications advances, and the knowledge economy are producing a highly global and virtual workforce. At the same time, loosened cultural norms and relaxed migration barriers are creating a workforce that's vastly diverse. And the knowledge economy, information technologies, and a changed employment contract are giving rise to the most autonomous and empowered group of workers ever. Demographics shifts (aging populations, declining birthrates, economic migration), social evolution, inadequate educational programs, globalization, and entrepreneurial practices (outsourcing, off shoring, on demand employment) are between them causing shortages, not only in the overall ability of talent but also - and more significantly - in the specific skills and competencies required in industrialized, emerging, and developing economies.

Evolution of HR into Talent Management

So, why did Strategic HR move evolve into Talent Management in Banks? For one Strategic HR is reactive while Talent Management is pro-active and forward-looking. HR must now

- Take into account the great uncertainty businesses face today, especially financial services companies & Banks.
- Focus on competency-based recruitment.
- Develop managers and leaders to reinforce culture, instill values, and create a sustainable "leadership pipeline.
- Identify competency gaps and fill these gaps through training and e-learning, or use these gaps to hire the right people.
- Manage people in a consistent and measurable way.

* General Manager , Emirates Institute of Banking & Financial Studies (EIBFS), Dubai.

- Identify high-performance managers and successors to key positions throughout the organization to make sure there is a highly flexible, responsive organization.

Two other developments adversely affected long-term talent management. First, the constant restructuring and realignment of business operations rearranged job and promotion ladders, in most cases severely disrupting them. A candidate might be anticipating promotion to the head of his area, but then businesses would be consolidated and the position eliminated. Constant Mergers and acquisitions have further aggravated this situation. Banks have been particularly affected. By the 1990s, these changes became so frequent and so significant that it was no longer possible for the existing career structures to function even with frequent adjustments. It was essentially impossible to forecast talent requirements with any accuracy. The second development coincided with the general trend in corporate restructuring to downsize and flatten operations, especially financial services firms. The resulting new structures removed many steps from the remaining job ladders and further eroded clarity about career advancement.

Traditionally, talent management referred exclusively to the development and replacement of top executives. Nowadays, there is recognition that attracting and retaining talented employees should take place on all levels within the organization. This idea leads to a shift from the idea of one single ladder (i.e. one talent pipeline focused only on (potential) leaders) towards the idea of multiple talent-ladders or pipelines (i.e. talent pipelines for different kinds of people in the organisation, not exclusively leaders). In Banks you could have talents related to Treasury, Corporate Credit, Operations, Risk Management, Audit & Inspection etc.

At its heart, talent management is simply a matter of anticipating the need for human capital and then setting out a plan to meet it. But today Talent Management has not only to manage organizational objectives but also cater to employee expectations. Given the realities of today's complex business environment, it is no longer possible to satisfy a workforce with one broad, standard approach to managing talent. New research shows that when it comes to managing talent, one size no longer fits all. To be competitive as the economy regains its footing and to maximize the performance of a workforce, Banks need to understand and respond to the diverse needs of individual employees. Not only has technology finally advanced enough to make the customization of employment practices possible for the first time. People are now expecting - even demanding - an individualized experience at work based on their own encounters with customization as consumers; this is especially true of Millennials (people born from roughly the late - 1970s to the early 2000s), who have never known anything different. For their part, Banks are facing their most diverse workforce yet - not only in terms of age, gender and ethnicity but in terms of life pursuits, cultural norms and key values as well. The same forces are having a similar impact on the makeup of senior management teams. But in an era of growing diversity, more complex knowledge work in which jobs are increasingly difficult to standardize, a shortage of qualified workers and talent driven competitive advantages, today's traditional people practices have been quickly rendered obsolete - and increasingly detrimental to the bottom line.

Great companies are built by high-performing employees who are driven by a passion and a vision that resonates with their own inner calling. How do Banks in ignite their employees to greatness?

A picture is worth a thousand words -

“A man came across three masons who were working at building a wall. The first seemed unhappy at his job, frequently looking at his watch. When the man asked what it was that he was doing, the first mason responded, rather curtly, “I'm doing this stupid wall, and I can't wait 'til 4 when I can go home.”

”A second mason, seemingly more interested, worked diligently and when asked what it was that he was doing, answered, “Well, I am in the process of constructing a wall. It's not bad work, but I'll sure be glad when it's done.”

”A third mason was intent on his work, taking time to stand back and admire his work. When he was questioned about his work he stopped, gazed skyward and proudly proclaimed, “I…am building the Burj Khalifa Tower…the tallest building in the world!”

“Three men, all doing the same job, but with three distinct attitudes.”

This story illustrates how important is “purpose” in transforming the attitudes of our employees and bringing about a quantum leap in the quality of their work. Strategic Talent Management flows from the mission, vision, values and the goals of the Bank. This enables every employee to see his or her place within the organization. This, in turn, enables employees to participate and give their best performance in the service of the company. From a strategic perspective, an effective talent management system helps crucial employees feel as if they are part of something bigger than their current job.

Challenges in Talent Management

These changes are dramatic, and they're a reality that many employers have not yet grasped. The workforce is in the midst of an unstoppable and radical transformation. There are five challenges that Banks face today.

The first challenge is the emergence of both the knowledge society and economy. Today, organisational success is more and more based on the acquisition and use of knowledge. Furthermore, in the knowledge economy, knowledge represents the major resource for economic life and growth. It can be argued that not only (potential) leaders have important knowledge, but other employees at all levels and in all departments of the organization own it as well. For this reason, a shift towards a multiple pipelines is growing in interest.

A second challenge for Banks is the change of the employment relations. Whereas in the past, the employment relation used to be based on life-long employment, nowadays, (young) employees are demanding challenging work, as well as substantive rewards and opportunities to grow and learn. There seems to be a more individualistic look on employment. Furthermore, career mobility is no longer only considered within the hierarchy of the Bank one currently works for. With regard to talent management, this means that Banks must take into consideration several groups of talent that are becoming more and more demanding and that value their own development.

The third challenge Banks are facing is globalization. The world is becoming more international and this severely influences the way business is conducted. This has caused an increase in complexity and uncertainty. As Banks have come to realise, international business depends on the quality of top talent. This talent, however, is becoming more mobile and the management of these talents has to be coordinated globally. A dilemma that needs to be taken into consideration is the global / local debate. Banks need a global template for talent management, ensuring consistency across the different subsidiaries of the organisation. At the same time, this template should allow local subsidiaries to adapt to their specific circumstances. It can be argued that this requires talent management that is applicable around the world, but should also focus on different kinds of talent that are necessary in today's globalised world.

Another challenge is the increased diversity of the workforce. Because of the ageing population, a shortage in labor supply will occur, which forces Banks to make full use of all talent available. Therefore, they are becoming more diverse in terms of workforce composition. The dominant group, on which talent management used to focus, is changing and organizations' must consider more groups in order to achieve organizational success. In the GCC for e.g. there is a focus on increased recruitment of nationals.

Additionally, Banks have to deal with external demands by all involved stakeholders. They have to focus on the responsibility they have towards society and reputation is perceived as key by all Banks. Reputation can help to differentiate and legitimize the organization. Therefore, corporate social responsibility has to become a strategic issue and Banks have to develop an employee value proposition that shows that talent is valued and will be further developed. Linking this to talent management, Banks cannot ignore the pressures of involved stakeholders to create a positive image that will contribute to the attraction and retention of talents.

The Talent Concept

What is Talent? According to McKinsey, talent is … "the sum of a person's abilities… his or her intrinsic gifts, skills, knowledge, experience, intelligence, judgment, attitude, character and drive. It also includes his or her ability to learn and grow". For McKinsey, talent refers to "the best and the brightest" and many organizations adopted the term to refer to their "A Level" employees who rank in the top 10 to 20%. In contrast to the definitions above, talent has become a synonym for the entire workforce in many organizations and a large number of companies do not even know how to define talent. Professor and HR guru David Ulrich takes a holistic view with his definition : talent = competence + commitment + contribution. Competence means that individuals have the knowledge, skills and values that are required for today and tomorrow. Commitment means that employees work hard, put the time in to do what they are asked to do, giving their discretionary energy to the firm's success. Contribution means that they are making a real contribution through their work - finding meaning and purpose in their work. "…Competence deals with the head (being able), commitment with the hands and feet (being there), and contribution with the heart (simply being)". The talent war represents the drive to find, develop, and retain individuals, wherever they are located in the world, who have the competencies and commitment needed for their jobs and who can find meaning and purpose in their work.

Despite these competing definitions of talent, the "star" approach, championed by McKinsey, has been the most pervasive. However, recent research shows that the nearly single-minded focus on star individuals that is endemic to companies' strategies for fighting the talent war often backfires and reduces, rather than enhances individuals, teams, and organizations : "The best evidence indicates that natural talent is overrated, especially for sustaining organizational performance". The McKinsey concept depends upon three critical assumptions : individual ability is largely fixed and invariant - there are better and worse people; people can be reliably sorted on their abilities and competence; and organizational performance is, in many instances, the simple aggregation of individual performances. Although the best (e.g., the top 10%) are much better performers than the rest, the best predictor of future performance is not past performance but general mental ability. IQ is the most powerful predictor of job performance In addition, performance varies over time so, depending on when you look, A players could look like B players and vice versa. The assumption that talent is fixed is dangerous because theories of performance and ability become self-fulfilling prophecies. When people believe they are born with natural and unchangeable intelligence, it causes them to learn less over time; they become too focused on being smart and looking smart, rather than on challenging themselves, expanding their skills and becoming smarter; they don't expend the effort to learn new things or improve old skills and even when they do try, they don't enjoy it. On the other hand, people who believe that intelligence is malleable keep getting smarter and more skilled at what they already can do, and are willing to learn new things that they do badly at first. In their research of high-flying CEOs, researchers and software developers, as well as leading professionals in advertising, investment banking and the law, the researchers found that when a company hires a star, the star's performance plunges and there is a sharp decline in the functioning of the group the person works with and the company's market value falls. Many current responses in talent management have been driven by a scarcity state of mind and action. These approaches include : aggressive and cyclical hiring; 'star' acquisition; obsessive and exclusive' top talent focuses. Creative solutions require a global mindset for people and organizations; professional development that encompass not only "top talent" but a wider range of employees, as well as the capacity to leverage diversity.

Talent Management Process

Most talent management strategies focus on five areas : attracting, selecting, engaging, developing and retaining high quality employees. According to the Society for Human Resource Management (SHRM), talent management is broadly defined as "the implementation of integrated strategies or systems designed to increase workplace productivity by developing improved processes for attracting, developing, retaining and utilizing people with the required skills and aptitude to meet current and future business needs". Organizations like Banks are made up of people : people creating value through proven business processes, innovation, customer service, sales, and many other important activities. As an organization strives to meet its business goals, it must make sure that it has a continuous and integrated process for recruiting, training, managing, supporting, and compensating these people. Talent Management is an eight step process that includes :

1. Workforce Planning : Integrated with the business plan, this process establishes workforce plans, hiring plans, compensation budgets, and hiring targets for the year.
2. Recruiting : Through an integrated process of recruiting, assessment, evaluation, and hiring the business brings people into the organization.
3. Onboarding : The organization must train and enable employees to become productive and integrated into the company more quickly.
4. Performance Management : by using the business plan, the organization establishes processes to measure and manage employees.
5. Training and Performance Support : Of course this is a critically important function. Learning and development programs are providing support to all levels of the organization. This is where Emirates Institute of Banking and Financial Studies (EIBFS) play a critical role.
6. Succession Planning : as the organization evolves and changes, there is a continuous need to move people into new positions. Succession planning, a very important function, enables managers and individuals to identify the right candidates for a position. This function also must be aligned with the business plan to understand and meet requirements for key positions 3-5 years out. While this is often a process reserved for managers and executives, it is more commonly applied across the organization.
7. Compensation and Benefits : clearly this is an integral part of people management. Here Banks try to tie the compensation plan directly to performance management so that compensation, incentives, and benefits align with business goals and business execution.
8. Critical Skills Gap Analysis : this is a process which is very important, but often an overlooked function in many Banks. While often done on a project basis, it can be "business-critical." For example, today Banks are facing huge numbers of people that might exit / retire. How to identify the roles, individuals, and competencies which are leaving? What should be done to fill these gaps? This is called "critical talent management" and many organizations are going through this now.

Accenture Study of GCC Banking

The Accenture 2011 Study of GCC Banking found a burgeoning skills gap in 2015. The talent challenge is developing along the same lines as in the other parts of the world where industries face a widening skill gap among the workforce. However, in the GCC, there is an additional dimension of a labor pool restricted by the "nationalization" policies that mandate a quota of local talent to be hired in all national and international organizations. Banks expect the current struggle for the right talent to intensify. Most CEOs feel that attracting and retaining talent will be critical to enhancing shareholder value. Banks will remain challenged with a workforce that is a blend of educated but inexperienced young locals and highly experienced expatriates with a penchant for short-tenure assignments. If banks are to address new and emerging customer segments with the right products, they will need skilled professionals who understand these markets and develop appropriate products. These skills will be in short supply as banks scale up their retail and SME banking operations and prepare for Basel iii implementation.

Talent Management in Middle East Banks

The Middle East Banks have traditionally had a large proportion of expatriates from Asia and Europe, in addition to the local workforce. In the United Arab Emirates, the concerted nationalization efforts have brought a higher mix of nationals into the talent pool, but the national population is simply not large enough to sustain the economic growth of the country, hence the strong reliance on expatriate workers. Given the differences in ethnicity and culture, these two broad groups of individuals approach their careers differently and seek to satisfy diverse needs through their work. The region has traditionally had a culture of high salaries and cash rewards. While local talent is not so concerned with security yet, expatriates are increasingly looking for stability and longevity in an employer. They are often willing and keen to relocate to the region permanently. Earlier, foreign nationals to the Middle East region viewed their stint with a three-year horizon, looking to return home at the end of their assignment. Now they look to move on to other jobs and extend their tenure in the region.

Throughout the region, HR practices that promote employee engagement by setting up systems for training, feedback, communication and career planning, and active retention strategies, are gaining ground. Banks are realizing that it is more cost-effective to retain a talented employee than to climb on to the recruit-train-lose-recruit bandwagon. Research shows that it can cost around 1.5 times the salary to replace existing talent. Survey after survey has discovered that retention is not so much about compensation; employees often cited reasons such as lack of career advancement, learning and growth opportunities as reasons for resigning, in addition to compensation.

Some key non-compensation elements to retention include :

- Self-Management - empowering the employee-Innovative programs empower employees with the ability to self-administer benefits. a flexible basket of allowances up to 20% of the total cost to company per employee is left to the discretion of the staff to allocate according to their choice, such as leave travel allowance, continued education, topping up of gratuity, sick leave, holiday rates, car, and gym membership.
- Talent Value Management - A comprehensive talent management strategy involves a clear line of vision on career progression, encouraging employees to put in place career development plans, increased responsibilities, stretch assignments, decision-making responsibilities and succession planning.
- Mentoring - Mentoring is a powerful tool that provides an opportunity to meet and interact with senior leaders of the Bank. Campus and lateral hires benefit immensely with guidance in setting personal and professional goals, skill development, cultural orientation, and in navigating the firm. This allows employees to build their own personal "board of directors" to leverage through their careers with the company.
- Employee Engagement - The expectations of today's talent have changed from merely being satisfied with a top-down approach to that of wanting to be informed, consulted on decisions and participating in the management of the organization. Other employee engagement mechanisms include social committees, affinity networks and employee benefits committees, using data from exit interviews and employee surveys to develop policies to enhance the employees' working environment.
- Learning and Development (L&D) - Identifying critical competencies for success for managers and employees is a prerequisite to arriving at a relevant learning and development curriculum for the various levels in an organization. Employees need holistic professional development opportunities to benefit from. These include live instructor-led sessions (internally and public) to self-initiated learning behaviors promoted by establishing a comprehensive, on-demand library of online learning modules accessible to employees. This blended learning approach sets the tone in developing a culture of learning in organizations. A robust Learning Management System (LMS) allows both manager and employee to track completed learning and any credits earned. These are then taken into account during performance reviews or to direct employees to develop required skills during feed back sessions. Leadership and business speaker series led by senior leaders of the company provide learning opportunities for employees about the firm, its business and leadership principles. Top firms typically

adopt a 70:20:10 approach where 70% of learning takes place on the job, 20% through professional interaction and 10% through formal learning opportunities. On-the-job learning not only provides opportunities for transfer of learning from senior employees, but the knowledge gained is also retained better than in formal training. The best organizations today have successfully mapped learning curricula to critical skills required to perform successfully at different levels of the organization. This provides a structured and well laid out learning path for employees to benefit from.

CONCLUSION

A talent-powered Bank is one that sees workforce talent as the engine for sustained competitive advantage - and excels at attracting, developing, engaging and retaining its best people. Organizations everywhere are grappling with the challenge of attracting, engaging and retaining talent. Surveys suggest that today's pressure for skills can be won by proper planning and with creative talent management strategies. Companies with clearly defined three to five-year workforce plans that quantifies volumes per critical roles, identifies the market supply potential in the region and globally, and measures the time to proficiency per critical role, among many other such parameters, are on the way to winning the war.

Talent management strategies that extend beyond rewards and remuneration and are based or other factors such as learning and development opportunities, creating an innovative and attractive work environment, and clear succession planning among others can enhance a bank's competitiveness. Additionally, GCC banks may need to consider empowering their HR department to be able to drive an impact on overall company business performance and align company governance with country government strategy and indicators (i.e., GDP or Sauditization / Emiratization / Kuwaitization). Banks will need to invest in creating a performance culture as common values that bind the organization from the branches through the back office and headquarters and internally establish value-based inclusion and diversity capability.

References

1. The global "war for talent" - Schon Beechlera, b,, Ian C. Woodward.
2. Tackling the talent gaps - Key findings in the Financial Services sector-PwC 15th Annual Global CEO Survey.
3. Talent Management What is it? Why now? May, 2006-Josh Bersin, Principal.
4. Talent and Competitiveness In the United Arab Emirates - A study by Aleron Partners in conjunction with Boyden Global Executive Search.
5. Emirati Talent Management - (Effective Nationalisation) - An Oxford Strategic Consulting research project.
6. Retaining Talent : Strategies to engage and retain professionals in the Middle East region - A Manpower Green Paper.

Talent crunch & Knowledge management and other emerging HR issues faced by the banks in Bhutan

Sangay Wangdi *

About Bhutan

Bhutan is a small kingdom (38,394 sq.km) that shares its boundary between China to the north and India to the south. The country was originally known by many names including Lho Jong, 'The Valleys of the South', Lho Mon Kha Shi, 'The Southern Mon Country of Four Approaches', Lho Jong Men Jong, 'The Southern Valleys of Medicinal Herbs and Lho Mon Tsenden Jong, 'The Southern Mon Valleys where Sandlewood Grows'. Mon was the term used by the Tibetans to refer to Mongoloid-non-Buddhist that populated the Southern Himalayas. The country was first unified in 17th century by ZhabdrungNgawangNamgyel who came from Tibet. After arriving in Bhutan he consolidated his power and established a comprehensive system of law and governance and the country came to be known as DrukYul or The Land of the Drukpas. After the death of ZhabdrungNgawangNamgyel, his system of rule eroded and civil wars broke out between the various local rulers that continued until the TrongsaPoenlopUgyenWangchuck was able to gain control and, with the support of the people UgyenWangchuck established himself as the first hereditary king or the DrukGyalpo (Dragon King) in 1907 and set up the Wangchuck Dynasty that still rules today.

Today Bhutan is a constitutional monarchy enacted in 2008 under the wisdom of the 4th DrukGyelpo. Our present king JigmeKhesarNamgyalWangchuk is the 5th DrukGyelpo of Bhutan and LyonchenTsheringTobgay is the prime Minister of the present government, the People's Democratic Party (PDP).

People, Society& Economy of Bhutan

The main ethnic groups are Tshanglas, Ngalops and Lhotshampas. There are other minority groups such as Bumthaps, Khengpas, Kurtoeps, Brokpas, Bramis, Doyas, Monpas, etc.

The Tshanglas or the Sharchops as they are commonly known are the inhabitants of eastern Bhutan. The Ngalopsare in western Bhutan who speaks Dzongkha, the national language of Bhutan. The Lhotshampas are in the southern foothills of the country and the Bumthaps, Mangdeps and Khengpas inhabit the central areas of Bhutan. The Kurtoepsalso inhabit in the eastern part of the country and the women are known for their skills in weaving the grandiose Kushithara. The Brokpas and the Bramis are a semi nomadic community and they are settled in the two villages of Merak and Sakteng in eastern Bhutan who depend on yaks and sheep for their livelihood and they wear animal skins. To the extreme north are the Layaps who are also semi-nomadic and depend upon yaks and sheep. The Doyas are a tribal community settled in southern Bhutan in a place called Dorokha. The Monpas are a small community in Rukha under WangduePhodrang (central region).

The total population as of 2012 end was 741,822 people out of which 398,474 people were male representing 53.71%. The population density is only19 people per square km. The Urban population was 269582 people about 36.34% of the total population.

Though Bhutan is a small country with a small population, there has been an enormous economic growth in recent years and these rapid changes brought vast improvements in the living standard of the Bhutanese people. Now almost all the villages

* Construction Committee Member of FITI, RMA.

are accessible to basic amenities such as roads, water supply, electricity, basic healthcare, education, etc. Even the most remote villages have connection to the telecommunication network including mobile phone services.

The Bhutanese economy is predominantly agricultural based and the farmers supplement their income through the sale of animal products such as cheese, butter and milk. Their markets are readily available throughout the country and the people enjoy fresh and organic local produce. The main staple crops are rice, maize, wheat and buckwheat while cash crops are predominantly potatoes, apples, oranges, cardamom, ginger, and chilies. Fruit based industries are established in some regions allowing farmers from the nearby areas to sell their produce to earn additional revenue.

Bhutan has rich biodiversity with ample forest resources and this has brought about the development of a thriving cane and bamboo handicraft industry. Craftsmen weave a number of beautiful and intricate items out of bamboo and cane including hats, backpacks, floor mats and traditional bowls and these items are sold either to tourists or Bhutanese.

The Tourism Industry is a major contributing factor to the country's economy creating countless employment opportunities and generating additional revenue for the government. The government is building a sustainable tourism industry that is not only financially viable but also limits the negative cultural and environmental impacts commonly associated with the culture of mass tourism.

Bhutan has enormous potential to produce hydroelectricity due to its fast flowing, glacier-fed rivers. With the construction of several major dams, the power sector has been the largest contributor to the country's exchequer. India is the main market exponent for hydropower exports from Bhutan. According to the report, the country still has the capacity to generate another 30,000 MW of electricity.

The Manufacturing sector is another major contributor to national revenue. There are lots of cottage and small scale industries such as cement plants, calcium and carbide, steel and Ferro silicon, Coca Cola and also wood based industries that have started developing in recent years. As a result, the per capita income has reached to US$1,321.00 which is reported to be one of the highest in south Asia regions.

The local currency is Ngultrum (Nu.) the value at par India Rupees (Rs.). The economy is closely aligned with India's through strong trade and monetary links and dependence on India's financial assistance. For most of the development projects rely on Indian migrant labors. Model education, social, and environment programs are underway with support from multilateral development organizations. Each economic program takes into account the government's desire to protect the country's environment and cultural traditions.

FITI membership with APABI

On the invitation of the National Banking Training Institute (NBTI) of Nepal, the MoU was signed between the Chairman of the NBTI, Mr. Sashin Joshi and the Chairman of the Financial Institutes Training Institute (FITI), DashoDaw Tenzin. The Chairman of the FITI is also the Governor of the Central Bank of Bhutan - the Royal Monetary Authority of Bhutan (RMA). The signing of the MoU paves the way for the NBTI to support FITI in various collaborative programs such as providing training to financial institutions and support the course ware for development for banking related curriculum in Bhutan. Since the NBTI has already acquired membership of the Asia Pacific Institution of Banking Institute (APABI), therefore the NBTI of Nepal invited FITI of Bhutan to join the APABI during the conference in 2014. It is with a great pleasure that FITI now participates as a member of the APABI.

The FITI is a mutual organization jointly owned by the RMA and the financial institutions of Bhutan namely, the Bank of Bhutan Ltd. (BoBL), the Bhutan National Bank Ltd. (BNBL), the T-Bank Ltd. (TBL), the Bhutan Development Bank Ltd. (BDBL), the Druk PNB Ltd. (DPNBL), the Royal Insurance Corporation of Bhutan Ltd. (RICBL), the Bhutan Insurance Corporation of Bhutan Ltd. (BIL) and the National Pension and Provident Fund (NPPF).

The establishment of the FITI was initially conceived by the Asian Development bank who provided a piggy-back TA-4885 intended to fund the establishment and development of a permanent, self sustaining training institute. That idea gave birth to FITI which was established in June, 2011 with a minimum paid up capital of Nu.300 million only and the First Board Meeting was held on 1st July, 2011. After its establishment, several trainings in the field of banking, insurance, securities as well as pension were conducted both at national and international level. The FITI is presently governed by the Board of Directors consisting of the Governor of the Central Bank of Bhutan as the Chairman and the Chief Executive Officers (CEOs) of the Financial Institutions of Bhutan.

Talent Crunch & Knowledge management and emerging HR issues being faced by the banks in Bhutan

In this competitive Globalized world, talent of an individual plays a vital role in shaping the organization. It is mainly the human resource that makes the difference from one organization to another and between a success and failure of any organizational goals.

In this age of technologically driven global economy and very fast changing and growing markets, the organizations particularly the banks are compelled directly or indirectly to expand business globally with the knowledge and skills equally interface able at international level. Managing of such changing demand requires continuous training and exposure of Human Resources (HR). Having skilled and talented people in the work place who have energy and willingness to accept challenges, assigning them the right kind of jobs without interference in the job performance, recognize their talents and skills with accelerated promotions or reward for excellence, protect seniority and services and upgrade their skills through periodical trainings and field exposures and holding them with attractive remunerations and incentive scan generate a positive working atmosphere in an organization.

In Bhutan, there has been a substantial change in the field of banking business over the past few years. There are total of 5 commercial banks and some of them have branches all over the country. Most of the banks operate banking services through modern sophisticated banking technologies and software and all the banks are equally equipped in terms of banking infrastructures. These banks also have lots of their correspondent banks outside the country and as such they need to update knowledge and skills compatible at international level.

In terms of business policies and regulations, they follow the regulation guided by the central bank, the RMA. However, depending on the way of doing businesses or business strategies, level of infrastructures and development of customer friendly business environments by providing efficient services manned by human resources, the profitability differs rom one bank to the other. Therefore, the quality services of the human resources are recognized to be paramount considerations even in Bhutanese banks.

There is no talent management system or categorization of talented pool in the Bhutanese banks. However, some of the banks like the Bhutan National Bank Ltd. have already started to practice the Performance Management System (PMS) with which the efficiency of the employees are measured and accordingly rewarded in terms of promotions and bonuses pay off. According to the PMS of the bank, about 5% of the employees are rated No.1 who fall under the category of Excellent Performer at the year end. The bank also provide both in country and out country trainings to the employees to upgrade knowledge and skills. The problems that the bank is facing on HR issues are with employees moving out for better opportunities after being trained. The Druk Punjab National Bank Ltd. (DPNBL) has its training centre in New Delhi, India and the employees are sent there for up-gradation of technical skills and knowledge. The DPNBL has the system of providing fast tract promotion of the talented employees who perform extraordinarily well in their job during the last two consecutive years and who have adequate level of qualifications and clear service records with potentiality to shoulder higher responsibility. Such fast tract promotion process is generated with a recommendation from the immediate supervisor routed through the Human Resource Division (HRD) to the Chief Executive Officer (CEO) who in turn reviews, further recommends and obtains approval from the Board. The main HR problems are during Transfer, Training, and Promotion and while providing incentives.

With the Financial Institutes Training Institute (FITI) in place, it is envisioned that most of the problems on HR related issues will be resolved in the long run. In the future, each bank may have a separate division to take care of the talented people and for talent management as it will require a wide spectrum of initiatives aimed at attracting potential employees and developing capabilities to gain their engagement and commitment in the work place.

References

1. Tourism Counsel of Bhutan official website : www.tourism.gov.bt.
2. Bhutan population : www.goggle.bt.
3. NBTI Newsletter Year I -Vol : 2 by Ashwin-Push 2069.
4. Status Report on FITI by RMA.
5. Feedback note from the banks on the questionnaires : BNBL & DPNBL.

Talent Management in Banking A case for Botswana

Joel Duke Ramaphoi *

Abstract

In this article we examine the "Talent Management in Banking," focusing on the case for Botswana. Using a search of documented and publicly available banks' annual reports, academic and business press articles, the article reviews relevant research and reassesses 'talent management'. We argue that talent management is a great challenge and the existence of talent crunch in the banking industry cannot be disputed. The talent crunch is attributed to : the current education system, insufficient investment in human capital by banks and increasing dynamism in the banking industry. The article also highlights how talent management is essential to the future of banking in Botswana.

Keywords : talent crunch, talent management, human capital development.

Introduction

The 'talent management' question in the banking industry seems to have dominated sentiment for some time. This is clearly down to the fact that the world has seen very elevated perceived banking risk in recent years, through the global credit crunch which mushroomed in 2008 and the euro zone debt crisis which exploded in 2010.

Bankers must also cope with a poor reputation and standing in society, not to mention continuous change and uncertainty brought about through regulatory change as well as internal cost-cutting and cultural-change programmes. As a result, banks are concerned about their future ability to attract, manage and retain the talent they need to lead the industry back to calmer territory.[1] This has made talent management a critical task for every bank leader's job.

Thus, this discussion reviews the status of talent management in banking in Botswana, particularly given the country's unique socio-economic background. The idea is to present a review on the current contextual developments and provide reflections on the implications for talent management. But before digging deep into the subject it is imperative that, as with contemporary writing, we set the scene with some conceptual framework. This helps to facilitate a common understanding of the underlying issue. Thus, this discussion first establishes the meaning of the two key terms : Talent and Talent Management.

The Talent Concept

A search for human resource literature yields many discussions of talent and many definitions. But what is common about these definitions is that talent is not acquired but inborn, and a person either has it or not. This position is aptly stated by Alegbe (2010) who notes that :

In 1960 an unknown athlete by name Abebe Bikila, a corporal in the Ethiopian army, lined up barefooted for the marathon at the Olympic Games in Rome. His co-contestants must have giggled at the African athlete and apparently regarded him as a jester to think he could compete in the race barefooted. Abebe Bikila amazingly won the race in 2 hours 15 minutes 16 seconds, breaking the world record at that time. The secret of his success was that he had a talent in athletics. Four years later, Bikila won gold again at the Olympic marathon in Tokyo (p.4).

* Senior Manager, Risk Department, Stanbic Bank of Botswana.

1. Martine Simmonds and Gavin Neilson. PA Consulting. http://www.paconsulting.com/our-thinking/why-talent-management-is-essential-to-the-future-of-banking/

Alegbe in his perspectives of defining talent states that "Talent cannot be meaningfully understood without reference to its relationship with the environment or context of the individual. Talent is specific to situations" (2010, p.5). In this context, according to Alegbe, organizations should recognize the fact that every employee cannot be a talent. Talent is sometimes used as if it is synonymous with hot or scarce skills. In other instances, it refers to leadership capability and yet in others it connotes knowledge workers. Gupta and Aggarmal (2012) stated :

Everyone might be considered high potential in some organizations at different points in time, while in other organizations an individual may need to reach a certain level in the hierarchy in order to be considered high potential. It is for every organization to decide for themselves how and who to label as high potential, (p.31).

Because we have so many different views on what a talented person is, the issue becomes that we do not have a common language for speaking of talent (Brunila, 2013). Stuart-Kotze & Dunn (2008) present their idea which focuses on what is visible and can be measured - namely behavior - and they define talent as the ability and capability to do something well. According to them, ability refers to the current performance and capability to the potential performance. To this end Towers Perrin survey (2006) considered the following groups to be 'talent' :

- senior leadership
- mid-level employees with leadership potential
- key contributors or technical experts
- entry-level employees with leadership potential.

Defining Talent Management

Clarifying definitional differences of the term talent does not end the debate; it is in fact only the first salvo in an extended definition debate. The term talent management was first coined in an often cited 1997 article by McKinsey, which focused on the emerging "war for talent".[2] Despite a growing number of research work, articles, and books on the topic 'talent management' there is lack of clarity on the definition, scope and overall goals of talent management (Lewis and Heckman, 2006).

Lewis and Heckman (2006) offered a wealth of evidence on their critical review of talent management in a journal in 2006. In several recent articles in the practitioner-orientated literature that they reviewed, they note that "talent management" is described as "a mindset" (Creelman, 2004); a key component to effective succession planning (Cheloha and Swain, 2005); and, an attempt to ensure that "everyone at all levels works to the top of their potential" (Redford, 2005). They further argue that several authors fail to define the term (Frank and Taylor, 2004; Vicere, 2005; "Six ways you can help your CEO", 2005) or admit, "there isn't a single consistent or concise definition" (Ashton & Morton, 2005).

Lewis and Heckman (2006) have also established from the literature that recruiters have a tendency to discuss talent management in terms of sourcing the best candidates possible ("How a talent management plan", 2004; Sullivan, 2005), training and development advocates encourage "growing talent" through the use of training / leader development programs (Cohn, Khurana, & Reeves, 2005), compensation experts tend to emphasize the use of compensation and performance management processes (Garger, 1999), while leadership-focused writers stress succession planning and leader development (Conger & Fulmer, 2003). They argue that regardless of the breadth of their point of view, or lack thereof, these authors replace the traditional term "Human Resources" with "Talent Management". In this context, we can presume that human resource practitioners acting from different perspectives have distinct notions of talent management all of which are similarly unsatisfying (Lewis and Heckman, 2006).

Based on the above discussions, this article does not adopt a single perspective to the conception of talent management. Could the varying definitions of the term talent connect up to varying broad perspectives and no clear meaning of talent management? This is a perhaps subject for further debate which is for now beyond the scope of this article. But whatever the conception of talent management by the various organizations, in general it is a process by which an organization hires, engages and develops its most valuable resource (Alegbe, 2010).

2. Talent management Best Practices : A Comprehensive Review, www.omnilx.com

Factors Impacting Talent Management in Botswana

Fundamental to understanding the status of talent management in the banking context of Botswana, it is helpful to first have a clear understanding of some of the country's socio-economic challenges that could have potentially influenced talent management in Botswana.

Botswana has been able to sustain high economic growth for the past five decades and is considered to be one of the best performers in sub-Saharan Africa. However, not all of Botswana's policies promoted inclusive growth and human development in a broad-based manner (IMF, 2012). Unemployment was a significant problem that affected 15.8 per cent of the work force in 1999 / 2000. Young people were most likely to be unemployed. The last Botswana Labour Force Survey, in 1995/96, when unemployment was 21.5 per cent, showed that unemployment was highest in the 20-24 age group, with 38.9 per cent looking for work, followed by 35.4 per cent for the 15-19 year age group. Unemployment was slightly higher in urban areas (22.6 per cent) than rural areas (20 per cent).

The latest Botswana Core Welfare Indicators Survey, in 2009/10 shows that the unemployment rate was estimated at 17.8% in 2010. According to the report, unemployment rate in Botswana averaged 18.10 percent from 1991 until 2010, reaching an all-time high of 23.80 percent in 2006 and a record low of 13.90 percent in 1991. This high unemployment rate, as in other countries in SACU, “and in other African Countries” (Alegbe, 2010) reflects the confluence of government employment policies, its impact on reservation wages, and their interplay with skill mismatch in the labor market (IMF, 2012).

The population remains relatively small. The population projections for 2011 indicate a population of about 2 million which is made up of relatively young people with approximately 57 percent being under 25 years and 20 percent in the 15 to 24 year age-range (Statistics Botswana, 2013). The situation is not helped by the fact that “of late it has become apparent that there is an increasing number of unemployed graduates in Botswana, while on the other hand the demand for skills has increased”.[3] Why is this happening? The answer is very simple : access to tertiary education has evolved quite significantly over time. The government's increase in student sponsorships in local and international private tertiary has seen positive enrolment trends ensuing since 2003/04 fiscal years (Tertiary Education Council, 2007). Botswana's education system, however, has not kept up with the needs of the country as it has not been able to adequately equip school leavers with the diverse and high level of skills required by the job market as a whole.[4] These sentiments were also shared by the Botswana government and the Botswana Confederation of Commerce, Industry and Commerce in their Private Sector Development Strategy 2009-2013.

Following these general concerns, high unemployment rate and skills mismatch in the labor market, *inter alia*, the government of Botswana through the Ministry of Education, Skills and Development developed Botswana's first comprehensive National Human Resource Development Strategy in 2009 that ultimately saw, *inter alia*, Human Resource Development Council (HRDC). The strategy represented, “the collective national thinking (Government, Private Sector, Civil Society) on the issues facing the development of Botswana's human resource capacity and capabilities and how they should be addressed”.

In the face of such wealth of historical background, human resource development in Botswana has been, and continues to be, a critical challenge for the country. It becomes apparent that predictions of a talent crunch in Botswana are difficult to dispute. And because banks are part and parcel of the economic mechanism, they have not been spared from the existing situation. To be precise, banks too are experiencing shortage of banking talent. This shortage is justified as it would appear that all banks across the banking industry recognize this reality. It is against this ground that banks have now adopted talent management as part of their business strategies for the continuous performance and growth of their businesses.

3. http://www.debswana.com
4. www.un.org

Consider, for instance, the following statements adopted from audited financial statements and annual reports of some of the four top commercial banks in Botswana regarding people management in these banks :

…attract, reward and develop the most talented (Barclays Bank of Botswana, 2013);

…improve staff benefits and salaries (First National Bank of Botswana, 2012);

…successful in attracting high caliber individuals into the organization and have managed to localize some key positions (Standard Chartered Bank of Botswana, 2012), and

…which are used respectively to refer to how banks in part manage their talent. Banks in Botswana consistently demonstrate talent management as important with more emphasis in attracting, rewarding and developing them. A further review of local banks annual reports show that banks routinely emphasizing the importance of training and development, and Employee Value Proposition (EVP). It can be argued that this is an indication talent management is increasingly becoming a mission critical as more and more bank leaders are coming to realize that building a strong pool of talent is central to their bank's success. For example, the Chief Executive for Stanbic Bank Botswana, one of the major banks in Botswana, is one leader who has a strong talent mindset. During his welcome remarks for his bank's EVP roll-out session in 2014, the CE's remarks were that “not only is the EVP about employment experience, it is also about the employment Brand and very critical to the achievement of our strategy (Stanbic Bank Botswana EVP, 2014).

Notwithstanding that, competitive advantage and business results depend more than ever on recruiting, engaging and retaining the best talent and/or great staff– people who are highly effective at both leadership and technical skills (Crisp and Reid, 2007). Despite all the good efforts by banks to grow their talent, the fundamental question is : what is the cause of talent crunch in Botswana?

Cause of talent crunch in Botswana

A review of the contextual developments in Botswana has already provided some reflections on the challenges of talent management in Botswana. While causes of talent can be attributed to the country's education system and its failure to provide a ground work for a good human resource development climate, this article's argument is that talent is industry-orientated and therefore it must be viewed and nurtured in the context of a specific industry. It is for this reasons that the talent shortage in Botswana's banking industry can be blamed on at least two causes : insufficient investment in human capital development by banks and increasing dynamism of the banking industry, which are both specific to the industry.

Firstly, the concern about the former was expressed by the Bank of Botswana Governor, Ms. L. Mohohlo, during the Botswana Institute of Bankers Annual Dinner in 2013. In the governor's words “the continuing insufficient investment by banks in human capital development is so glaring” (Mohohlo, 2013). The governor's concern was that :

This is as if banks in Botswana are oblivious to the fact that return from investing in staff training and development … will ensure dynamic profitability and sustained business growth (p.7).

To illustrate the governor's position, Knoke & Kalleberg (1994) holds that any institution of higher learning or business whose goals are to survive and prosper in this present day diverse and regressed economy has found it imperative to invest in ongoing training and development to improve proficiencies in production as well as to acquire the greatest return in investment of human capital. Whilst there is no sufficient documented and publicly available information to judge the effectiveness of the local banks human capital development efforts, any attempt to do so can only be speculative. However, empirical evidence suggests that while banks place great importance on building talent pipelines, few have succeeded in implementing practices that ensure high potential talent is ready to move to the next key job (Edrington and Marsch, 2012).

One might clearly imagine the extent to which insufficient investment by banks in human capital development might have negatively affected the talent crunch in Botswana. As an aside, even though authors have suggested that training programs are vital to organizations (Knoke & Kalleberg, 1994; Liu, 2002; Wang, 2001), training programs are often the first to go (Young, 2008). It is common practice for banks to cut training programs and/or training budgets during poor economic times. In the same vein, banks in Botswana are already facing a threat of declining business margins which forces them to re-visit their strategic plans to balance between increasing specialization of products and services and continuous drive towards efficiency rates. Interestingly, staff costs take a greater share of the banks' operating costs and while banks are already operating within a challenging hiring constraint of talent crunch more efforts are necessary to identifying, growing and nurturing and retaining their talent.

The aforementioned remarks by the governor could potentially mean that banks are under more scrutiny than ever before though this may not officially be under regulation. The local regulatory environment is evolving and it has affected almost everything that banks do, and it would not be surprising if it may start to include the attraction and retention of talented employees. This serves as a good time for banks to revisit their business strategies for a clear measurement of their training and development needs and outcomes.

The second cause of talent crunch in Botswana can be associated with increasing dynamism of the banking industry. A historical review of the banking landscape in Botswana indicates that perhaps the most obvious sign of this dynamism is the number of banks now operating in Botswana; they have increased significantly in both size and diversity. As at the end of 2013, there were four big banks out of total of thirteen banks, excluding three statutory banks. In 1998, there were only four banks, led by comfortably entrenched 'big two' (Mohohlo, 2013). Unfortunately, this competition has not only manifested itself in terms of a range of products and services being offered by banks but as well as poaching talent from rivals. As the number of banks increases talent increasingly become in short supply and a lot of banks are worried about losing their best employees to their competitors. This has put talent management in banking under threat. At the same time, this has set a stage for a talent war. It is possible that banks may not even be aware that they are in a talent war. This may be the case because a lot of times attrition rates for these banks fall within the set thresholds and this may lead to complacency.

Nonetheless, the battle field for a war of talent is set to continue even if it means silently. All banks are seeking the same kind of talent very aggressively, and are employing a variety of strategies to attract and hire, or even poach, great people from competitors (Alegbe, 2010). Headhunting and poaching are typical cases in point. It is interesting that despite a lot of movements of bank employees from one bank to another the positions involved are hardly advertised in public media except for very senior positions. So, as the war of talent intensifies, it would appear that banks are developing counter strategies for dealing not only with external pull factors which attract their talent, but also with internal push factors that tend to make talent leave for other organizations (Alegbe, 2010).

As cited in the Mckinsey survey on the 'war of talent' (2011) “Only the Paranoid Survive”. A citation in 'Talent-Making People Your Competitive Advantage' by Edward E. Lawler III can also help us understand this situation better. That is, most of the organizations are still operating under the management framework of a structure-centric or a bureaucratic manner, where people though considered important are not developed to act as a competitive advantage to the firm. On the other hand, there exist organizations which consider people to be their most important assets rather than expenses, and are being called as the Human Capital centric organizations. It would appear that almost all, if not all, of the banks in Botswana have shifted towards 'human capital centric organizations. This raises the issue of whether banks' varying human capital development initiatives have been successful.

Previous research work has established that one of the biggest obstacles to effective talent management is short-termism. It also turns out that talent management that is seen as a human resource initiative, separate from the business strategy, is doomed. The consequence of a short-term focus is that most talent management programmes have been inadequate and therefore have largely failed to deliver.[5] Research by Guthridge et al (2006) which included in-depth interviews with fifty CEO's, business unit leaders and HR professionals from around the world, support this finding with nearly half of the interviewees expressing concern that their senior leaders don't align talent-management strategies with business strategies. Viewed in the context of 'Talent Management in Banking' in Botswana, one would imagine if it is a mere coincidence that none, if not only a few, of human resource professionals seat on their boards. This is the case at least for all the 'top four' banks that have been reviewed for the purpose of writing this article. This should be a course for concern “with so much change relying on support from the HR domain - from culture change and vision and values programmes to enhanced leadership programmes”.[6] This puts the role of HR under scrutiny in many banks. Is it now 'time for HR to come out of the shadows in banking as PA consulting have suggested? Farley (2005) have noted that because HR functions have focused on transactional operations, rather than driving business performance through people, business leaders are skeptical that they can get what they need from HR. Thus, HR is facing an upheaval battle to also win the confidence of the business leaders on how they can have a positive impact on business results through effective talent management. This however remains a dual responsibility for both business leaders and HR to ensure that talent management becomes a strategic priority.

Viewed form another perspective, the wealth of empirical evidence further suggests that companies that are gaining advantage in the war for talent have tackled both the strategic and human issues head on. Talent management is an integral part of the long-term business strategy and is jointly driven by senior management, executives and HR. These organisations have also radically adjusted the way that they manage people and have made great efforts to instil a 'talent mindset' within all levels of the organisation, that is 'the deeply held belief that building a strong talent pool is critical to achieving the aspirations of the company.' McKinsey (2001) Again, the 'talent mindset' is steered by top management however it is crucial that every employee, at every level of the organisation, feels responsible for finding, championing, developing and helping to retain talent within the organization.

Conclusion

In conclusion, talent management in the banking industry in Botswana is a great challenge and the existence of talent crunch in the banking industry cannot be disputed. The talent crunch is attributed to: the current education system, insufficient investment in human capital by banks, and increasing dynamism in the banking industry. Given this talent crunch all banks are seeking the same kind of talent very aggressively, and are employing a variety of strategies to attract and hire, or even poach, great people from competitors. This has created a battle field for a war of talent even if it may be happening silently. The causes and effects of talent crunch have provided the groundwork from which bank leaders can put spanners to work ensure that talent management becomes a strategic priority for their businesses. The critical point to emphasize is that despite the declining business margins this is not the time to cut development activity or to renege on carefully conceived talent management plans. However more cost-effective solutions may need to be found as the perceived failure to invest more on human capital by the regulator is certainly coming under greater scrutiny.

References

- Alegbe, J. L. (2010). ‘Talent Management in the Developing World’ : Adopting a Global Perspective. http://www.gowerpublishing.com/isbn/9781409418139
- Ashton, C., & Morton, L. (2005). Managing talent for competitive advantage. Strategic HR Review, 4(5), 28?31.
- Barclays Bank of Botswana, Annual Report 2013. Gaborone
- Botswana Confederation of Commerce, Industry and Commerce (2008). Private Sector Development Strategy 2009-2013. Gaborone, BOCCIM
- Central Statistics Office (CSO) (1998). 1995-96 Labour Survey. Gaborone : Central Statistics Office.

5. https://www.steppingstonescayman.com/the-war-for-talent-part-2
6. www.paconsulting.com

- Cheloha, R., & Swain, J. (2005). Talent management system key to effective succession planning. Canadian HR Reporter, 18(17), 5?7.
- Cohn, J. M., Khurana, R., & Reeves, L. (2005). Growing talent as if your business depended on it. Harvard Business Review, 83(10), 63?70.
- Conger, J. A., & Fulmer, R. M. (2003). Developing your leadership pipeline. Harvard Business Review, 81(12), 76?84.
- Creelman, D. (2004). Return on investment in talent management : Measures you can put to work right now. Available from Human Capital Institute, 2121 K Street, N. W., Suite 800, Washington, DC 20037 USA.
- Crisp and Reid, 2007
- Edrington, J. and Marsch, C. (2012). Maximizing Returns on Talent Investments. American Bankers Association.
- Farley, C. (2005). HR's role in talent management and driving business results .Volume 32, Issue 1, pages 55-61, Spring 2005
- First National Bank of Botswana, Annual Report 2012. Gaborone
- Frank, F. D., & Taylor, C. R. (2004). Talent management : Trends that will shape the future. Human Resource Planning, 27(1), 33?41.
- Garger, E. M. (1999). Holding on to high performers : A strategic approach to retention. compensation and Benefits Management, 15(4), 10?17.
- How a talent management plan can anchor your company's talent. (2004). HR Focus 81(10), 7?9.
- International Monetary Fund 2012. World Economic Outlook Update : Global Economic Slump Challenges Policies
- Knoke & Kalleberg (1994)
- Knoke D., KallebergA. L. (1994). Job training in U.S. organizations. American Sociological Review, 59, 537-546
- Liu M. C. (2002). Learning satisfaction and learning performance of Taipei Elementary School (Unpublished master's thesis). National Taiwan Taipei Normal University, Taiwan.
- Martine Simmonds and Gavin Neilson. PA Consulting. http://www.paconsulting.com/our-thinking/why-talent-management-is-essential-to-the-future-of-banking/
- McKinsey & Company, The McKinsey Quarterly, Member Edition, 5 January 2007. Ministry of Education and Skills Development (2009). National Human Resource Development Strategy in 2009. Gaborone.
- Mohohlo, L. (2013) BOTSWANA INSTITUTE OF BANKERS ANNUAL DINNER : Fifteen Years of Leadership Excellence, Redefining the Banking Landscape in Botswana. Bank of Botswana Gaborone.
- Redford, K. (2005, September). Shedding light on talent tactics. Personnel Today, 20?22.
- Six ways you can help your CEO understand talent management. Retrieved October 31, 2005, from http://www.workinfo.com/free/Downloads/158. Htm
- Standard Chartered Bank of Botswana, Annual Report 2012. Gaborone
- Statistics Botswana (2013). Botswana Core Welfare Indicators Survey, in 2009/10. Gaborone : Statistics Botswana.
- Sullivan, J. To build, buy or trade talent : That is the question behind talent management. Retrieved September 8, 2005, from http://www.erexchange. com/Articles/default.asp?CID={B22548F2-AAD0-4551-83EC-561E0AE959EA}
- Tertiary Education Council (2207). Tertiary Education Student Demographics 1997 to 2005. Gaborone, TEC.
- Vicere, A. On leadership: Want leaders? Look for talent management. Retrieved September 23, 2005, from www.post-gazette.com/pg/04321/ 412405.stm
- Wang C. H. (2001). Learning behavior, learning satisfaction, and learning performance in Internet class (Unpublished master's thesis). Da-Ye University, Taiwan.
- Young C. (2008). Five tips for improving employee training and development during a recession or economic downturn, maximize possibility blog.

Optimizing Talent Management in the Banking Industry An observation of Botswana

Tshepo Moshaga *

Abstract

The Banking Industry in Botswana has in the last ten years grown to being very interesting, and volatile. The competition has grown with the entry of both Regional and Multi National Banks coming to play making banking more colourful for the customers, more fragile for employers and increased work opportunities as well as limitations for talent and aspiring talent.

Talent precedes excellent service delivery and strategic execution of diverse services / products and for any one bank to not only surpass competitors but keep delivering can only be through good recruitment, growth and keeping of such; talent.

The author seeks to explore by way of non-empirical observation; the understanding/appreciation of talent management, its practice and its perceived importance in the Botswana Banking Industry and further make a local proposition to optimize it.

Introduction

Talent Management over the years has become a much talked about issue albeit with a lot of uncertainty, scepticism and inconclusive debate. For many though it may not be clear why Talent Management mention now? Is there any real threat? And is it optimized in Botswana banking industry?

Talent Management increased in popularity after McKinsey's 1997 research and the 2001 book on The War for Talent (http://uk.ask.com/wiki/Talent_management?lang=en#cite _ref-war_2-0) is defined and interpreted in different ways by many scholars / companies;

1. Talent management refers to the process of attracting, selecting, training, developing and promoting employees through an organization. Managers who focus on developing talent in-house ensure their employees have the tools and resources they need to perform well, receive proper compensation and transition to leadership roles. Internally developed leaders are valuable assets because over time they have developed the necessary core competencies and internalized company values (Success Factors; Common Sense Talent Management).

   Talent management is about getting the right people in the right jobs doing the right things. This requires predicting how employees will act in the future and getting them to act differently from how they acted in the past. (Success Factors; Common Sense Talent Management).

2. Talent management implies that companies are strategic and deliberate in how they source, attract, select, train, develop, retain, promote, and move employees through the organization.

   Research done on the value of talent management consistently uncovers benefits in these critical economic areas : revenue, customer satisfaction, quality, productivity, cost, cycle time, and market capitalization. The mindset of this more personal human resources approach seeks not only to hire the most qualified and valuable employees but also to put a strong emphasis on retention (http:uk.ask.com/wiki/Talent_management?lang=en#cite-note-Talent Management : How-to-invest-in-your-workforce).

3. Talent management is the science of using strategic human resource planning to improve

* Performance Consultant - Learning, Leadership and Talent, Barclays Bank of Botswana.

business value and to make it possible for companies and organizations to reach their goals. Everything done to recruit, retain, develop, reward and make people perform forms a part of talent management as well as strategic workforce planning. A talent management strategy needs to link to business strategy to make sense. (Wikipedia; 2014, Talent Management)

Although all the definitions are somewhat different there is a resounding theme on the following being integral to talent management and its function;

a. People with ability to perform

b. People with ability to learn

c. People who need to be retained for the company to both gain from their ability and have a return on their learning and investments made in them

It goes without saying though that such a collection of people should or dictate a level of order and segregation. Who are they, where are they and are they categorized in any manner?

Talent management will always speak to a company's strategic goals otherwise it would have lost its premise, talent should assist the organization achieve or surpass its targets. There is however no universal definition of talent that is applicable in all organizations. In general, those who are regarded as 'talent' provide a firm with a competitive advantage. It is their abilities, skills and commitment that determine the long term success of their organizations. However, organizations recognize the fact that every employee cannot be a talent. Talent is sometimes used as if it is synonymous with hot or scarce skills. In other instances, it refers to leadership capability and yet in others it connotes knowledge workers.

Having understood and acknowledged that companies do not have a single definition for talent management there certainly is a common chord on its expectations; repeated and growing performance. Another common denominator is that individuals who have talent have technical capability and leadership 'potential' to contribute significantly to the effectiveness of their organizations. (Joel A Elegbe; Talent Management in the Developing World)

The Towers Perrin survey (2006) considered the following groups to be 'talent' : Senior leadership; mid-level employees with leadership potential; key contributors or technical experts; entry-level employees with leadership potential. (Joel A Elegbe; et al).

Learning from the Towers Perin's survey, one draws a conclusion that there is an expectation of where Talent in the company should sit; strategic roles, technical roles, business critical roles and early careers. More companies are adding to this collection by considering Women with High Potential as well, given the growing conversation on Diversity and Inclusion globally.

Talent Management Understanding in Botswana

A Google search on documented work of Talent Management in Botswana Banking Industry does not yield much save for LinkedIn profiles of bankers who work in the field, two general articles on the subject and an advertorial for a Talent Management Workshop. The daunting lack of documented talent management work in Botswana mirrors its infancy as a mature field would usually post a whole buffet of recorded works, articles and studies performed on the same.

The banks in Botswana like most of the world still do not have a complete and concrete understanding if not practice of Talent management, for good reason because it is a very young management tool that has just recently been better explained and framed. For most companies its understanding is very loose and its practice disjointed, scattered or incomplete.

However, within many companies the concept of human capital management has just begun to develop. With more companies in the process of deepening their global footprints, more questions have been asked about new strategies and products, but very few on the kind of leadership structure that will bring them success in their globalization process. "In fact, only 5 percent of organizations say they have a clear talent management strategy and operational programs in place today (http:uk.ask.com/wiki/Talent_management?lang=en#cite-note-10).

Banks in Botswana

The commercial banking industry today hosts 9 regional and multi-national banks that include Barclays Bank, Standard Chartered Bank, First National Bank, Stanbic Bank, Bank Gaborone, Bank ABC, Capital Bank, Bank of Baroda, The State Bank of India and Bank of India.

Although the banks in Botswana evidently have varied levels of practicing Talent Management; none can be said to have absolute best practice. With this though it is worth noting they are exceptional at certain elements of Talent Management but not necessarily the whole.

By observation it is either Bank X is competitive at recruiting and training early career professionals but not at retaining them post the development, or Bank Y is competitive at developing leading expert in Banking technology and Retail Banking as a singular banking discipline and not so much at developing leaders or lastly that Bank Z is competitive at retaining talent at baby boomer age but not strong at developing a strong pipeline to feed into future roles as the baby boomers retire.

State of Talent in Botswana

Talent regardless of the field or context it is discussed whether professionally, academically or in the world of sports, entertainment and music; has a prefix of excellence.

It is the author's conviction that talent has virtues that speak to certain outputs as outlined below;

1. Talent is a reflection of competence; the acquired and practised knowledge and ability to deliver against challenging objectives
2. Talent is a projection of ambition and or aspiration; the determined and resolute desire / will to achieve greater heights .This is coupled with an openness and agility to learn or explore new knowledge and practices
3. Talent is a tested case of performance; evidence of fulfilling predetermined output
4. Talent is an epitome of character; it is an assurance of an acquired set of values that build legacy and fortitude (John C Maxwell, 2oo7. Talent Is Never Enough)

Talent is safeguarded because it is relevant now, tomorrow and in the foreseeable future and in a world that has discerning customers and limited resources it is important for companies to have human capital that is malleable ,ductile and progressive.

It goes without saying that such talented human capital cannot be found in abundance either locally, regionally and globally. The world's most active economies and industrious countries today greatly grapple with resourcing talent.

Workspan, a magazine of WorldatWork, corroborated this view by stating that finding talent during the years ahead would continue to be difficult particularly in highly specialized areas such as finance and accounting. It noted that a worldwide survey conducted by Deloitte with the Economic Intelligence Unit revealed that 67 % of respondents from the Asia-Pacific region claimed that the current supply of finance talent was either limited or inadequate. This view was supported in the same survey by 54% of CFOs from Eastern Europe, 53 % from Asia-Pacific, 52 per cent from Western Europe and 47% from North America (News Notes, 2007 : 11). The challenge is global and has been compounded by the fact that companies are currently facing the departure of the baby boomers from the workforce. High rates of turnover attest to the challenge in retaining talent in various occupations.

It is not any easier if in fact not even more difficult to identify, recruit and retain Talent in a small banking industry like Botswana. All the commercial banks in Botswana are either multinational or regional companies and have very similar changes in the talent management space.

Anticipated mobility of talent in MNC's or Regional companies is that;

1. Talent is recruited to work in management roles at Central headquarters to drive strategy causing a talent drain in operatives' roles.
2. Talent is not willing to be redeployed in the advent that banks want to decentralize operations and threaten to resign if coerced into redeployment.
4. There is an increasing demand for talent as more banks pursue their expansion plans and other new

entrants come into the market. The challenge is not only brought about local banks but banks outside the country as well.

5. Talent rotates around the local banks. Most directors in local banks have in most cases served as senior management in one or two banks in the country before their current role.
6. 30-40% of very critical and senior roles in local banks is imported talent from parent company headquarters to infuse and install culture, performance and knowledge.

The current standing opens doors to a lot more threats to talent in an industry that has yet to improve both its understanding of Talent Management and its optimal use.

As local based banks seek to align to international standards or group policies, the local human capital is increasingly found wanting which then forces banks to import talent.

For banks that have flexible and robust development plans some local talent is placed outside the country for exposure and accelerated understudy and development programs which should later benefit the host country.

Threats to Talent Retention in local banks

The lack of congruent and solid Talent Management understanding and apt practice in Botswana local banks presents a lot of threats and challenges to talent retention.

1. Not identified talent / forgone opportunity

The greatest threat to talent is probably not recognizing, and or identifying it, both either during recruitment and selection stage, and or during ones career cycle. This is because if you are not recognized as talent you will not be engaged as such nor have appropriate actions to follow. Unfortunately this presents foregone opportunity for the company to derive greater return from talent and ultimately inflates talent turnover and regretted losses.

2. Lack of clear and concise career development

The failure to have robust talent management systems inevitably leads to banks hosting underutilized talent which may ultimately breed mediocrity and or talent loss.

"Hirers often complain that their young workers jump ship quickly. A study published this summer in the Harvard Business Review confirmed that young top performers-the workers that organizations would most like to stick around-are leaving in droves".

Researchers found that high achievers, 30 years old on average with great school and work credentials, are leaving their employers after an average of 28 months. Furthermore, three-quarters of them admit to sending out resumes, contacting search firms and interviewing for jobs at least once a year during their first employment. And 95 percent said they regularly watch for potential employers.

Multiple studies find that today's younger workers have absolutely no intention of sticking around if they don't feel like they're learning, growing and being valued in a job. Beth N. Carver, a consultant who has spent 12 years researching exit interviews, finds that a loss of training opportunities and a lack of mentors in the workplace are two of the biggest reasons why young workers leave. (Annie M Paul; Why Young Workers Leave, it's Usually Not About The Money)

Although some local banks may have competitive recruitment systems for identifying and acquiring early careers and management talent, the efforts are normally reversed by silos mentality within the HR teams. Talent may be acquired but there is no clear trigger to the Learning team to have a focused program right from the first day and afford required attention. Similarly the Reward and Remuneration team might not be engaged to ensure clear differentiation in either pay or investment otherwise for retention purposes.

3. Global war for talent

Unlike other writers and commentators on the war for talent, who are concerned about shortages of local talent within a particular country or region, Sullivan (2004b) is concerned about a truly global talent war. He calls it 'Worldwide War II' for talent. Global competition is increasing because firms are becoming larger due to mergers and acquisitions. As firms expand their operations into foreign countries they naturally seek and hire experienced people working in other firms. Telberg (2007) also notes that all businesses which operate on a global scale face a talent shortage and that a survey of 32,000 employees across 26 countries, conducted by Manpower, found that the shortage in professional talent was undermining opportunities for growth worldwide. (Joel A Elegbe; Talent Management in the Developing World) The advent of technology; Skype, LinkedIn, teleconferencing and global talent acquisitions firms have made it much easier than ever before to acquire talent across borders. A growing trend of professionals actively initiating their relocation overseas by applying for visas to widen their employability is not seen to be abating the situation either.

4. Unconventional banking

The local and regional market has recently received very direct competition from unexpected competitors who have not traditionally been involved in the banking industry. Even more challenging is that the competition is driven from a global centre by multinational organizations that have a wide distribution and footprint.

In Kenya it was the launch of MPESA (operated by a Mobile Phone Company) which allows the unbanked to easily transact in very complex systems that offer banking benefits without the whole brick and mortar. In Botswana the challenge has been posed by Orange Money and MascomMyZaka (both from mobile phone companies) which operate without a requirement to partner with any bank. The channels use a strong banking operations framework, an expertise that the mobile companies do not have and so are forced to aggressively recruit form the banks talent in the IT, Treasury and Customer Service departments.

Off late a further unconventional competitor in Botswana is the National Postal Service which is fast advancing a commercial banking license which will see a merger with the Botswana Savings Bank as well. The merger will form arguably the biggest and most widely distributed footprint of a single bank in the country and it has already gotten banks uncomfortable as a massive talent move is anticipated from the whole industry.

5. Stringent labour laws

Many a local bank has tried to import talent from their central offices which at times is met by challenges. In some instances imported talent is either given very limited time work and residence permits, vetted and applications denied or have their permits revoked and or not renewed for varying reasons; national security, market saturation of profession, lack of convincing localization plan and repeated requests to renew permit in contrast with localization plan timelines.

6. Ineffective unmonitored localization plans

One of the reasons that have increasingly led to a decline in import talent being offered long term or renewed contracts is the banks repeated failure to develop and follow through effective localization / succession plans. Succession is a critical part of the talent management conversation which assumes identification, recruitment, placement, on-boarding and development as well perceived retention of a succession pipeline. When this is not in place the banks suffer double losses in that imported talent returns to parent company and there is no credible successor to continue the legacy and performance of the role. In some instances potential successors get frustrated by the talent blockage of overstaying import talent who focus on company performance year on year and not their development and nurturing for succession and ultimately move to join the competition for better prospects.

Though it may be evident that local banks are making an effort to practice Talent management even in concert the benefit thereof is far from impressive let alone sound enough to avert the impending challenges and threats to talent retention both locally and globally.

Talent Journey and proposition

Any credible response to optimizing talent management locally would first require a principled approach to its understanding, practice and progression. The understanding is this; Talent Management is a Journey and not a standpoint, it is a progressive line that will journey on as long as there is strategic and political will of management to achieve incremental results gaining new ground and retaining already conquered fields.

Most conversations on the subject seem to agree on a similar pattern atleast as most recent as 2011.

Josh Bersin in his paper; (Talent Management, what is it and why now; 2006) asks very pertinent questions which set the outline for our discussion;

- How can we make our recruiting process more efficient and effective by using "competency based" recruiting instead of sorting through resumes, one at a time?
- How can we better develop managers and leaders to reinforce culture, instill values, and create a sustainable "leadership pipeline?"
- How do we quickly identify competency gaps so we can deliver training, e-learning, or development programs to fill these gaps? How can we use these gaps to hire just the right people?
- How do we manage people in a consistent and measurable way so that everyone is aligned, held accountable, and paid fairly?
- How do we identify high performers and successors to key positions throughout the organization to make sure we have a highly flexible, responsive organization?
- How do we provide learning that is relevant, flexible, convenient, and timely?

The questions that Josh poses in his essay supports the assertion that Talent management is closely if not totally dependent on what the company wants to achieve through its human capital.

The Journey is never ending, it remains a going concern though with an expectation that individuals will join and leave as it progresses. Most scholars perceive it to take this pattern;

1. Attraction
2. Recruitment and selection
3. Talent development
4. Talent retention

Though I am convinced by their work, I am more persuaded that the following proposed pattern is more inclusive and prudent

A. Understanding the People Agenda as a component of business strategy

Talent is managed for a predetermined purpose. It is imperative for the company to have a clear understanding of its strategic objectives and to what extent it will require human capital. What type of human capital, at what level of management, technical expertise, gender and perceived professional lifespan. This forms a large part of workforce planning to avoid understaffing and or overstaffing of strategic and critical roles.

B. Attraction of talent

Once there is an understanding of talent demographics are required to fulfil business objectives, a natural progression is to package the business in a way that is appealing to the desired audience. Some of the world's leading employers thrive because they attract people who are already ascribing to the culture, values and business ethos. Companies more than ever are getting involved in company branding not on basis of products / services they offer but rather the enabling environment that exists for employees to both explore and develop their talents. The premise is to attract and for as long as possible retain talent on cultural, emotional and sentimental connections. Most banks in Botswana are very modest in promoting their Employee Value Proposition, in a market where talent has vast opportunities it is increasingly important to let the talent market know what is in it for them to get their attention resolve to join and stay with the bank.

C. Selection and recruitment

There is a notion that 'talent should be obvious at the doorstep' easier said than done. The use of conventional recruitment methods has no place in a world where we are recruiting and selecting talent. The best way as witnessed by some banks that recruit for critical management roles from early careers or fresh graduates is the use of assessments clinics. Candidates are taken through a whole myriad of assessments comprising; psychometric tests, simulations, face to face interactions and influence measures after which scores are averaged and the best fit is identified and picked. The beauty of talent selection and recruitment is that it can be done both internally and externally. Having discussed external recruitment, a tested method internally is the use of talent reviews and employment of the 9 Box Matrix. The matrix helps to plot talent and is a function past performance and potential for the future. Depending on where an individual is plotted there is an indication of who is top talent, strong contributor, most promising for future leadership roles and who may still require further incubation to feed succession lines. (John Mattone with Luiz Xavier (2013) Talent Leadership)

D. Placement and alignment

Although the previously discussed recruitment method is greatly involving and attained at a premium it ensures that the right candidate is picked for the right role to be a perfect match. Many times banks do recruit talent but end up misplacing it within the organization and ultimately lost to mediocrity or underperformance. Talent should be placed well and if found to be misplaced should be re-aligned. A robust talent management system should allow for periodic talent conversations that seek to identify performance gaps and or career aspirations. A point further worth noting within placement is appropriate and competitive remuneration and reward as per company policy to treat the same. If it is to help retention, talent needs to be placed above market premiums for differentiation and an assurance of appreciation.

E. Talent development

It can only be once that talent is aligned or rightly placed that talent conversations can inform the most appropriate development paths to be pursued and invested in. Lest this is a prerequisite, efforts around talent development and succession planning can be greatly compromised and the companies aspirations be jeopardised. Although the focus of talent development is normally biased towards refining the talent and gain exponential growth, it has become apparent that it should have a balance with the right culture and values.

Many people with talent make it to the limelight, but the ones who have neglected to develop strong character rarely stay there long. Absence of strong character eventually topples talent.(John C Maxwell,2oo7. Talent Is Never Enough).

In an industry where talent deals with astronomical sums of money and ever growing pressure to perform, character development is essential if repeats of the Libor scandal that shamed the banking industry and similar global incidents of dishonest banking practices are to be avoided. Talent development should be wholesome and help develop not just the best banker, but the best person to be an outstanding banker. (John C. Maxwell, 1993. Developing The Leader Within You)

F. Talent re-invention

One of the reasons why talent can eventually get lost or dis-engaged is as a result of boredom or stagnation. Technical experts who work in highly specialized roles run the greatest risk of this. It is important to note when talent has plateaued and requires to be re-invented by setting on a new course or career path. Though it is counted virtuous to be an absolute guru in a field of discipline it is also a threat to talent retention if talented human capital is not allowed to explore new avenues within the same business. The biggest question to ask here is 'having achieved all, what is your real / unexplored passion within this company?' who would leave given such an opportunity and support to fulfil it!

G. Talent release

A conversation that line managers often shy from is talent release and or the acceptance to release talent when the time has come. So important is this step as it allows for new talent to discover itself as it graduates from the talent pipeline. As long as there is a succession pipeline there needs first to be a release. Companies probably have to be more creative in the space of talent release and develop more options for the releases in the form of either absorption in greater markets where there is a footprint, graduation into a faculty of executive coaches that may concentrate on coaching and mentoring new generation experts and managers or greasy handshakes into retirement. Whichever Is found a reasonable cause of action, there has to be an understanding and practise of releasing talent to allow for an emergence of new talent.

Michael Jordan a celebrated basketball player for the most of his sportsman life, switched sports after having won many titles and having received endorsements from company such as Nike. To date his silhouette figure is the trademark of Nike's Air Jordan sporting range for basketball. At the point of talent release which should be predetermined, planned and supported he switched to baseball and although he did not match the fame and acclaim of his basketball heydays he excelled at baseball and had a fair share of the glory and fulfilment. Michael was accomplished and even more important he was creating space for new talent.

Local Talent with a global outlook

Some if not all the world's economies pride themselves in having a competitive edge developed over years of indigenous knowledge systems with a global outlook. Toyota's swift management and production is largely based on ancient practices that have been refined over the years with a clear view of not only satisfying the local market but excelling on a global scale as well.

Africans have been very successful at adopting western cultures and in some instances surpassing even the pioneers themselves. A classic example is football, many an African player now plights a living as a professional player in Europe and America. The demand for the African flare, power, speed, boldness and dexterity of the footballers is insatiable. In the past decade the number of African football players who play in European teams has increased immensely from all sides of Africa; South Africa, Botswana, Ghana, Cameroon, Nigeria, Zimbabwe the list goes on. Africans have become so specialized at playing football that European countries have even embarked on granting them citizenship to play for their national teams in the World Cup and other national games. Though a reflection of loss of talent for African countries and even more of vote of confidence in African sporting talent, the just recently ended World Cup was awash many Africans donning national colours of their adoptive European countries. The African footballer has achieved an important trademark; harnessing the distinction of African football in an 'Exciting and Alive Africa' and presenting it as competitive even beyond their own marketplace. The true ascension of Talent Management is to produce talent that is relevant and vibrant for its market before any other.

Batswana bankers can be no different from African footballers.

Indigenous Knowledge Systems to influence Talent Management

When Japanese scholars studying in America first came across Business Process Re-engineering in the 70's, they saw a perfect system to help them further advance the mega industrialized economy. They did not employ the management science without first adapting it to their local culture that already resonated with excellence and language a well, ultimately giving birth to the much revered Gemba Kaizen. Gemba Kaizen is today understood as a Japanese invention though they learnt it from somewhere and owned it and made it work in their turf.

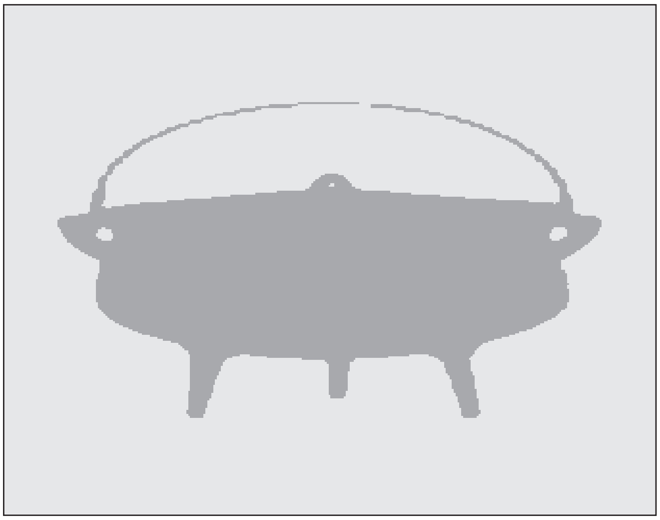
The same results have been witnessed over and over again even in Africa in different fields such as music with the prominence of musicians and leaders like;

- Mariam Makeba who incorporated swing and samba influence in her African rhythm and took the world by storm;
- Nelson Mandela who employed legal and political to traditional governance as a chief to ultimately lead the cause black freedom and influence the international quotient of true leadership

The author proposes the use of two symbols synonymous with anyone in Botswana; the three legged pot and Pula (nourishing rain) to not only own but identify with talent management.

1. The Three Legged Pot

The three legged pot, is an iron cast pot that has three legs as a form of support. Though it was first invented and introduced to Africa by European voyagers its acclaim in Botswana is both far and wide.



For many a Batswana family (in the city, towns and villages) it reflects affluence, resourcefulness in the community and a uniting tool for the most important events in the cycle of life; at funerals, at weddings and great celebrations. The pot is carefully cast in iron, it is periodically greased to avoid oxidation and regarded as a family treasure that is passed on from generation to generation if tended for well.

The legs; talented human capital and management

The pot is stoked on three legs which hoist it up and keep it steady over fires, winds and rains. Even more importantly the legs hold up the pot to allow for a stable and balanced footing during the cooking period. Each one of the legs is proposed to present the following;

1. Talent Acquisition; constituting attraction, recruitment and selection, placement and alignment
2. Talent Retention; constituting development, progression, reward and remuneration
3. Talent benefit and delivery; that is to say the company should enjoy a surplus return on the premium of talent management

The body which carries the most surface area is the company strategy and or vision. It is what the talent is holding up, supporting, balancing, protecting and ensuring that it does not topple over. The strength of the footing / talent will determine how much weight it can hold up and as such dictates for local firms to ensure their talent does not only seem strong but is continually brazed to deliver.

The handle represents the company's mission and policies that allow delivery of the company's output to the market. Even with the best people, if a company's policies stifle delivery talents efforts will be expended but not realized by the intended consumers. Talent alone will never be enough to ensure corporate success.

Lastly the lid is a shadow of the company leadership, culture and values. It sets in place the standard to expect consistency and keep out impurities. A weak leadership that does not have set values will always compromise its own ambitions and aspirations.

2. Pula!

A second indigenous system that is proposed is Pula! This pronouncement is always made in Botswana at the end of any prominent address especially at community or national levels. Botswana is a landlocked country that appreciates the nourishing value of rain whenever it falls down as a blessing. The simple science behind rain though is that rivers and streams need to be protected to allow the water to keep flowing along distribution channels. This flowing water is symbolic of the nature of talent. It has to be mobile, progressive, assertive and not stagnant lest it collects mould and algae. Energized or flowing water allows for easy evaporation which collects and gathers as rain clouds which eventually precipitate and feedback the rivers and nourish the land hence the pronouncement Pula!

With the mobility, flow and movement of talent is expected a growing agility and ability that over time will and should release greater output by way of leadership, enhanced performance and greater spread from talent. The pronouncement Pula! Is a call for the cycle to be complete and bear dividends, talent should always bear dividends if allowed to flow and ascend to greater heights in an environment that is both monitored and protected.

Conclusion

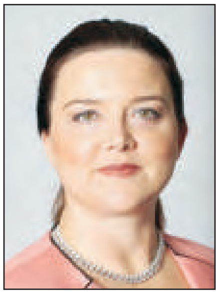
The banking industry offers the same products and services all over the world. Even the most distinct service can be reproduced by a competitor in a short space of time, weathering the competitive edge of the innovator.

The largest differentiating factor for banks is their talent and legacy. Talent and legacy promise two things; continued success and longevity. It is imperative that concise management science is invested in ensuring these two by way of effective Talent Management. The field though new demands an audience in the local banking industry and if used optimally, it promises both professional and financial prosperity.

Any bank that makes haste to better understand, install, practice, customize and continuously refine talent management will have its best talent growing and protecting it for many more challenging years to come and making a success out of it.

Bibliography

1. John C. Maxwell (2oo7) Talent Is Never Enough, Thomas Nelson Inc (pg 191-210)
2. John C. Maxwell (1993) Developing The Leader Within You, Injoy Inc (pg 1179-190)
3. John Mattone with Luiz Xavier (2013) Talent Leadership; a proven method for identifying and developing high-potential employees, American Management Association (pg 107-117)
4. News Notes, 2007: 11
5. Annie M. Paul; Why Young Workers Leave, it's Usually Not About The Money
6. Josh Bersin (2006) Talent Management, what is it and why now?
7. http:uk.ask.com/wiki/Talent_management?lang=en#cite-note-10.
8. Joel A Elegbe; Talent Management in the Developing World
9. http://uk.ask.com/wiki/Talent_management?lang=en#cite_ note-Talent_Management:_How_to_Invest_in_your_Workforce-8
10. http://uk.ask.com/wiki/Talent_management?lang=en#cite_note-The_Financial_Value_of_Talent_Management-7
11. http://uk.ask.com/wiki/Talent_management?lang=en#cite_note-war-2
12. http://knol.google.com/k/darin-phillips/the-financial-value-of-talent-management/3ldrkl0bvr14y/4
13. http://uk.ask.com/wiki/Talent_management?lang=en#cite_ref-war_2-0



Talent Management in Islamic Retail Banks : Kingdom of Bahrain

Solveig Nicklos *

Dr. Vijayalaxmi Moovala **

Introduction

In recent years, the Kingdom of Bahrain[1] has positioned itself as a global leader in Islamic finance by playing host to the largest number of Islamic financial institutions in the Middle East. The financial sector is the largest single employer in Bahrain, with Bahrainis representing over 80% of the work-force. There has been a remarkable growth in the Islamic banking area, mainly due to the talented professionals working in these banks. The Islamic banking employees are not only technically qualified but professionally competent. This paper assesses the importance of the financial sector in Bahrain and the significance of Islamic banking in the region. It outlines the prevalence of talent management in Islamic retail banks of Bahrain and focuses on the role of Central Bank of Bahrain in talent management. Information for this paper was collected from three Islamic retail banks of Bahrain, namely Al Salam Bank-Bahrain, Bahrain Islamic Bank, and Ithmaar Bank [there are 6 Islamic retail banks in Bahrain]. The talent management practices and dimensions prevalent in these banks are presented in this paper along with a brief literature review on talent management.

Financial sector in Bahrain

Bahrain's financial sector is well-developed and diversified, consisting of a wide range of conventional and Islamic financial institutions and markets, including retail and wholesale banks, specialized banks, insurance companies, finance companies, investment advisors, money changers, insurance brokers, securities brokers and mutual funds. There are also two licensed exchanges, one licensed clearing settlement, and central depository, 4 stock brokers, one licensed securities dealer, 15 licensed securities broker dealers, and 6 licensed securities clearing members. The sector is therefore well-positioned to offer a wide range of financial products and services, making it the leading financial center in the Gulf region. Overall, the sector contributes 27% of Bahrain's Gross Domestic Product (GDP), making it one of the key drivers of growth in the country. The sector is regulated and supervised by the Central Bank of Bahrain (CBB) (formerly Bahrain Monetary Agency), which since 2002 has functioned as the single regulator for the entire financial system.[2]

Islamic finance

The growth of Islamic banking in particular has been remarkable, with total assets in this segment jumping from US$1.9 billion in 2000 to US$25.4 billion by August 2012, an increase of over 12 times. The market share of Islamic banks correspondingly increased from 1.8% of total banking assets in 2000 to 13.3% in August 2012. Islamic banks provide a variety of products, including Murabaha, Ijara, Mudaraba, Musharaka, Al Salam, and Istitsna'a, restricted and unrestricted investment accounts, syndications and other structures used in conventional finance, which have been appropriately modified to comply with Sharia principles. Presently, there are 7 Islamic insurance companies (Takaful) and 2 Re-Takaful companies operating in the Kingdom. In addition, Bahrain is at the forefront in the market for Islamic securities (sukuk), including short-term government sukuk as well as leasing securities. The

* Director, Bahrain Institute of Banking & Finance, Kingdom of Bahrain.

** Program Manager, Bahrain Institute of Banking & Finance, Kingdom of Bahrain.

1. Bahrain is an archipelago located off the coast of Saudi Arabia.
2. http://www.cbb.gov.bh/page-p-overview1.html accessed on 09/07/2014

Central Bank has played a leading role in the introduction of these innovative products. In addition to the numerous Islamic financial institutions active in its financial sector, Bahrain also plays host to a number of organizations central to the development of Islamic finance, including : i) the Accounting and Auditing Organization for Islamic Financial Institutions ('AAOIFI'); ii) Liquidity Management Centre ('LMC'); iii) the International Islamic Financial Market ('IIFM'), iv) and the Islamic International Rating Agency ('IIRA') and v) Sharia Review Bureau.[3]

Banking sector in Bahrain

Bahrain's banking system consists of both conventional and Islamic banks and is the largest component of the financial system, accounting for over 85% of total financial assets. The conventional segment includes 23 retail banks, 69 wholesale banks, 2 specialized banks, as well as 36 representative offices of overseas banks. The Islamic segment, offering a host of Sharia compliant products and services include 6 retail banks and 18 wholesale banks. The banking sector has played a pivotal role in the emergence of Bahrain as a leading financial center in the region. Industry growth has been supported by an open market economy; stable and prudent macro-economic and fiscal policies; a credible regulatory framework in line with international standards; and a notably strong and well qualified local workforce. All these factors have combined to cement Bahrain's position as a regional banking hub, successfully attracting numerous foreign banking organizations to establish a physical presence in the country. Banks are thus playing a central role in reinvesting surplus oil earnings as well as serving financing opportunities in other segments of the economy.[4]

Role of CBB in talent management

The CBB stipulates requirements that have to be met by Islamic bank licensees with respect to training and competency of individuals undertaking controlled functions. It provides rules and guidance to Islamic bank licensees to ensure satisfactory levels of competence, in terms of an individual's knowledge, skills, experience, and professional qualifications. Islamic bank licensees, are required to demonstrate that individuals undertaking controlled functions are sufficiently competent, and are able to undertake their respective roles and responsibilities. It also requires Islamic bank licensees and approved persons to observe high standards of integrity and fair dealing, and to be honest and straightforward in its dealings with clients. It requires Islamic bank licensees to maintain adequate human, financial, and other resources sufficient to run its business in an orderly manner.

To satisfy the CBB's licensing conditions, an Islamic bank licensee's staff, taken together, must collectively provide a sufficient range of skills and experience to manage the affairs of the licensee in a sound and prudent manner. This condition specifies that Islamic bank licensees must ensure their employees meet any training and competency requirements specified by the CBB. It sets forth the 'fit and proper' requirements in relation to competence, experience and expertise required by approved persons.[5] The CBB has also established a special fund to finance research, education and training in Islamic finance (the Waqf Fund); and is active in working with the industry and stakeholders in developing industry standards and the standardization of market practices.

Talent management

This section gives a brief review of the literature on talent management : the concept of talent, implications, and implementation of talent management in organizations. Wide variations exist in how the term 'talent' is defined across differing sectors, and organizations may prefer to adopt their own interpretations rather than accepting universal or prescribed definitions. A working definition for both 'talent' and 'talent management' as defined in the talent management factsheet [2014] published by the Chartered Institute of Personnel and Development (CIPD)-UK are :

- **Talent** consists of those individuals who can make a difference to organizational performance either through their immediate contribution or, in the longer-term, by demonstrating the highest levels of potential.

3. http://www.cbb.gov.bh/page-p-islamic_finance.html accessed on 10/07/2014
4. http://www.cbb.gov.bh/page-p-banking.html accessed on 09/07/2014
5. http://cbb.complinet.com/cbb/display/display.html?rbid=1821&element_id=8514 accessed on 08/07/2014

- **Talent management** is the systematic attraction, identification, development, engagement, retention and deployment of those individuals who are of particular value to an organization, either in view of their 'high potential' for the future or because they are fulfilling business / operation-critical roles.

It is important to recognize that it is not sufficient simply to attract individuals with high potential. Developing, managing and retaining those individuals as part of a planned strategy for talent is equally important, as well as adopting systems to measure the return on this investment. Many organizations are also now broadening their definitions, looking at the 'talents' of all their staff and working on ways to develop their strengths. At its broadest, then, the term 'talent' may be used to encompass the entire workforce of an organization.[6]

Though talent management is a term in common use today, it did not appear until the late 1990s, when McKinsey & Company first referred it in their report, and later book, The War for Talent (Michaels et al, 2001). Talent management was claimed to be critical to organizational success, giving a competitive edge through the identification, development, and redeployment of talented employees. Interest in talent management has been driven by a variety of factors :

- the shift from an industrial to a knowledge / information age
- the intensifying global demand for high-caliber talent, especially managerial and professional talent
- the growing propensity of employees to switch companies and careers and the rise of 'boundary less' careers as people increasingly cross national, organizational and career boundaries
- work-life balance issues

The management of senior managers and 'high-potential' people who have been identified as strategic human resources has therefore been recognized as a key role for corporate HR function (Scullion et al, 2010). Martin and Hetrick (2006) argue that as the knowledge economy continues to develop, the value of 'outstanding talent' will continue to be recognized. Berger (2004) believes that HR functions will focus upon talent matters, including the nurturing of an organizational climate which fosters and stimulates 'talented individuals' through tailored employment packages. Williams (2000) categorized talented people as those who regularly demonstrate exceptional ability and achievement either over a range of activities and situations, or within a specialized and narrow field of expertise; consistently indicating high competence in areas of activity that strongly suggest transferable, comparable ability in situations where they have yet to be tested and proved to be highly effective.

According to Iles and Zhang (2013) the focus is on talent pipelines rather than pools, and concepts are drawn from operational research and logistics theories; talent management is akin to managing supply and demand and managing flows of people throughout the organization (Cappelli, 2008). This strand is more closely related to succession planning and human resource planning, and focuses primarily on talent continuity. Talent management is the strategic management of the flow of talented employees through a variety of jobs and roles in an organization. As Blass et al (2006) note talent management is more than HRM, leadership development initiatives or succession planning. It is the collective approach to recruiting, retaining, and developing talent within the organization for its future benefit, and extends beyond the domains listed above to included strategy, organizational culture, and change management.

Talent management in Islamic retail banks in Bahrain

HR specialists have an important role to play in providing support and guidance in the design and development of approaches to talent management that will fit the needs of the organization. HR is perceived as playing a critical role in facilitating talent pools and programs and in maintaining the momentum of such exercises.[7] To gain insights into the talent management strategies in Islamic retail banks in Bahrain, a sample of three Islamic retail banks, namely Al-Salam Bank Bahrain, Bahrain Islamic Bank and Ithmaar Bank, was selected. The HR / training managers of these three banks were interviewed to collect information regarding talent management issues and practices. The talent

6. http://www.cipd.co.uk/hr-resources/factsheets/talent-management-overview.aspx accessed on 10/07/2014
7. http://www.cipd.co.uk/hr-resources/factsheets/talent-management-overview.aspx accessed on 10/07/2014

management practices being implemented in these banks are detailed in the following sections.

Al Salam Bank-Bahrain (ASBB)

ASBB,[8] a dynamic, diversified, and differentiated Islamic bank, headquartered in the Kingdom of Bahrain was incorporated in 2006 and started its commercial operations in the same year. ASBB focused on increasing its market share and retail branch network by providing a variety of Islamic financing solutions, investments, deposits, related products to its customers. The success of ASBB can be attributed to the strategic leadership; core values espoused, and senior management philosophy. Key mechanisms and best practices related to talent management, mentoring, and people orientation shaped ASBB into one of the leading Islamic banks in Bahrain.

Management philosophy

The bank's high-caliber management team comprises highly qualified and internationally experienced professionals with proven expertise in key areas of banking, finance, and related fields. They are committed to adopting internationally recognized banking standards, best practices and operate with integrity, transparency, and trust. The key to ASBB's success is the priority it gives to a very critical body of stakeholders, the internal customers [employees], who in turn deliver their best service to external customers. This contributes to the bottom line / profit margin and takes care of shareholders' interests. The top management of the bank believes that employee welfare, development, and contribution are of paramount importance for the growth and success of ASBB. Human capital is the driver / enabler of financial capital/ wealth creation (Moovala, 2012).

Human capital

Superior human capital is a key element in the successful implementation of ASBB's business strategy, achievement of its objectives and realization of its corporate vision. In 2013, the bank continued to invest heavily in the development of its staff and, a number of initiatives to develop the skills and competencies of the bank's staff were implemented. An executive leadership program comprising interactive workshops was held for the bank managers. The workshops focused on enhancing management / leadership skills and addressed areas such as motivation, productivity, effective communication, stress, energy management, and team building.

The annual summer trainee initiative, championed by the HR department, hosted 25 graduates from various universities across the Kingdom for two-months during the summer of 2013. The program provided graduates with an invaluable on-the-job experience designed to bridge the gap between academia and employment, preparing graduates to become competent members of the Kingdom's workforce. The program included workshops, as well as graduate placements in various departments of the bank. The program was highly acclaimed by the participating graduates who gained an insight into the world of Islamic banking and the bank functioning. ASBB is a strong believer of local talent and continues to attract, nurture, and develop young Bahrainis. As of 31 December 2013, bank employees comprised 88.5% (88.1% in 2012) Bahraini employees out of a total of 191 (201 in 2012) across Bahrain and Singapore offices.[9]

Talent management / succession planning

ASBB believes that employees are its best assets. It upholds the truism that survival and growth of the bank is dependent on human capital development and its contribution. Through mechanisms like career development it provides the right impetus for enhancing the competency level / skills set of employees. The bank focuses on management development programs and succession planning. Succession planning provides the right base for effectively developing leadership qualities among potential successors and, ensures the availability and continuity of expertise in the bank.

In a strategic move towards human capital development and, with a view to develop employee talent, the bank initiated a succession planning system termed 'future leaders' program. The bank identified twenty talented young Bahrainis as successors for eight key positions in the bank, namely, that of the CEO, CFO, CRO, CTO,

8. www.alsalam-bahrain.com/
9. http://www.alsalambahrain.com/Investor_Relations_/Annual_Reports accessed on 14/07/2014

COO, Head of Legal, Head of Investment, and Head of Banking. These young Bahrainis are being groomed, and trained to take over the mantle of leadership, within the next decade or so. From this talent pool the future CEO would be selected. This succession planning system serves the dual purpose of, retaining talented young Bahrainis in the bank and, contributes to the practice of developing home-bred management talent. These young Bahraini leaders of tomorrow are trained based on future job requirements and given the opportunity to succeed and grow in their careers. The focus of the bank is on identifying and developing potential leaders. This talent management system endorses ASBB's top management commitment towards employee development and empowerment (Moovala, 2012).

Mentoring system

ASBB takes a holistic approach to people development. They provide ample opportunities for employees to build their capabilities and enhance their skills. Departmental heads play the role of mentors and, whenever required, mentors from outside the department are assigned to facilitate the overall growth of potential successors. The bank invests in training and developing employees through different methods and techniques. It gives them the advantage and opportunity of job rotation to strengthen their professional base in the bank. In due course, they would gain overall conceptual, technical, human and other requisite skills to take over the reins of leadership. The mentoring system works as a motivating factor for the bank employees.[10]

People orientation

ASBB being a people-centric organization in the financial services industry gained success in the industry and market place through the support of its employees. The bank has a good work culture and, employees are taken care of. It not only empowers its employees, but also nurtures them. Employees are differentiated according to their commitment and contribution, and rewarded accordingly. This has a dual impact in ASBB; on one hand, it encourages the high achievers to contribute more, and on the other, it motivates other employees to get into the high achievers' league.

The CEO and his team of senior managers maintain an open door policy with the employees. They are accessible and go the extra mile to establish rapport and build a one on-one relationship with each employee. 'Equal treatment' and 'equity principle' are very much in play in ASBB. It follows the principle of 'equal pay for equal work', where both expatriates and locals, for any particular job, are given the same compensation package. Employees who separate from the bank are treated with utmost dignity and are given a fond farewell. The management believes that all employees, both current and separated, are ambassadors of the bank. The word-of-mouth advertising done by these employees is as important to ASBB as that of the customers, to make or break the goodwill and reputation of the bank.

In ASBB a “management that cares” concept is all encompassing. It is reflected in the environment of trust that the senior managers created, through their personal credibility and accessibility to employees. At all times, the senior managers take into account the overall well-being of employees, be it employee development, compensation, physical health or work-life balance. Meritocratic culture that prevails in the bank helps attract and retain the best talent in the industry. ASBB is poised to scale great heights in the financial services industry of the Middle Eastern region, in general, and Bahrain, in particular.

Bahrain Islamic Bank

Bahrain Islamic Bank (BisB) was established in 1979 as the first Islamic commercial bank in the Kingdom of Bahrain. Since its inception, BisB has recorded a steady growth. In 2007, the Bank launched its new identity with the core objective of radiating its new and fresh mandate of exceeding expectations, both from an inspirational and a functional perspective.[11]

Institutional capability and human capital

During 2013, the bank strengthened its operating infrastructure - with particular emphasis on human capital, information and communications technology (ICT) and operations - which is the basic constituent of business success. BisB continued to take a lead role in recruiting and developing local talent, with Bahraini

10. Excerpt from an interview with Ms. Muna Al-Balooshi, VP-Head of HR & Administration, ASBB on 16/07/2014.
11. http://bisb.com/en/who-we-are/history.html accessed 13/07/2014

nationals now comprising over 97 per cent of total employees, the highest in any bank in the Kingdom. In 2013, BisB received a prestigious award for its outstanding role in providing employment opportunities for Bahraini citizens. The award was presented at the 12th Ceremony in Recognition of the Role of the Private Sector in the Localization of Jobs, which took place on the side-lines of the 30th session of the GCC Ministers of Labor Council held in Bahrain in October 2013.[12]

Training and development

BisB continued to invest in the training and development of its people during 2013. The main training focus was on leadership and customer service, and on supporting employees to gain professional qualifications. During the year, five retail banking employees acquired international certification from the Chartered Institute of Insurance-UK, while another five employees received finance (CFA and CPA) and human resources (HRME) certifications. A number of special workshops were conducted during the year, covering customer service, quality assurance, anti-money laundering, and first aid. The bank also continued to participate in Tamkeen[13] sponsored seminars, workshops and conferences. The total number of training hours delivered in 2013 was over 9000, with more than 75 per cent of employees attending training during the year. Newly appointed managers were trained in the recently revised performance appraisal system and objectives setting.

Talent crunch

BisB ensures that employees are cross-trained in their respective departments to avoid any effects of talent crunch, especially in technical areas like IT, e-banking and bank cards. In these areas it is critical to train employees and update their skills and knowledge constantly. However, the bank does face talent shortage in certain senior level positions where it is difficult to find the right caliber employees, mainly because of the qualifications / experience required for such positions. The HR department identifies such critical issues for the management. They work with the concerned departments to train employees in their field of work and in areas beyond their job scope, so they can handle other / related jobs during emergencies.

Competency mapping and skill building

The HR / training department constantly reviews employees' competencies due to any changes in the job structure or additional functions. Related competencies are mapped in accordance to the position requirements and job descriptions are revised accordingly. The training department is responsible to assess and assign relevant training to bridge the employees' skills gap. This process is constantly monitored in coordination with the respective supervisors / heads to achieve best results.

Retention / attrition management

Employees' progress is constantly reviewed in relation to the succession and career progression plans of the bank. Employees' skills gap / competencies requirement are identified and specific developmental plans are designed for individuals. This process also assists in identifying the high potentials and key employees who need to be groomed to higher positions. The main aim of these plans is employee retention. Compensation packages are also reviewed and are benchmarked to the market standards. During 2013, compensation packages for branch and financial mall employees were revised to match the current market rates. With employee attrition remaining a challenge for all banks in the Kingdom, BisB strives to offer employees' attractive compensation packages, while providing a stimulating work environment in which all employees can reach their full potential, and benefit from meaningful career progression opportunities. This is another important enabler for the bank to retain its employees.[14]

Knowledge management

The bank's intranet is the main source of knowledge management. All updated news in media, range of products, marketing strategies, training interventions,

12. http://bisb.com/media/document/BISB%20AR2013%20English.pdf accessed 13/07/2014
13. Tamkeen was established in August 2006 as part of Bahrain's national reform initiatives and Bahrain Economic Vision 2030 and is tasked with supporting Bahrain's private sector and positioning it as the key driver of economic development.
14. Excerpt from an interview with Ms. Reem Al-Mutawaj, Manager- Training & Development, BisB on 10/07/2014.

mandatory regulations stipulated by CBB are posted on the intranet as a channel of sharing the knowledge and information. Key position holders and supervisors are provided specific training to coach their subordinates and transfer relevant knowledge and skills. This type of cross-training provides confidence to employees, and creates mutual trust among them.

Ithmaar Bank B.S.C.

Ithmaar Bank is a Bahrain-based Islamic retail bank providing retail, commercial, treasury, financial and other banking services. It provides a diverse range of Sharia-compliant products and services that cater to the finance and investment needs of individuals and institutions. It also maintains a presence in overseas markets through its subsidiaries, associated and affiliated companies. The bank has for long recognized its people as its greatest asset, and invests heavily in ensuring they remain among the very best. The bank continues to seek capable and experienced personnel in line with its growth and demand; and focuses on maintaining its merit and performance based culture.

Competency assessment

In Ithmaar Bank, a thorough competency assessment of all employees is made to identify their areas of strength and areas for improvement. The competencies are then mapped in relation to the bank's strategic framework. Based on the competency assessment, supportive learning and development programs are customized. This is to ensure business continuity through the process of building and maintaining competent staff. All training and development programs are designed to match the bank's strategy to be a trusted leading Islamic financial institution. Since the training is linked to competency building, it is easy to gain staff buy-in as they recognize the need to develop their competencies leading to a career growth.[15]

Learning and development

Ithmaar Bank focuses on facilitating learning and development for all its employees. The junior-level employees have to undergo an induction program that includes courses to equip them with knowledge and skills related to Islamic banking. The training also includes mandatory anti-money laundering courses to increase their awareness on this very crucial area. Besides the technical part, the induction program helps junior level employees familiarize themselves with the bank's culture and corporate environment. The middle level employees are trained in core competencies related to work, business ethics, leadership, and strategic planning which prepares them to hold senior positions. They are developed in advanced technical competencies related to Islamic banking as well as specialized functional areas. The aim of these programs is to help employees become technically competent and professionally effective in the bank.

The bank has numerous training interventions ranging from dedicated off-the-job learning activities to practical on-the-job learning experiences needed to bridge the skills gap of employees. The interventions take into account individual career aspirations and facilitate training that meet employees' career development plans aligned to the overall business strategy. The training helps junior level employees have a smooth transition in the bank, and the middle level employees gain promotions. The objective is to encourage employees to progress in their career path. Enhancing the competency level by providing continuous development opportunities is one way to retain employees in the bank. The main aim is to empower employees, enable them to meet their own personal development plans, work collaboratively, and align with the organization's strategy to be a trusted leading Islamic financial institution.

Conclusion

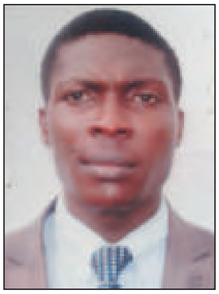
Talent management in Islamic retail banks in Bahrain is monitored by CBB through its regulatory role and stipulations regarding appointment, training, and compensation of bank employees especially of that of 'approved persons' / material risk-takers. Talent management strategies in ASBB evidence the fact that identifying and preparing future potential leaders to fill key positions is a crucial practice in talent management. As in ASBB, employees on talent management programs tend to consider mentoring and succession planning as the cornerstones to

15. Information elicited during an interview with Ms. Enas Rahimi, Manager- Human Capital Development, Ithmaar Bank, on 16/07/2014.

their career progress / success. The talent culture in ASBB is mainly due to the senior management support and philosophy. BisB's talent management practices encompass compensation review, competency building, and knowledge management. The key principles of the bank are human capital development and employee retention through career progression. The talent management strategy of Ithmaar bank focuses on employee learning and development including both on-the-job and off-the-job training initiatives. Training interventions are considered as the key enabler to talent development in the bank. In conclusion, it can be stated that Islamic retail banks in Bahrain are investing in talent management and recognize the fact that talented employees' contribute to the success of their banks.

References

- Berger, LA. (2004) Creating a Talent Management System for Organizational Excellence : Connecting the dots in Berger LA & Berger DR (eds) The Talent Management Handbook Creating Organizational Excellence by identifying, developing and promoting your best people. New York : McGraw Hill pp3-22.
- Blass, E., Knights, A., and Orbea, A. (2006) Developing future leaders : the contribution of talent management, studying leadership, knowledge into action. Fifth International Annual Conference on Leadership, Cranfield, 14-16 December.
- Cappelli, P. (2008) Talent on demand : managing talent in an age of uncertainty. Boston, MA : Harvard Business School Press.
- Iles, P. and Zhang, C. (2013) International Human Resource Management : A Cross - cultural and Comparative Approach. London : Chartered Institute of Personnel & Development.
- Martin, G. and Hetrick, S. (2006) Corporate reputations, branding and people management : a strategic approach to HR (Advanced HR practitioner). Oxford : Elsevier Butterworth Heinemann.
- Michaels, E., Handfield-Jones, H. and Beth, A. (2001) The war for talent. New York: McKinsey & Company, Inc.
- Moovala, V. (2012) Leading in changing times - A case study of Al-Salam Bank Bahrain in Warrick, D. D., and Mueller, J. (eds), Lessons in leading change : Learning from real world cases. Chicago : Rossi - Smith.
- Scullion, H., Collings, D. and Caligiuri, P. (2010) Global talent management. Journal of World Business. Vol 45, No 2. pp105-8.
- Williams, M. (2000) The war for talent : getting the best from the best. London : Chartered Institute of Personnel & Development.



Nigerian Banks and Effective Talent Hunt in the Knowledge Era

Abeleje, Kayode Richard *

Abstract

Globalization, from global perspective and consolidation from local perspective has forced the way Nigeria banks source their manpower to change. Banking business in knowledge era demands high trust and quality manpower in delivering its service to customers whose taste is always changing in accordance with changes in business environment. Much is demanded from potential employees than what most schools they graduated from could ever offer. This paper thus, through review of relevant authors' opinions discusses how the vacuum can be filled. It explores the challenges of getting the best of manpower from the great pool of population and also addresses can it can be ameliorated. A balanced discourse was made to educate employees, employers and lecturers of citadels of learning on how the climate change in banking sector can be maximized. Banks should be proactive and adaptive at their talent hunts just as potential employee should also make themselves equipped with relevant skills that will make them fit for the job.

Keywords : *Manpower planning, talent crunch, Competency, Competency Mapping, Knowledge era*

Introduction

The pillar of any bank is the personalities behind it. Array of workforce of organizations with their education, skills, and experiences is fundamental driver to organisational success. What makes an organisation to work is nothing but the calibre of people working there. Staff hired will either make the business or mar it. While the population of the jobless graduates increases, banks equally need competent manpower to fit in into their human resource demands in attaining their organizational goals and meeting ever changing customers' needs. The challenge remains finding the head that fits the crown.

The two principal challenges facing every bank are how to manage the people and how to manage risks. Human inclined risks involve loss of commitment to job, coping employees' resistance to change, employees turnover leading to loss of key talents and redundancy, (Adegoroye and Oladejo, 2012; Emeria and Okafor, 2008). Effective and efficient risk management cannot be achieved outside skilled and qualitative workforce. Hence the principal of these challenges is managing the people. Before now, capital and technology are often viewed as fundamental success factor in banks until recently where the place of human capital was vividly observed to outweigh the duo which can be substituted easily than human capital (Shilpi, 2013).

The financial strength of a nation is a direct function of its quality of its financial system. The key players of Nigerian financial system are the banks. One of the reasons for the consolidation exercise of 2005 was to make Nigerian banks to compete favourably among its international peers (Abeleje and Liafisu, 2014). However, the achievement of this cannot be without a good blend of regulatory system, sound internal control, treasury management, proper credit appraisal, risk management system, product diversification and more importantly, effective human resource management.

Literature Review

A lot of work has been done on how human resource management influences corporate performance, but few has been done about how change in economic climate has impacted human resource management

* Associate member of the Chartered Institute of Bankers of Nigeria.

and the performance of banks in a developing economies like Nigeria, India, etc. The focus of early researchers of human resource management has been on strategic leadership, competitive landscape and organizational learning. No sighted work on perception of change from the employees' point of view (Singh, 2013; Chakrabarty, 2012 Hitt, Keats, and De Marie, 1998; Ireland and Hitt, 1999).

This paper therefore contributes to literature by exploring the challenges of Nigerian banks to get right talents both from employers' perspective and from employees' perspective and how 'change' has redefined expectation from both the employers to employees and employees to the employers. This makes this paper unique, as earlier researchers major their focus on employers.

Therefore the major focus of this paper is to explore how change has made what is expected from an employee different from what the employee feels is required of him. Discourse shall also be made on how effective talent hunt can enhance the performance of Nigerian banks.

Concept of Human Resource Management

Human Resources (HR) have been described by Almamun (2009) described human resources as the energies, skills, talents and knowledge of people which are, or which potentially can be applied to in producing goods or rendering useful services. Synonymous terms to this concept are Human capital, intellectual capital and structural capital. Som, (2008) in his opinion viewed HRM as carefully designed combination of practices tailored towards improving organisational performance and ensuring it effectiveness. However, this has to be systematically done in relation to the environment within which the business operate and as complement to other organisational contingencies and systems (Boselie, Dietz and Boon 2005). According to Gbajumo-Sheriff, Elegbede and Owoyemi (2011) human resource management is related to concepts, theories as well as models, strategies, policies, plans, programmes, procedures, rules and regulations necessary for adoption while hiring and utilizing men in attainment of organizational goals. He further divided HRM into three classifications as follows :

a. Pre-engagement stage where career choice, self preparations, work design, conflicts bordering on growth and technological changes are considered.

b. During Employment stage where personal development, motivation, leadership, conflict management, on-the job training, communication at work place and trade unionism matters; and the

c. Post-retirement stage considering exit Interview, post retirement follow-up, pension policies, job design and evaluation

Mathis and Jackson (2002) defines HRM as the process of designing and applying formal system in an organization in order to ensure that human talents are efficiently and effectively utilized in achieving organizational goals. It is not about employment and industrial relation alone, it extends into identification of organizational interests and goals by the employees and being committed to aligning and achieving these goals. In other words employees must be willingly adaptive without prejudice to change in the structure of the organization (Adeniji, Osibanjo and Abiodun, 2013).

Scope of Human Resource Management.

Human resource management entails :

i. Promoting employees' commitment and loyalty to the organization by motivating them for improved performances.

ii. Ensuring that right employees are employed for right jobs. If mutual benefits of the customers and the organization must be achieved qualitative workforce will be needed.

iii. Employers should incorporate flexibility into work hours or working methods while employees are utilized in carrying out their operational functions. They should be trained to be receptive and adaptive to all change of forms.

iv. Harmonizing the strategic plans of the organization with its goals. This calls for gaining the co-operation of the employees with the line manager in implementing the policies.

Relevance of Change Management to Human Resource Management in Banking Sector.

In response to the global economic meltdown and the consolidation of the banking industry in 2005, banks were forced to adopt strategic change management alongside their human resource management. Therefore, the choice of manpower to be sought for in the banking sector depends largely on the change and human resource management.

Customers' needs are changing just as the environment in which the business is operating is changing; human resource has to be tailored in flexible and adaptive manner to meet customers' needs. Research has it that, organizational change initiatives had a complete failure to the tune of 70% (Bear and Nohria, 2000) and that seemingly successful ones, at 75% could not achieve their intended results (Nikolaou, Gouras, Vakola and Bourantas, 2007). Choi and Ruana (2011) also reported that 2/3 of organizational change efforts fail to achieve intended purpose. Inference can be drawn from this that majority of change management effort were not properly implemented. Yet there is a need for every bank to be proactive as the business environment (both domestic and international), technological innovations and customers' expectation are changing at a high pace. (Adeniji, Osibanjo and Abiodun, 2013; Buyens and De Vos, 2001). The following stages are pertinent for effective talent hunt :

The First Stage- The planning stage.

This is the fundamental stage at which the focus of recruitment must be based on hiring the right candidate for the right job. The recruitment and selection therefore has to be made in attracting best talents having highest performance potentials for the job.

The prominent theoretical concept that connects the 'right candidate' with the 'right job' is 'fit'. Literature discloses the submission of various authors on the concept of 'fit'. However, for the purpose of focus, the classification of Sekiguchi (2004, Pg 179) as cited in Singh (2013) will be adopted : person-organizational fit and person-job fit. Person-organizational fit focuses on how individuals align with the values of the organization and their ability to work as a team with colleagues.

Person-job fit concerns matching the skills, abilities and the job holder's knowledge with the job requirement. While selecting the right person during recruitment, care should be taken not to mistake psychological abilities of candidate for the on-the-job delivery capacity, as a brilliant candidate may be dull at job. This is where attitude towards the job to be recruited into takes place.

The potential worker should have a mindset of solving customers' problem efficiently and not just having the capacity to solve problems on paper. This was equally confirmed with the experience of Professor Debashis Chatterjee, Director of IIM Kozhikode. He equally observed that brilliant minds not having the right attitude towards the job may not deliver effectively assigned tasks. I think the key point here is the right attitude as well as the interest to work.

The Plans of Banks at this stage should :

- be a standard and carefully drawn recruitment programme,
- Provide room for continuous updating of skill and incorporate the dynamism in technology in the ever-changing business environment.
- a pilot system of work should be maintained. This affords the new generation workforce to work alongside with an older generation workforce as a team.

Second Stage : Competency Mapping.

Concept of Competency Mapping

Competency mapping ensures the determination of the true marketability of a potential employee in today's market job. This can be achieved through job test through which the competencies of the candidate will be assessed in comparison with the job requirements of an organization in ensuring that what the job demands can be competently delivered by the employee. It is a principal function of the HRD. An advantage of this is that it boosts the confidence of the potential employee and ensures an articulation of his competitive advantage.

Adapting Shippmann et al (2004, Pg. 67) model, good competency mapping can be achieved through the following steps :

i. The heads of the functional departments (e.g. HR, marketing, finance, and technical) through the employee's direct boss should specify the competencies an employee should possess and to what degree

ii. The HRD will then design an appraisal method to assess the employee's competencies and the extent of their usage.

iii. Control is done by comparing the competencies as displayed by each candidate through self rating with those as required by various heads to observe the missing links. This is usually done by the head of the unit.

iv. The functional heads determine to what extent they can believe and place reliance on the potential employees and recommend training where needed.

Upholding this, right talent will be required in delivering the product to the end-user. The question is: do we need 'first class' workers for the job or appropriate people? In my opinion the talent hunt must be towards establishing candidates that are both good and have passion for the job. The candidate should be ready to defend the corporate image of the company anytime and anywhere be it rural or in the cities.

Having sourced competent employee of sound knowledge, skill, self concepts and traits, good motives and traits the next thing is competency mapping follows (Tucker and Cofsky, 1994). This is where a HR expert identifies the competencies in an employee that are more peculiar to the organization to enable him to carry out his duty successfully. This will reduce cost of training.

Third Stage : Retention

Securing the right people is not as good as retaining them. This is another bone of contention to the human resource manager. People often leave banking jobs for other jobs while it is rare seeing people coming into banking industry from other profession like legal, education, accounting just to mention a few. This shows that something is missing in the link.

Unsatisfied or unhappy employee can never be retained. Where they are not managed on time they infest the organisational performance with their bad premonition. They often affect the morale of their team with their negative attitude which will ultimately limit the attainment of organizational goals and objectives. Unsatisfied employees are usually the rumour mongers and pessimists of their various organizations. Managers should therefore ensure that employees are happy and motivated in order to get the best from them. This can be achieved by introducing positive organisational culture that ensures satisfaction of the workforce. Celebration of team accomplishments, shared goals, and open communication system can also promote positive attitude of employees towards their jobs.

Training, skilling and re-skilling will also help employees to deliver their services in an efficient and effective manner. Such training should be based on expectations from the employees and according to the need of the bank.

Fourth Stage : Performance Evaluation Stage :

Naturally, it is human tendency to make judgement about the people one is working with or about oneself. This makes performance appraisal a universal and an inevitable phenomenon. However, where not carefully handled it can lead to severe legal and ethical issues.

In order to ensure its objectivity, it has to be standardized and structured. In some organisations, the performance appraisal is performed by a superior who may be influenced by the good relationship that subsists between him and his subordinate who might not be good at the job; thus benefiting from the superior's subjectivity. Effective achievement of organisational goals and objectives demand control through performance evaluation. A product is always the reflection of its input and process. Once something is wrong between the links, it will affect the output.

According to Singh (2013) the following are standards of measurements : dependability, general intelligence, initiative and resourcefulness, ability to assess sound business proposals, job knowledge, relationship with junior and senior colleagues and relationship with public, conduct manner and managerial ability.

Fifth stage : Exit Stage

On retirement, retiree should be made to be interviewed to get information for improvement or corrective measures in the manner of operation of the organization. The HRD should ensure that they are retiring not having anything against the company. Their comments about their experience on the job after retirement matter. They should also be well compensated for the years of service they have put into the organization to make them ambassadors of the organisation wherever they find themselve.

Work Era and Why People Work.

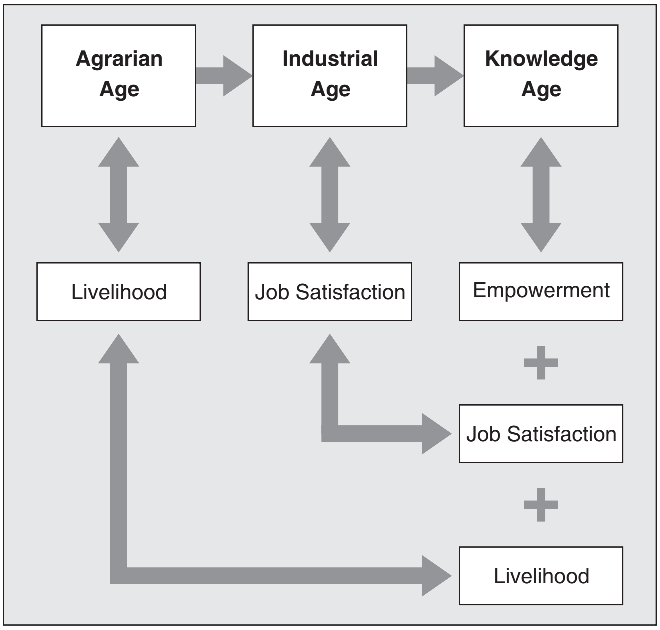
Early working era is characterised as an agrarian economy where majority worker only live for sustenance or livelihood. Few people are educated in this era thus skilled manpower was scarce. The era later translated into industrial era with good number of educated people with their focus on job satisfaction as number of jobs at this era is good enough to go round.

Globalisation and technological innovations has forced the manner in which most jobs are performed in this era. This digital era demands more of 'soft skills' than intellectual skills. It is an era where changes which have become part of normal life. Employees desire security in their jobs just as the expectation from employers also become more demanding. At this knowledge era, what you Know is what will Lead you to having an Edge, hence KNOW-L-EDGE. This is an era of competition where once the edge is not sharp enough, the bank will be cut by it. You either cut with the edge or you are cut by a sharper edge. The banking industry is never an exception. No wonder, recruitment into banking sector has to be taken with ultimate seriousness. The adage 'working hard' is no longer relevant but 'working smart'.

The recently adopted cashless economy and e-banking system, though another welcomed ideas are challenging change in the industry especially to the human resource department. It is the responsibility of the HRD to utilise change and stepping stone and not as a stumbling block. They should be readily adaptable as it could be seen that what used to be basis for working in earlier eras is superseded through change in the latest era.

The diagram below describes the ages and the major reason why people work.

Figure - 1 : Work Era and Priority of workers.



Requirement for maintaining the knowledge workers

In order to retain knowledge workers :

- Make them associates and not subordinates
- Lead them and don't manage them
- Empower them, don't bribe or buy them and
- Allow flexibility with them in time and place at which the job could be performed.

How to ensure effective HR

The best of human resource management is achieved where its strategies are properly integrated with the business strategies. This should therefore be the focus of every bank. This can be better achieved through organised team work and commitment to improve on the part of the management. Effective human resource can be achieved through the following steps :

1. Identify customers' needs per time
2. Recruiting the right people to meet the needs

3. Maintaining and developing the engaged staff : There must be a good manpower plan in place to ensure that staff engaged are optimally utilized

Human Resources Challenges Faced by Nigerian Banking Sector

i. Talent crunch :

Globalization has changed the manner of operation of most organization such as the banking and the telecommunication sector in Nigeria. The cry of her graduate has been 'no job' whereas companies are recruiting everyday according to their needed capacity. The issue is talent crunch. While we cannot deny the ever increasing rate of unemployment, we should also be realistic that most graduates are unemployable. The capacity to match the needed job requirements is lacking.

Most institutions of learning where teachings ought to be down according to what graduates will be needed for on graduation are operating curriculum not matching up with expectations of employers. Syllabuses and curriculum should be reviewed regularly to reflect global change in job requirements.

Students on their parts also are not helping. They only read to pass. When what they are taught is required for practical application it is always a different story. They should study wide beyond the limited lecture given by lecturers.

Lecturers should always examine students to bring out the innate qualities in them. The internet though a blessing as a good source of knowledge can stiffen initiatives and creativity where excessively relied on. Students often adopt cut and paste syndrome as a bail out to every assignment.

Real life scenarios should also be incorporated into their teachings. Student should be made to go out in their groups, study a specific challenged organisation and think into how solution can be brought to bear. This will encourage the student to apply what they have learnt into real life situation at the same time give them a mindset of what is expected from them after graduation. Apart from this, it will help them in building up analytical, problem solving, team working, leadership, and adaptability skills which employers are looking for.

ii. Satisfaction and motivation of employees.

In approaching this, they should be carried along to develop a sense of belonging in them. Motivation and satisfaction is not in money alone but in values that can build the values of the employees who in turn build up value for the organisation.

iii.Competition and effect

The competition in banking industry today is not only local but international. The same service is competing with same customers but the manner in which the product/services reach the customer will dictate whether they will come again or not. The competition is ever stiff. Some banks prefer cutting costs to meet up with competition pressures. The challenge still remains how to cut cost without compromising the quality of service.

Conclusion and recommendations

Banking industry is a service industry and a business of trust. The Potential employee must be prepared for the task beyond mere academic qualifications by ensuring that they are competently prepared. Employers also should be proactive and adaptive enough to maximize change in operating system whether locally or globally.

Effective manpower plan must be in place. According to Chakrabarty (2012), if manpower plan must be effective, it has to amongst others, capture the type of people required, the level at which they are required and the roles to be performed by each person must be clearly defined. Aside this, the plan such be made in a way that it will incorporate the time frame of the recruitment of an employee to his retirement- life cycle approach. For this to be attained, the business plan and business strategy of the bank must reflect the plan. Based on this, the business plans or business strategies may need to be revisited in order to have a solid manpower plan.

No matter how similar the services rendered by banks can be, especially in this era of stiff competition and globalization, they should strive to differentiate their products / services. The product differentiation strategy will help them in carving a niche and building a corporate image for themselves. Banking Industry as a service sector requires competent hands to ensure that the products / services meet the need of the customer in a better way than existing products / services.

Nigerian banking environment is becoming 'survival of the fittest' and it is just be as a matter of time that survival will be difficult to banks not meeting customers' expectation. Banks that prioritize customers' satisfaction will always gain their loyalty and as matter of fact this will reflect on their profitability.

In addition to this, success and career growth planning should be clearly defined. They should use cutting edge technology in selecting best applicants and managing internal roles. Such techniques should also be adopted in for future developments, assess performance and to plan succession.

Also, banks must ensure that in the course of meeting the organisational needs, they are not insensitive to employees needs as this can lead to poor performance on their part and thus, hamper the growth of the organisation. A married woman still at work by 8.00 pm only to face traffic jam after work will definitely like to move from the job at slightest opportunity or continue without passion for the job. In other words, there should be a balance in checking conflict between employees' needs and organisational needs.

Further more, a good reward and award system should be embraced. Promotion should be approached with transparency and objectivity. Uniform performance evaluation should be adopted without partiality. Good performance should be rewarded just as non-performance should be punished. Also award system should motivate both the employees and the human resource department. Award such as the 'employee of the month', bank with the best HRD, amongst others will help in motivating employees towards best performance towards meeting customers' needs. Such awards could be administered by professional bodies, government agencies and other prestigious organisations.

Present era demands being proactive to inevitability of change. If this must be achieved, there is a need for skilling and re-skilling of employees through training and development to meet organizational and customers' needs. This may call for establishment of research and development (R&D) section in banks for regular review of existing policies whether it aligns with local and global last but not the least, demand.

Institutions of learning should train student based on what they will face after school and not just ensuring that fulfilling fast outdating curriculum. It is quite embarrassing where a graduate of computer science cannot perform effectively elementary word processing and when mechanical engineering graduates find it difficult to repair their own cars. This shows that something is missing.

References

- Abeleje, K. R. and Liafisu, S. Y., (2014), Impact of Mergers and Acquisitions on Shareholders' Wealth : Evidence from Nigeria; Scottish Journal of Arts, Social Sciences and Scientific Studies, Vol. 18, No. 2 March Pg 54-67.
- Adegoroye, A.and Oladejo, M., (2012) Strategic Human Resources Management practices in the Post Consolidated Nigerian commercial banks : European Journal of Business and Management, Vol. 4, No. 15, ISSN 2222-1905 (Paper) ISSN 2222-2839 (retrieved Online on July 5, 2014 from www.iiste.org).
- Adeniji, A., Osibanjo, O. and Abiodun A., (2013). Organizational Change and Human Resource Management Interventions : An Investigation of the Nigerian Banking Industry; Department of Business Management, School of Business, College of Development Studies, Covenant University, Ota, Ogun State, Nigeria
- Almamun, S. A. (2009), Human Resource Accounting (HRA) Disclosure of Bangladehi Companies and Its Association with Corporate Characteristics; BRAC University Journal, Vol. VI, No. 1. Pp35-43.
- Bear, M., & Nohria, N. (2000). Cracking the Code of Change; Harvard Business Review, 78 (3), 133-139. Pmid : 11183975
- Boselie, P., Dietz, G., and Boon, C. (2005), Commonalities and Contradictions in HRM and Performance Research, Human Resource Management Journal, 15, 3, 67–94.
- Buyens, D., & deVos, A. (2001), Perceptions of the Value of the HR Function; Human Resource Management Journal, 11 (3), 70-89.

- Chakrabarty, K. C., (2012), Inaugural address on "Human Resource management in banks - need for a new perspective" by the Deputy Governor of the Reserve Bank of India, at the HR Conference of Public Sector Banks, Mumbai, 1 June.
- Choi, M., & Ruaua, W., (2011), Individual Readiness for Organizational Change and its Implication for Human Resource and Organization Development; Human Resource Development Review, 10 (1), 46-73.
- Emeria, F. K and Okafor, C., (2008), Effective of mergers and acquisition on small business lending in Lagos in Nigeria; Africa journal of business management, volume 2 No 9 September, http;www.acedemic journals.org/AJBM
- Garrett, S. (2007), Competency Mapping : What is it and how it can be done by individuals. Available online at: www.careertrainer.com/Request.jsp?
- Gbajumo-Sheriff, M., Elegbede, T., and Owoyemi, O., (2011), The Challenges of Human Resource Management Practices in the Informal Sector in Nigeria; Chinese Business Review, Vol. 10, No. 5, 340-351, May, ISSN 1537-1506.
- Hitt, M. A., Keats, B. W., & DeMarie, S. M. (1998), Navigating in the New Competitive Landscape : Building Strategic Flexibility and Competitive Advantage on the 21st Century; Academy of Management Executive, 13 (1), 43-56.
- Ireland, R. D., & Hitt, M. H. (1999). Achieving and Maintaining Strategic Competitiveness in the 21st Century : The Role of Strategic Leadership; Academy of Management Executive, 13 (1), 43-57.
- Nikolaou, J., Gouras, M., Vakola, I., & Baurantas, U. (2007), Best Practices in Organizational Development and Change; San-Francisco, Linkage.
- Shippmann, J. S, Ash, R. A., Battista, M., Carr, L. D., Hesketh, B., Kehoe, J, Suri, G. and Vohra, N. (2004). Competency Mapping in Performance Management in Summati Reddy. Human Resource Management, Best Practices and Cases. ICFAI University Press, India, pg 67.
- Singh, S. (2013), Face of HR practices in Todays' Scenario in Indian Banks; International Journal of Application or Innovation in Engineering & Management (IJAIEM), Volume 2, Issue 1, January 2013 ISSN 2319 - 4847. Web Site : www.ijaiem.org, retrieved on July 6, 2014.
- Som, A., (2008), Innovative human resource management and corporate performance in the context of economic liberalization in India; The International Journal of Human Resource Management, 19:7, 1278 - 1297
- Tucker, S. A., Kathryn, M. Cofsky., (1994), Competency Based Pay on a Banding Platform. ACA Journal Spring, Vol 3, No. 1.
- Yahaya, K. A., (2007), Impact of Investment in Human Resource Training and Development on Employee Effectiveness in Nigerian Banks; Journal of Social and Management Sciences, Vol 12, Ilorin.

Talent Management in Nigerian Banks

Dr. Onafowokan Oluyombo *

Introduction

The multi composition of Nigerian banks employee academic background provides a basis to explore talent management in banks. The relax banking environment in employing people from diverse academic background and professionals to form the core human resource team of the bank has created a niche for the use of appropriate talent management procedure, process and skills. This is imperative in order for banks to be able to recruit, employ, train, retain and promote the right calibre of employee that fit appropriately to the banks strategic goals. However, the highly competitive nature of banking business especially in developing nations pose a challenge to banks top management to reduce staff poaching from their bank to another bank to the barest minimum. This is because staff poaching creates diffusion to the banks to a competing bank.

Discussion on talent management centred more importantly on Chambers, Foulton, Handfield-Jones, Hankin and Michaels (1998) submission that “better talent is worth fighting for”. This exposes clearly the need to keep and retain dedicated and competent employees in an organisation such that the employee is not enticed to leave or poach from the employer by another company. The 'fight' for talent is not a physical combat between two banks, but it involve strategic plan by individual bank that guarantee maximum tenure in residence for faithful employees.

The growth of Nigeria banks with the subsequent expansion to other nations across Africa, Europe and America created global competitive advantages for these banks, but it also leave a critical challenge of talent management. This paper examines current talent management policies in Nigeria banking sector. The paper is divided into five sections as follows. The next section provides conceptual clarification on talent management including the objectives of talent management. The review of some bank's talent management studies are presented in section three, while section four is devoted to talent management in Nigerian banks. The paper conclusion is presented in section five.

Concept And Objectives Of Talent Management

Human capital management is probably the largest task in any organisation irrespective of the ownership structure. The priority of organisation is their human resources (Aston and Morton, 2005) as such, human capital management is the most valuable asset that enables an organization to meet their goals irrespective of where the organization is located or the service render or product sold. This does not exclude the banks. A bank can grow if the human capital management which is referred to as talent management is utilized in the right proportion to the benefit of the bank. Talent management involves how employee with the right skills and knowledge are attracted, engaged and develop (Horwitz, Heng and Quazi, 2003). Having the relevant people in the right positions as to ensure the success of business, can be clearly seen in the conventional financial institutions and the performance of each institution basically relies on their employee competitiveness and productivity. (Kamil and Salleh, 2013:297). A bank's performance can be predicted and measured by the quality of the employees. Talent management is about attracting, developing and retaining talented employees and the benefit possible, amongst others, is to extend the strategic contribution (Tarique and Schuler, 2010).

* Head, Department of Financial Studies, Redeemer's University, Nigeria.

Talent management can be defined as the total process involved in planning and executing the recruitment of personnel, and the analysis of the current employee to determine their competence and relevance in the organization, and as it relates to individual specific task. Talent management is both practical and philosophy (Christensen Hughes and Rog, 2008) which can provide a culture of nurturing talent in a company (Lovebrant and Gerdrup, 2012). This should form the basis for all employment and promotion issues which form the values, belief and culture of an organisation. This should be seen to be reflected always in the company that can easily be felt as if it is a tangible asset by the employees. Talent management consist of how to identify, attract, employ, retain and deploy employee (Axelrod, Handfield-Jones, and Welsh, 2001) in an organisation such that the cost of attracting competent staff is justified by the number of years put into the employment. This is a critical issue for banks where high level of trust is required among employees because inability to retain good talent may have negative consequences. According to Berger and Berger (2004), having the correct combination of competent talent requires identification of individual competences, performance appraisal and the future needs of the talent as it relates to each specific position and functions.

As the challenge of talent management in the bank is real, likewise it is "difficult for large enterprises to both attract and retain the right talents as well as having the right people at the right positions and ensuring the employees have the motivation and skills required" Lovebrant and Gerdrup (2012:6). The objectives of task management include recruiting, retaining and engaging talented employees (Lovebrant and Gerdrup, 2012) to ensure that the organization goals are met at the appropriate time with less distortion from the employee. By just looking at what people can do currently and projecting that on what they can supposedly do in the future, organizations fail to capitalise on the huge reservoir of potential that exist in everyone (Kamil and Salieh, 2013:301). Talent management in banks become imperative because of the stiff competition in banks which in most cases is unhealthy because if a bank does nothing with her talent, the talent will move to another better bank. Besides of being a strategic operator to count on, TM, and the analysis of it, may provide an assurance of having the right people at the right positions and competitive advantages compared to competitors (Tarique & Schuler, 2010).

The key areas of talent management from the above are talent recruitment, talent engagement / employment and talent retention. All the activities carried out to accomplish the above areas are part of talent management processes and procedures irrespective of the level at which it is done. This can be conceptually stated that talent management is getting the right person for the right job at the right time. This can be achieved through promotion and deployment of internal talent or recruitment of external talent.

Bank's Talent Management Studies

In today's banking business, the performance of banks employees (the good talents) increasingly determine to a greater level, the success of the bank among its peer. However, the process of talent management in the bank should be able to contribute positively on a sustainable basis to the banks profitability and growth.

A qualitative study by Lovebrant and Gerdrup (2012) on how talent management is implemented in three major leading Swedish banks found that one of the main reasons for talent management initiative is to ensure qualitative succession for key positions in the banks. The focus of the banks appears to be on potential executives at the group level. However, the banks use rigorous selection process to ensure that the candidates participating in talent management has the required talent to succeed. Finally, all banks focus their evaluation on what talents to enlist in the programs while measurements concerning the programs' impact are left hanging.

In a study of 13 European banks which are among the top 30 in the region by market capitalisation, in eight countries in Europe, Putzer, Sermpetis and Tsopelas (2008) report that the growth of European banks makes it more difficult for them to fill main position with qualified personnel. Based on interviews with top human resource executives of the banks, the study found that European banks face shortages in the number of top executives needed, and in the specific skills executives must have for banks to execute their business plans. The study concluded that most bank don't have enough qualified people inside the organization to fill critical positions because only 36% of the banks manage to fill critical vacancies quickly and effectively with internal talent, while only few banks benefited substantially from talent management efforts.

Pinto and Dhulla (2012) study the talent management system in India banking sector with regards to motivation and satisfaction among government, co-operative, and private banks employees. They found high job characteristic scale among the banks in the following order : government banks, private banks and co-operative banks. Their result shows that government bank employees are high on work motivation by the employer.

Talent management can not be discussed or practised without the strategy to achieve it because of continuous increase demand for talent and the shortage in supply of good talents across the world especially in the banking sector. This pose a challenge to bank management to develop the right policies and strategies to attract and retain the good talents in the work force. It is on this premise that Kamil and Salleh (2013) assert that the Malaysian finance industry experience more financial services providers implementing comprehensive talent management. This process may help the banks to retain the right talent. The use of right talent in the bank will strengthen such bank to be a market leader in the industry.

Talent Management In Nigerian Banks

All efforts undertaken by banks for financial growth and competitive advantage require proper appraisal of talent management effort. Talent management is very important because the filling of vacancy by internal talent is cheaper and better in most cases than using external talent that is not familiar with the core value of the bank. While the best talent managers can tap strong internal contenders for such roles, many others will be forced to fill pivotal jobs with second-tier internal talent or with external candidates - a relatively expensive and risky approach for banks (Putzer, Sermpetis and Tsopelas, 2008:1).

Moving from the known to the unknown, the study investigates the existence and content of talent management in Nigeria banks through the bank's website. It is expected that a prospective talent will contact the bank for the first time on talent management through the bank's website in order to be able to place the banks against each other on what the bank has to offer to the employee. This will inform an applicant decision on which bank or banks to transfer his talent to. Out of the 23 banks in Nigeria, the study randomly survey 14 banks website namely; Wema bank, Zenith bank, Enterprise bank, Union bank, Sterling bank, Mainstreet bank, Stanbic IBTC bank, First bank, Eco bank, Access bank, GT bank, UBA, Diamond bank, and Skye bank. A visit to the banks website reveals mixed results because talent management information by some banks were scanty while few were detailed. There is no uniformity in presentation while information provided differs significantly but they are directed to the talents.

It is only First bank that has a clearly stated talent management strategy on her website, while others call it different names. For example, Eco bank call it 'careers: our philosophy', to Stanbic IBTC bank; it is 'why work for us'. It is named 'our people and culture' by Access bank, while UBA calls it 'career, people and culture. Diamond bank tagged it 'what we do and why join us', while to Skye bank, it is 'our career advancement philosophy'. The findings from some of the banks are presented from their website.

Stanbic IBTC Bank

The bank is a people centre organisation because it states that "at Stanbic IBTC Bank, our people form the core of who we are. For this reason, we value our people and recognise that they are our competitive advantage. We create an atmosphere for people who are passionate about making a difference in the lives of others". The bank "reward individual and team performance with competitive pay and incentive programmes, thereby encouraging" the talents "to mature and progress with extensive learning and development opportunities". As typical of every organisation, the training and development opportunities may not be automatic but based on the talent performance.

The bank provides “a challenging, stimulating and highly rewarding career in a work environment that is fast-paced, exciting and empowering”. The bank asserts that they “recognise that all employees can make valuable contributions to the group, and possess unique skills and attributes that collectively facilitate the success of the group”. The main objective of the bank “is to ensure that they identify the right people with the right skills and capabilities, for the right roles, and at the right time; thereby supporting the group in delivering on its business plans”. The bank pride itself in having the “employees are the real assets of the organisation”, while their “strength lies in the quality of people hire”. To accomplish this, the bank “strives to hire the right type of individuals who can adequately support the group's vision of being the leading end-to-end financial solutions provider in Nigeria by 2020”.

According to the bank, “we invest in our people so as to maximise their potential and help them build career paths that will fulfil their professional ambitions as well as their personal goals. We make every effort to help individuals optimise their performance and unlock their true potential. We also encourage mentoring which hastens career development and ensures smooth transitions within the business”. This shows a path for succession planning using internal talent. These talents are also exposed to “staff development and training programmes to promote global best practice and strengthen the leadership philosophy across all the bank's businesses”.

An employee is interested in the remuneration and reward system of an organisation. The bank provides insightful information about this. “In line with our strategy, we recognise the need to pay employees competitively. Our reward system serves to support the development of an engaged, high-performing and diverse group of employees who deliver outstanding business performance. Rewarding people fairly and competitively, based on superior performance across several primary metrics, is a vital part of building our business. Stanbic IBTC has a meaningful recognition scheme which meets our business needs by recognising and celebrating members of staff who go the extra mile and make exceptional contributions in achieving the key priority objectives of the group. Our reward philosophy recognises long service and rewards loyal employees who have been in continuous and dedicated service to the organisation for pre-determined periods”.

Sterling Bank

Sterling bank provides a brief statement that shows their commitment to the talent success “Are you looking for an environment that offers unprecedented opportunities and a sense of fulfilment?

Whatever your experience, wherever your ambitions lie, there is a great chance we can offer you the opportunities and challenges to match. At Sterling Bank we are committed to your success and will make you an integral part of building a world class institution”.

First Bank

“The First bank talent management strategy is aimed at supporting employee engagement, employee motivation and increased productivity, and leadership development across all levels of employees within the organisation”. The bank summarises her talent management strategy into five categories namely; planning, engagement and development, rotation and cross posting, diversity and inclusion, and training and mentorship. These areas cover specific issues. For planning, “in an effort to identify and acquire the right talents, First bank invests in building a corporate structure that designs the right jobs and matches them with the right people”. This reveals that talents are only employed after the job content has been designed, to ensure that the right person is hired by the bank.

The bank “offer several initiatives to understand new employee and connect them with the bank's strategic goals”. First bank also take the time to understand employee's long-term goals which is the basis for a mutually beneficial relationship for the new employee and the bank itself”.

The bank refers to the employees (talents) as one of their greatest assets, probably valued more than some expensive fixed assets. The “bank strives to maintain a pool of multi-skilled and well rounded employees”. Initiatives such as “job shadowing, coaching, counselling, mentoring, succession planning and career maps are keys to having a challenging and fulfilling career within the bank as well as developing and retaining talents at all levels of the organization's operations". This suggests that the bank may probably build a 'family' bank where employees see themselves as members of a very big family typical of African family concept culture.

Diversity and inclusion are given more emphasis by the bank. This spelt out what employees should expect and the bank's position / policy on such matter. For example, the bank " provide equal opportunity in all terms, conditions, or privileges of employment, including but not limited to, recruitment, certification, selection, job assignments, working conditions, fringe benefits, compensation, training, transfer, layoffs, recall from layoffs, disciplinary actions, terminations or promotions". In addition, it "discourage harassment of whatever nature in employment or service delivery on the basis of race, sex, national origin, age, handicap, or any other protected status is an unlawful employment practice and is prohibited in the bank". Furthermore, the bank "promote fair and equitable treatment to all employees, and shall comply with appropriate federal and state legislation by recruiting, hiring, training and promoting persons in all job classifications without regard to race, colour, sex, age, national origin, religion, handicap / disability status or sexual orientation".

The bank provides an insight into the training and development opportunities that exist for talents. This includes e-learning, mobile learning, virtual libraries and classroom learning. This is an opportunity for employees / talents to equip themselves for the future role that may be assigned to them by the bank.

Eco Bank

"Eco bank believes that its success depends for the most part on its ability to maintain a diverse, resourceful and dynamic workforce to serve its customers". The bank states that it "has a strong policy in sourcing, attracting, developing and retaining the best talents".

This includes recruiting, developing and retaining a highly-motivated workforce nurtured by an enabling environment. The provision of "an environment that identifies, encourages, and rewards excellence, innovation and quality customer service". Providing the "climate and resources that enable staff to advance on merit as far as their talents and competence will take them, without regard to gender, race, religion, color, age, national origin, marital status, physical challenges and/or disability status". Furthermore, the bank "offers compensation and benefits that are fair, competitive and linked to performance". It also "promotes work-life balance initiatives aimed at helping our employees maintain a healthy balance between their work pressures and family / domestic responsibilities". The bank "develop a broad and deep pool of talented professionals with the skills, experience and mind-set to operate across different markets and cultures within and beyond the African continent".

Access Bank

The talent management focus of Access bank is "to be the employer of choice for all aspiring banking professionals in Africa". To accomplish this, the bank "seeks out promising talent and grows them into strong professionals with the potential for leadership". The potential leadership concept of Access bank talent management rest on five main emphasis. These are; the quest for excellence, people management philosophy, building capacity in the people, compensation and incentives, and performance management.

The quest for excellence is regarded as "the single minded proposition that propels everything" done at the bank. Talents are regarded as the core of the bank business. According to the bank, their "human resource management practices are designed to be flexible to accommodate the needs of each individual employee, encourage a sense of ownership in all aspect of the bank business, develop requisite professional and ethical behavioural standards, deliver superior client service, embrace sound financial discipline and recognise and reward performance".

The talent management goal of the bank "is to have a well-motivated staff complement that experience career satisfaction and takes pride in working for a respected organisation that offers progressive career development at an individual level". As a merit driven organisation. The bank "performance management system measures each employee's performance against clear and objectively defined goals. The level of achievement of these goals determines both the growth of the organisation and those of every individual employee. Necessary tools and support are provided to ensure seamless attainment of these goals".

Compensation and incentives policies of the bank reveals that "the Bank consistently rewards high-performing employees and teams with adequate monetary and non-monetary compensation". The bank states that the "practice has had a significant impact in spurring the people (talent) to greater personal and organisational achievement". This brought to the fore, the need for adequate and commensurable remuneration / compensation for a better talent management if talents are to be loyal to their employers for a very long time. The bank builds capacity in the talent (people) through self study, on-the-job training and e-learning programmes.

UBA

UBA strongly believe that people are critical to their success in building a sustainable and dominant business. The bank goes "to great ends to source, attract, recruit, develop and retain the best talents where-ever they may be in the world". To this end, the bank states that it "recruits, develop and retain a highly talented workforce; provide a non-threatening environment that encourages and rewards role-model performance". It also "helps the work-force maintain a healthy balance between work and their personal lives, and provide competitive compensation and benefits" to the talents.

The bank refers to its employees as the most important asset. Learning methods adopted by the bank for the benefits of the employees range from e-learning programmes, class-room trainings to off-site trainings. Proactive steps are taken to enshrine the bank culture in the hearts of our employees.

"UBA runs a robust goal-driven Performance Management System which measures each employee's performance against care-fully defined targets, their level of team-work and the organization's performance". The system seeks to reward Role Model performance accordingly while at the same time, helping least performing Staff to get better on the job. The bank asserts that it understood "the powerful impact of rewards can have in motivating role-model employees and teams, and thus strive to provide monetary and non-monetary rewards accordingly".

Diamond Bank

Diamond bank is "apt to discover young talented individuals and empower them to achieve full potentials in their career path". This is accomplish through "continuous training, development programs, and exquisite professional courses".

According to the bank, "in Diamond bank, there is a place for everyone", The bank call itself "a caring institution with employee best interest at hearts, who do not see talents as just machinery but a unique individual capable of taking bolder steps. With a wide range of well packaged human resource policies to motivate, retain and continually develop staff". "Diamond bank is able to affect not just employees life positively, also that of their loved ones with very impressive policies and schemes knowing that a man can achieve the best when he is in safe hands". The talents are refered to as the banks 'internal customer'. If truly the employees are customers of the bank, then they are 'king' because 'customers are kings'.

Skye Bank

The bank's "competency framework and talent management scheme allow employees have a clear view of what deliverables are, coupled with the performance management and employee development provision which is tailored towards identifying and developing individualized career goals". The bank pride itself in "providing limitless opportunities in the areas of career management, learning and development, performance management and compensation / welfare / benefits which form the employee retention tool".

"The bank's talent Management framework provides that employees are rightly placed on the right jobs and have a clear understanding of what their deliverables are". This removes ambiguities and ensures clarity of performance measurement criteria, hence "employees enjoy participation in various developmental programs that prepare them for the next level of performance".

Conclusion

Talent management shortage exist in Nigeria banking sector and it may continue for some few years more because of the growth in expansion of banks in Nigeria as one of the emerging financial market. Other reasons include the reduction in customers' loyalty to a particular bank or brand because almost all the banks offer similar products and service with common features. The increasing high competitions among banks for deposit which necessitate the use of unhealthy competitive methods pose a challenge. The effect of the global financial challenge and resulting effect of the incursion of international banks into different countries could lead to shortage of good talents. There is likelihood that some banks will face some difficulties in filling crucial human resources position in the shortest nearest period.

References

- Aston, C. and Morton, L. (2005). Managing talent for competitive advantage. Strategic HR Review, 4(5), 28–31.
- Axelrod, E. L., Handfield-Jones, H. and Welsh, T. A. (2001). War for talent, part two. McKinsey Quarterly, (2), 9-12.
- Berger, L. A. and Berger D.R. (2004). The Talent Management Handbook. New York : McGraw-Hill.
- Chambers, E. G., Foulton, M., Handfield-Jones, H., Hankin, S. M. & Michaels III, E. G. (1998). The War for Talent. Mckinsey Quarterly, (3), 44-57.
- Christensen Hughes, J. and Rog, E. (2008) Talent Management : A strategy for improving employee recruitment, retention and engagement within hospitality organisations. International Journal of Contemporary Hospitality Management, 20(7), 743-757.
- Horwitz, F. M., Heng, C. T. and Quazi, H. A. (2003). Finders, keepers? Attracting, motivating and retaining knowledge workers. Human Resource Management Journal, 13, 23-44.
- http://www.firstbanknigeria.com/careers/talent-management/. Accessed on Monday, 21 July 2014 11.51 hour
- http://www.sterlingbankng.com/meet-us/careers?cp=1. Accessed on Monday, 21 July 2014 11.59 hour
- http://www.stanbicibtcbank.com/Nigeria/About-Us/Careers/Why-work-for-us. Accessed on Monday, 21 July 2014 12.51 hour
- http://www.ecobank.com/careers.aspx. Accessed on Monday, 21 July 2014 12.14 hour
- http://www.ubagroup.com/careers/. Accessed on Monday, 21 July 2014 12.23 hour
- http://subs.accessbankplc.com/accesscareers/peopleandculture.aspx. Accessed on Monday, 21 July 2014 12.05 hour
- https://www.skyebankng.com/index.php/component/content/article/7-careers/374-opportunities-in-skye-bank. Accessed on Wednesday, 23 July 2014 09.18 hour
- http://diamondbank.com/index.php/career/what-we-do-and-why-join-us. Accessed on Wednesday, 23 July 2014 09.27 hour
- Tarique, I. and Schuler, R.S. (2010) Global talent management : Literature review, integrative framework, and suggestions for further research. Journal of World Business, 45(2), 122-133
- Lovebrant, E. and Gerdrup, K. R. (2012) Banking on Talent - Talent Management within the Swedish banking sector. University of Gothenburg, B.Sc Thesis
- Kamil, B. A. M and Salleh, M. C. M. (2013). The Need For Effectiveness Talent Management Practices Among Islamic Financial Institutions In Malaysia. 4th International Conference On Business and Economic Research Proceeding, 04 - 05 March. Bandung, Indonesia. pp 296-305
- Pinto, L. W. and Dhulla, T. V. (2012) To study the talent management system in banking sector with regards to motivation & satisfaction. Bombay Psychologist, 27(1&2). 51-54
- Putzer, L. F., Sermpetis, C. and Tsopelas, G. D. (2008). A talent shortage for European banks. The McKinsey Quarterly. July

Taking a More Flexible Approach to Recruiting Talent in the 21st Century*

The Asia Pacific region is in the midst of a period of significant expansion and growth. Globally recognised as the most important economic powerhouse of the world, one of the outcomes of this growth has been a substantial increase in pressure on talent stocks across the region. Talent supplies are scarce, in terms of availability and employability, and remains mismatched with demand. In particular, financial services firms are finding that good employees remain increasingly difficult to identify and engage.

In fact, there is an ever-increasing demand for talented people across the Asia Pacific, with demand projected to grow significantly in the next five to ten years. Oxford Economics forecasts that “developed Asia's” requirement for talent will increase by approximately 10% in the next decade, and “emerging Asia's” talent requirements will increase by up to 22.2%.

Looking specifically at the financial services arena, Oxford Economics predicts that “developed Asia's” talent requirement will rise by approximately 4.9% in the next decade, and by 20.9%. in “emerging Asia”.

This view is shared by the Boston Consulting Group, which in 2012 reported that the talent shortage would not ease in the longer term. It stated that many of the major economies across Asia Pacific including Australia, Japan, South Korea and China would tend towards a talent shortage between 2010 and 2020, and further still in the following decade.

Naturally, this will have an effect on leadership - chief executives across the world are concerned about the impact of talent shortages on the ability of companies to grow. When PricewaterhouseCoopers surveyed CEOs in Asia Pacific on the threat of a lack of these key skills to growth prospects, two-thirds said they were either somewhat concerned (46%) or very concerned (20%).

At a more functional level, human resources teams have the task of dealing with the shortfall, and are struggling to do so. In a 2013 report by Manpower, 51% of HR managers across Asia Pacific said they were having difficulty filling jobs, compared with just 35% of their counterparts around the world. In 2006, just 28% of global respondents said they were having difficulty filling jobs compared with 40% in Asia Pacific. The main reasons given for the difficulties in filling jobs were a lack of available applicants, lack of technical competencies, lack of employability skills and lack of experience.

Separating the forest from the trees.

While 48% of companies in Asia say they are struggling to find talent locally, only 9% are looking overseas for people to fill opportunities. The situation is ironic because, according to Alexander Mann Solutions' (AMS) recent “Bringing Talent to Asia” study, Hong Kongers living and working overseas could be one of the best and most accessible sources of people to boost local firms and the economy.

Asia Pacific professionals who have moved abroad are some of the city's best and brightest. What is more, their time overseas has made them even more valuable, earning them in-depth expertise and experience which local firms could leverage for competitive advantage and sustained growth.

However few organisations recognise the opportunity, and even less know how to start engaging with this large and culturally-well-suited pool of talent, let alone persuading them of the opportunities and advantages - financial and familial - that returning to work in Hong Kong can offer.

* Paper by Hong Kong Institute of Bankers. This was first published in their journal "Banking Today" (Issue 74).

The “Bringing Talent to Asia” study was executed as an online survey and distributed via an electronic direct mail campaign, through referrals of staff and alumni at AMS and our clients, and through a targeted Facebook campaign. In addition to simple questions on demographics, country of origin and attitudes towards working abroad, the survey included questions examining general attitudes towards Asia, and asked respondents to rank their preferences of social media and sourcing channels. Over 500 completed responses were received.

The study showed that Asia's brain drain is continuing to impact businesses, with people moving overseas for travel (65%), work experience (45%), better pay (38%) or better opportunities (38%).

The signs are this situation is going to worsen over the next decade. There is an ever-increasing demand for talented people across Asia Pacific, and it is projected to increase significantly in the next five to ten years.

Over 60% of Hong Kong CEOs are extremely concerned about the talent shortage and HR departments are facing challenges filling jobs. The main causes are a lack of available applicants (35%), followed by a lack of technical competencies or 'hard skills' (29%), employability skills (28%) and lack of experience (17%).

Across the Asia Pacific region, most companies are adopting short-sighted tactics to combat the talent shortage. The majority of firms (19%) are using additional training to retain and up skill existing staff, others (13%) are trying to improve their talent acquisition pipeline, while some are considering raising starting salaries (9%) or even appointing people without job skills currently in the hope that they will develop.

Very few firms - just 8% - are broadening their talent search outside their country. In the case of Hong Kong, particularly with the tremendous popularity of overseas education, that is a tremendous oversight.

Businesses need to understand where APAC nationals overseas look for jobs, and harness those channels to “market” to them. Social media, such as Facebook (80%), LinkedIn (70%) and Twitter (30%), are often the best place to start reaching out to the diaspora.

Workers from Asia Pacific have moved abroad for a specific reason : they want international careers, to gain international experience, and to develop their skills rapidly. However, the majority of them intend to return home. Those that want to come home will do so within relatively short timeframes (around five years after they left).

True, there are challenges. In contrast to what motivates those in Asia Pacific to go abroad, nearly a third (32%) of respondents said they believed salaries would be lower at home, and that this would constitute a barrier.

Another commonly-cited perception was limited opportunities at home. Close to a quarter of Asia Pacific nationals list it as a major barrier. This is most likely driven by disengagement. In other words, workers from abroad are not well connected to the domestic labour market and have little awareness of the working conditions at home. Therefore, they have limited visibility of the breadth of available opportunities.

However, in general, overseas Asian-born talent have a positive view of what the region has to offer. Above all, they are prepared to relocate for the right opportunity - if they know about it - and will welcome the right approach.

Choosing the right channels

At the outset, attracting talent from abroad may appear challenging and complicated. However, based on the feedback from respondents, it is more important to use the right channels and communications techniques to engage with talent than it is about throwing money at them, or flying them home in a private jet.

This talent pool lives in a truly global age, where developments in technologies such as mobile devices and integrated social media provide unrivalled, targeted access to very specific groups of people. They live in a highly-networked environment - both online and offline - and source information through multiple channels.

The “Bringing Talent to Asia” survey showed candidates would use online professional networks such as LinkedIn as well as jobboards in the countries they live in as well as more personal social networks, like Facebook, WeChat and Twitter. Each of these channels can be utilised effectively through direct sourcing - a method by which recruiters actively use the company's brand to reach out to and attract candidates.

Employers should consider investing in training their recruitment teams, or work with specialist talent companies, to better leverage the opportunities online channels present to engage and recruit quality candidates quickly and cost effectively.

Other options include targeted events. There are a multitude of events and forums available across the world and at times, a targeted sponsorship pack or a delegate pass may mean exposure to hundreds of potential candidates. However, it is critical to put in place clear guidelines around return on investment for sponsorship or attendance at events.

Company-owned events - where an organisation runs an introductory session or event day - are particularly effective in developing strong lists of engaged candidates and bolstering talent pipelines. It is important at such events to ensure that the employer value proposition and employer branding are well-executed and that attendees have been prequalified as potentially strong candidates for future employment.

According to the “Bringing Talent to Asia” survey, one of the most frequently-overlooked tools in the recruitment toolbox is the simple employee or candidate referral campaign. Companies can access some of the inaccessible talent pools simply by asking people to specifically reach out to friends overseas.

By offering employees incentives for referring their friends, families, colleagues and contacts, companies can ensure they are working with a relatively engaged candidate who has good knowledge about company culture and practices, whilst at the same time providing incentives and support for existing employees.

When we talk about targeting people that are currently overseas, we are not advocating expatriation. Rather, that enterprises consider this as a source of talent that can be tapped in the same way that the graduate pool and localised talent pipelines can be tapped.

We have seen significant hiring activity locally with banks targeting Hong Kongers from different sectors - i.e. professional services - to work in the banking sector. This is also applicable when targeting overseas Hong Kongers. There is a pool of well-qualified people from multiple industries available to be tapped and enticed to the industry.

This is not to suggest that banks in Hong Kong should abandon the established practice of hiring and training fresh graduates. A sustainable talent paradigm requires a balance of both. They should continue to train local graduates but be open to opportunities of bringing back talented individuals who have gained useful knowledge, skills and experience in the wider financial services world. That can only bolster Hong Kong's position as a global financial centre.

Fundamentally, no single source offers an overall solution to the talent crisis that banks are facing. An integrated talent management approach is most likely to deliver the best results.

Thinking flexibly about engagements can offer organisations access to a much wider range of talent. They can also respond with more agility to market developments and tie hiring strategies much more tightly into business strategy.

Survival of the most adaptable

Adaptability is the key. Forward-looking businesses should adopt a blend of talent acquisition and talent management strategies - clearly linked to commercial objectives - to drive performance.

Companies and institutions that respond positively to evolving social and technological trends, and recognise the need for universal consistency, will be well placed to reap the business benefits of a more motivated workforce. Such flexibility also promises to play a role in effective employer branding.

Studies show that 64% of candidates are less likely to buy a company's services or products if they have a negative experience during the recruitment process. Transforming candidates and employees into brand advocates and consumers can deliver significant incremental revenue. So, staying ahead of the game and engaging positively with today's diverse mix of workers is vital.

How do organisations tackle the additional complexities involved in this new, flexible approach? The answer could be what AMS calls “Integrated Talent Management” - outsourcing the resourcing and talent management functions to a third party, to manage permanent and graduate recruitment, senior hiring and the contingent workforce or ad-hoc staffing.

The benefits of using a single provider to manage all aspects of resourcing and talent are numerous. Cost minimisation and process efficiencies come through economies of scale. Total consistency across all elements of resourcing is also achieved by sharing resources and processes across all elements of the solution.

A single provider can also create consistent, comparable, benchmarked reporting, and ensure superb strategic, rather than reactive, alignment between HR and provider.

Absolute consistency in employer branding, regardless of where candidates fit into the organisation is also assured, assisting in engagement and ultimately increasing retention. In fact, consistency becomes the norm, rather than a target. The employer brand is presented in a consistent manner.

Other advantages include positive, consistent candidate experience, with fewer hand-offs during the recruitment process. Precise, targeted quality control and continuous improvement programmes implemented across the entire solution also ensure that gains are shared across the resourcing and talent function.

Getting the right blend

For multinational banks and financial institutions, building teams around the world capable of delivering services around the clock is becoming essential. For such institutions, the value of achieving the right cross-boundary cultural fit becomes key.

There is a balance between education and experience even at entry and graduate level. Those that have work experience through internships, on-the-job training, and so on are more likely to be picked up.

As well as universities continuing to supplement, and in some cases improve, the employability of their students through more practical and experience-based learning activities, there is definitely a role for industry bodies such as the Hong Kong Institute of Bankers to provide professional training and development courses to help entry level talent have a better chance of entering and being successful in the banking industry. The areas for the banking industry specifically to consider training would be related to the most recent developments in Hong Kong banking regulations. Industry bodies and professional organisations can certainly play a role in providing this.

Training costs can also vary compared to other locations. The difference really depends on the skill set required. However, other things such as exposure to international markets and different methods of working in other economies simply cannot be replicated in local environments regardless of the level of training.

Graduate programmes are certainly a worthwhile investment, and programmes which move people through critical parts of the organisation do bear fruit especially in succession planning.

It is clear that high performing businesses do not regard hiring graduates and experienced staff, temporary workers, contractors and consultants as separate activities, owned by separate organisations and powered by different systems. The acquisition and retention of talent and capability requires an integrated approach that is consistent globally, with due consideration for candidate preference, employer branding, innovative technology and company culture.

Conversations are rapidly turning to how best to support blended workforces - workforces comprised of many different types of permanent employees and contractors. Companies must create the right structure to attract, engage and retain tomorrow's rich mix of professionals and accommodate their work preferences.

Conclusion

The combination of economics and the endless possibilities that technology offers - such as remote or mobile working - is inevitably changing the way people prefer to work. That is causing a growing shift in the mind-set away from the notion of 'permanent work.'

This, in turn, opens up tremendous possibilities for organisations that are willing to think flexibly about staffing, as well as changing the career dynamic of today's working professionals.

Abstract Report on Study on Demand and Supply Factors about Personnel in Key Position of Banking Industry in Taiwan

Lin, Wu-Chin * Edward S. Hsieh ** Peng, Sheng-Pen ***

Abstract

After the Economic Cooperation Framework Agreement (ECFA) between Taiwan and China being signed in year 2010, that allowed Taiwan's banks to expedite establishing branches in China, and the rising ASEAN markets also bring up a whole new business opportunity, Taiwan's (the domestic) banks face a totally new challenge in terms of demand and supply of human capital.

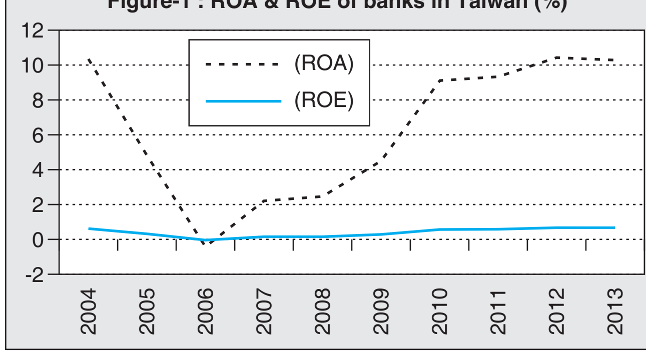
However, overbanking issue is a tough issue in the domestic market that shrinks the profit margin of the domestic banks. In the meantime, the current low payoff structure of bank's employee that the domestic banks provided could have had negative impact on international competitiveness in comparison with other international banks. How to effectively restructure the current human capital structure would be an essential issue. To cope with the rapid changes in business environment, and in order to excel in the global banking environment, a whole new set of training package of human capital is vital.

Part-I : Introduction

The development of banking industry has played an essential role during various economic development stages in Taiwan. Banks serving as a platform between depositors and borrowers, played a very important role in bolstering the economic growth. The banking industry was a highly regulated industry back in thirty years ago, which made it a highly profitable industry. Howerever, due to the deregulation policy in financial sectors in the past thirty years, we witnessed a rapid growth in numbers of bank in financial sectors over the past thirty years. As we review the statistics, the total number of financial institutions here in Taiwan (including Head Offices and branches) amounts to 5916 as of June 2013. Of which 3437 bank branches are set up by forty domestic commercial banks, 30 bank branches are set up by foreign banks. Besides that, there are 24 Credit Co-operative Associations, 277 Credit Departments of Farmers' Associations, 25 Credit Departments of Fishermen's Associations, and the Chunghwa Post Company owns 1322 local branches.

Overbanking situation in Taiwan has triggered a severe competition problem, which shrink profit margin of banks. In terms of profitability, overall, the average return on equity (ROE) of all banks in Taiwan is 10.33%, while the average return on asset (ROA) of all banks is just merely 0.67% in 2013. These figures are far below international standards, especially, in comparison with those of ASEAN banks. Therefore, how to pave a way to foster local banks to find a niche market in global market, especially in ASEAN market, is an essential issue nowadays in Taiwan.

Figure-1 : ROA & ROE of banks in Taiwan (%)

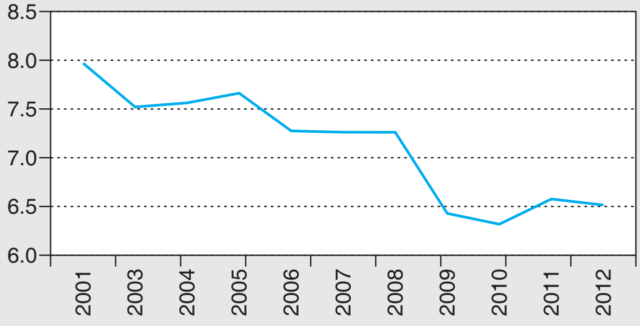


According to the data in Figure-2, as we compare the financial sector to the rest of other economic sectors, the contribution of financial sector to the GDP in Taiwan is well above 8% before 2002. Since then, this figure gradually declined to just 6.5% in 2012.

* Executive Vice President, Taiwan Academy of Banking and Finance (TABF), Taipei, Taiwan.
** Associate Research Fellow, Taiwan Academy of Banking and Finance (TABF), Taipei, Taiwan.
*** Assistant Research Fellow, Taiwan Academy of Banking and Finance (TABF), Taipei, Taiwan.

Financial industries has been a saturated and stable industries, it could not have a rapid growth pattern like in most developing countries. However, the slow growth in financial industry could hamper the demand in human capital. How to develop a new growth model to meet with the global competition environment is very essential to financial industry in Taiwan.

Figure-2 : Financial product as % of GDP

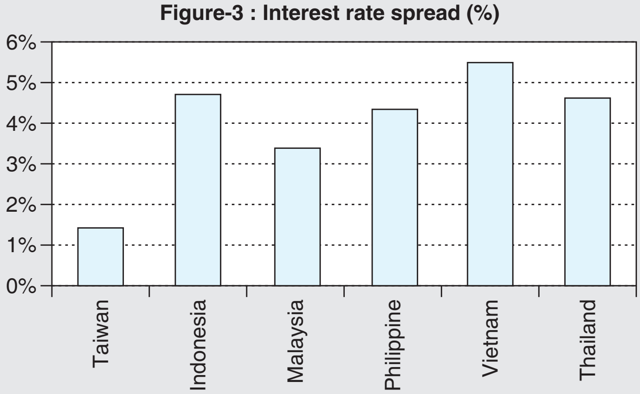


Note : Data is retrieved from Directorate General of Budget, Accounting and Statistics, Executive Yuan, R.O.C.

Overbanking problem has caused the low profit margin in banking industry in Taiwan. As we check the market rate in 2013, the average commercial lending rate is 2.20% and cost of fund rate is 0.78%. The interest-rate spread is merely 1.42%. In comparison with other ASEAN countries, the interest spread in Taiwan is the lowest one.

On the other hand, the relative higher interest rate spread in other ASEAN countries reveals that most ASEAN countries still have plenty of room to provide financial services and have strong demand in financial commodities.

Figure-3 : Interest rate spread (%)



The demand in key-position personnel in banking industry could vary year by year due to the rapid changing business environment. As we look at the annual survey conducted by the Taiwan Academy of Banking and Finance in 2012 and 2013 shows that business finance ranks the top, the next one is China finance, and the third one is risk management.

Table-1 : The demand in key-position personnel

	year	
	2012	**2013**
Risk management	4	3
Financial Integration	7	5
Financial marketing	2	6
Wealth management	5	7
Business finance	1	1
Consumer finance	na	na
China finance	3	2
New financial product development	6	4

Note : data is retrieved from Taiwan Academy of Banking and Finance, 2012 & 2013. (number 1 ranks the top demand)

When we mention about the new market opportunity, one of the most essential change in banking sectors is the financial openness of China market, which brings up a whole new market, new challenge and opportunity to Taiwan's banks.

After The Memorandum of Understanding (MOU) was signed in 1998, the Taiwan's bank could start to set up a local branch in China or take part in bank operation in China by means of share acquisition. Furthermore, the cross-straits Economic Co-operation Framework Agreement (ECFA) was signed in 2010, and The Cross-Strait Currency Settlement Mechanism was signed in 2012. These developments have made on-going progresses in cross-strait financial co-operation. As more and more Taiwan domestic banks set up new branches in foreign markets, including China and ASEAN countries, the new development also brings up a new challenge in human capital of banks. How to effectively recruit, retain and cultivate talented personnel has become a priority issue faced by most human resource departments of banks in Taiwan.

The purpose of this article is to examine the supply and demand of Key-Position personnel in Taiwan Banking

Industry. The "Key-Position" means those people who are in charge of crucial assignments and positions in certain division of banks. we categorized them into eight divisions, (1) general managerial, (2) risk management, (3) credit management, (4) financial planning, (5) new financial products, (6) OBU & foreign currency trading, (7) investment analysis, and (8) direct investment.

TABF conducted a complete survey to investigate the supply and demand of key-position human resource of banks in Taiwan. What kinds of challenges faced by banking sectors nowadays will be examined and discussed in detail.

Part - II : Description of Sample Statistics

In this survey questionnaire conducted in 2013, a total of 54 banks were selected. Of which 16 are financial holding companies, 12 are private commercial banks established before 1991, 23 are private commercial banks established after 1991, and 4 are state owned banks.

The definition of "Key-Position" personnel could be varied by individual bank or institution. In this study, the "Key-Position" personnel mean the persons whose appointments are authorized by the board committee of the bank. The positions could be the department manager, the director of risk management department, the director of investment division or other equivalent positions.

Table-2 : Sample statistics

Type	Sample	% of total sample size
Financial Holding Company	16	29.09%
Private banks (A)	12	21.82%
Private banks (B)	23	41.82%
State owned banks	4	7.27%
Total	55	100.00%

Note : Private banks (A) established before 1991; Private banks (B); established after 1991.

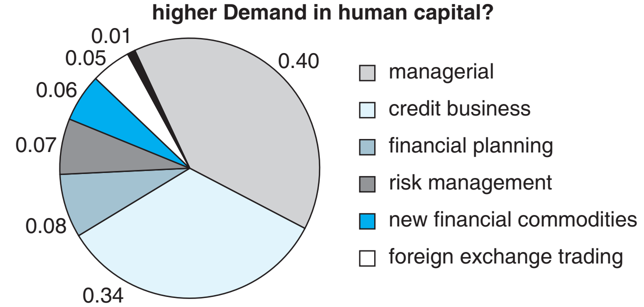
Empirical Analysis

The survey was completed in 2013. Subjects relating to the demand and supply of key position human capital are selected and analyzed as follows.

Which parts of business units have higher demand in the banking sectors?

On the demand side of the key position personnel in the banking sector, the managerial personnel has the highest demand, accounting for 40%. The next one is credit business personnel, accounting for 34%, the financial planning personnel for 8%, the risk management personnel for 7%, the new financial commodities personnel for 6%, the foreign exchange trading personnel for 5%, and the investment analyst for about 1%.

Figure-4 : Which parts of business units have higher Demand in human capital?



The reason why employee resigns from the current position?

The poaching or headhunting by other financial peers is the main reason why employee resigns from the current position, the average score is 1.5; the next reason is employee's family factor which forces employee to leave his or her position, the average score is 0.82; the third one is payoff issue which causes employee to select another job opportunity, the average score is 0.5.

Figure-5 : Why employee resigns from the current position?

Note - 1 : Rank number 1 (Highly important) → 3 point;
Rank number 2 (Very important) → 2 point;
Rank number 3 (A little important) → 1point.

Does the bank consider hiring foreigners in the bank?

When banks consider recruiting a "Key position" employee, there are about 27% of respondents claiming that foreigners will be an ideal candidates. On the other hand, 71% of respondents report that they do not consider foreigners. The possible reason is that the current Labor Standards Act in Taiwan still imposes a strict restriction to foreigners. Besides that, culture gap and payoff gap are all barriers for banks to recruit foreigners.

In order to develop a more internationalized community and strengthen the competition power, further deregulation strategy is a necessary approach. Taiwan needs not only to revise its financial laws, but also to review the current employment service laws that should create a friendlier environment to foreign employee.

Table-3 : Does the bank consider hiring foreigners in the bank?

	%	Yes	No	others	Total
Total	100.00	26.47	70.59	2.94	100.00
Financial holding company	29.41	30.00	70.00	0.00	100.00
Private banks (A)	29.41	30.00	70.00	0.00	100.00
Private banks (B)	32.35	27.27	63.64	9.09	100.00
State owned banks	8.82	0.00	100.00	0.00	100.00

Note : Private banks (A) established before 1991; Private banks (B); established after 1991

During the recruiting process, how many non-native job applicants in the market?

About 67% of respondents claim that their companies do not have non-native job seekers during recruiting process, and 24% of which claim that the number of non-native job seekers is below five people.

A total of more than 90% of Taiwan domestic banks hire no foreigners, evidence that there are still plenty of efforts to be made in order to gain global competition in the banking sectors.

Which country shall be the priority spot when the domestic bank considers set up a new site abroad?

When the domestic banks go abroad to set up a new site, as we rule out the China market, Hong Kong will be the priority candidate to set up a branch due to the fact that Hong Kong is a regional financial hub in Asia.

Those ASEAN countries, such as Myanmar, Vietnam and Cambodia, are countries where there are high financial demands and high operation profits which attract Taiwan's bank to set up a branch in the last few years.

Singapore, traditionally, has a strong advantage in financial service areas attracting a lot of international banks.

Does the bank already set up an operation site in China?

While we observe the current trend in Taiwan's banking development in the global market, the greater China market is still the main market where most banks plan to set up a new branch. Around 56% of banks report that they have had operation sites in China. In other words, more than half of Taiwan's banks are actively engaged in Chinese markets. (Table-6)

What kind of hiring strategy of key-position personnel the banks have adopted when they operate businesses in China market?

Of those who have responded to this survey, about 41% of banks which have operation sites in China dispatched

Table-4 : How many non-native job applicants in the market?

	%	none	1-5 people	6-10 people	11-15 people	16-20 people	More than 21 people	others	No response	total
Total	100.0	67.65	23.53	0.00	0.00	0.00	5.88	0.00	2.94	100
Financial holding company	29.41	60.00	30.00	0.00	0.00	0.00	10.00	0.00	0.00	100
Private banks (A)	29.41	70.00	20.00	0.00	0.00	0.00	10.00	0.00	0.00	100
Private banks (B)	32.35	72.73	18.18	0.00	0.00	0.00	0.00	0.00	9.09	100
State owned banks	8.82	66.67	33.33	0.00	0.00	0.00	0.00	0.00	0.00	100

Note : Private banks (A) established before 1991; Private banks (B); established after 1991

Table-5 : Which country shall be the priority spot when the domestic bank considers set up a new site abroad?

	%	Hong Kong	ASEAN	Singapore	North America	South America	Euro	New Zealand & Austral	others
Total	100.0	52.17	39.13	21.74	13.04	0.00	0.00	8.70	17.39
Financial Holding Company	21.74	40.00	80.00	20.00	0.00	0.00	0.00	0.00	20.00
Private banks (A)	30.43	57.14	14.29	42.86	28.57	0.00	0.00	0.00	28.57
Private banks (B)	34.78	62.50	25.00	12.50	0.00	0.00	0.00	0.00	12.50
State owned banks	13.04	33.33	66.67	0.00	33.33	0.00	0.00	66.67	0.00

Note : Private banks (A) established before 1991; Private banks (B); established after 1991

Table-6 : Does the bank already set up an operation site in China?				
	%	Yes	No	Total
Total	100.0	55.88	44.12	100.00
Financial Holding Company	29.41	60.00	40.00	100.00
Private banks (A)	29.41	70.00	30.00	100.00
Private banks (B)	32.35	27.27	72.73	100.00
State owned banks	8.82	100.00	0.00	100.00
Note : Private banks (A) established before 1991; Private banks (B); established after 1991				

Taiwan domestic workers (key-position) to support the operation requirement in China branch, with only 8% of banks hired their employee from China local market. In particular, those state owned banks claimed that they just dispatched Taiwan domestic workers to China branch, they did not hire employee in the local market.

What kind of business unit has more supply in human capital?

On the supply side of key position personnel, our survey shows the personal consumption business ranks the highest in the supply of human capital, with average score of 3.4; the next one is personal wealth management, with score of 3.0; the third one is loan to real estate, with score of 1.32. (Figure-7)

Does the foreign bank pose a big threat to domestic banks in terms of payoff and benefit package?

Comparing the relative payoff structure and benefit package between foreign banks and Taiwan domestic banks, about 47% of respondents say that the domestic

Table-7 : What kind of hiring strategy of key-position personnel the banks have adopted when they operate businesses in China market?						
	%	Dispatch from domestic banks	Hire from local market	Hire non-local foreigner	No response	Total
Total	100.0	40.54	8.11	0.00	51.35	100.00
Financial Holding Company	29.73	45.45	9.09	0.00	45.45	100.00
Private banks (A)	32.43	50.00	16.67	0.00	33.33	100.00
Private banks (B)	29.73	9.09	0.00	0.00	90.91	100.00
State owned banks	8.11	100.00	0.00	0.00	0.00	100.00
Note : Private banks (A) established before 1991; Private banks (B);established after 1991						

What kind of business unit has more demand in human capital?

The demand in human capital relies on the kinds of business having the urgent requirement in human capital. The demand in human resources, according to our survey, the credit business to medium-small company is the highest, with average score of 2.0; the second one is the cross-strait financial businesses, with average score of 1.97; the third one is personal wealth management, with the score of 1.85.

Figure-6 : What kind of business unit has more demand in human capital?

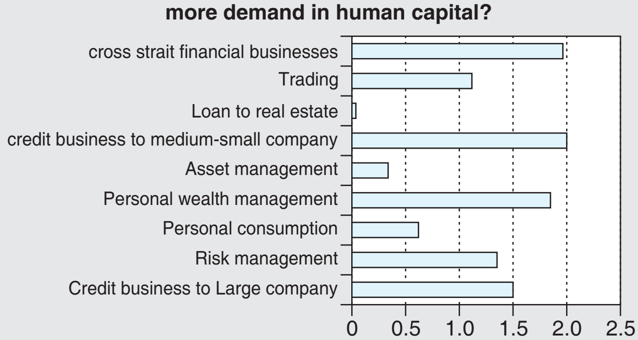


Figure-7 : What kind of business unit has more supply in human capital?

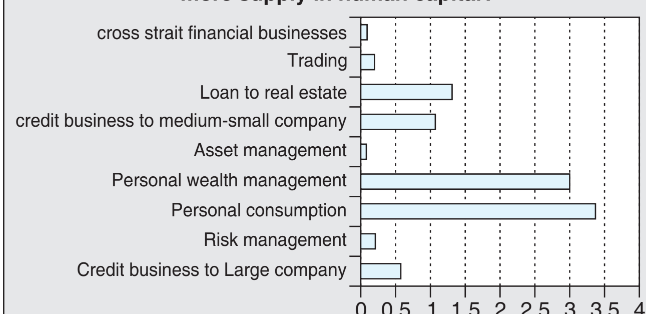


Table-8 : Does the foreign bank pose a big threat to domestic banks in terms of payoff and benefit package?						
	%	Yes	No	Others	No response	total
Total	100.0	29.41	47.06	17.65	5.88	100.00
Financial Holding Company	29.41	50.00	30.00	20.00	0.00	100.00
Private banks (A)	29.41	20.00	50.00	30.00	0.00	100.00
Private banks (B)	32.35	27.27	63.64	0.00	9.09	100.00
State owned banks	8.82	0.00	33.33	33.33	33.33	100.00
Note : Private banks (A) established before 1991; Private banks (B); established after 1991						

bank has no competitive advantage, however, close to 30% of which claim the otherwise.

In terms of payoff and benefit package, does the foreign bank have any impact on domestic bank in Taiwan?

When asked about payoff program and benefit package that foreign banks could provide, about 6% of respondent banks say that there is significant impact to them, 38% of which claim that there is minor effect. On the other hand, 50% of respondents claim that the effect is not so significant.

The Challenges Ahead

In order to create a favorable incentive program that the Taiwan domestic banks can gain strong international competition, and maintain high level human capital, the following problems have to be resolved, (1) Overbanking issue has been a tough problem which is not so easy to deal with, due to the small scale domestic market in Taiwan. Most domestic banks face a strong competition from peers, resulting in the narrow profit margin environment; (2) Too many homogenous financial products have reduced the incentive mechanism to design new financial commodities; (3) The globalization and the rise of China's market have continually attracted some financial talents to go abroad. The lack of incentive to attract domestic employee to stay in the domestic market will further hinder to the efforts of maintaining a favorable competition environment and of attracting foreign high talent; (4) The highest level of marginal personal income tax bracket is 40% in Taiwan, in comparison with Singapore's 20%, which is much lower. As we mention about the international competitiveness topic, how to design an attractive taxation program which can provide an incentive space to attract foreigners is urgent; (5) In the global community, the English language is essential in communication with each other. In Taiwan, there is still plenty of room for improvement for most non native English speakers to communicate with native speakers. A strong emphasis on language training program is vital; (6) Currently, there is still very strict limitation for certain foreign professional personnel to work in Taiwan, which hinder the efforts of maintaining foreigners to stay in Taiwan after certain time period. In order to encourage foreigners to stay in Taiwan, the limitation of two-year working period for foreign professionals should be considered to be lifted.

Table-9 : In terms of salary level and benefit package, does the foreign bank have any impact on domestic bank in Taiwan?

	%	significant effect	minor effect	no effect	other	no response	total
Total	100.0	5.88	38.24	50.00	2.94	2.94	100.00
Financial Holding Company	29.41	0.00	40.00	60.00	0.00	0.00	100.00
Private banks (A)	29.41	10.00	40.00	50.00	0.00	0.00	100.00
Private banks (B)	32.35	9.09	36.36	45.45	0.00	9.09	100.00
State owned banks	8.82	0.00	33.33	33.33	33.33	0.00	100.00

Note : Private banks (A) established before 1991; Private banks (B);established after 1991

What kind of training courses that the banks have more demand for Key-Position personnel?

Regarding the training program for key-position personnel, the cross strait financial businesses courses have the strongest demand, which reflects the active business activity in China's market, with the average score of 2.59; the next one is risk management, tougher financial regulation requires employee to get better training in risk management, with the average score of 1.94; the third one is credit business to medium-small firms(SME), with score of 1.53. The traditional banking business is to provide services to those small scale firms in Taiwan. About 80% of firms here in Taiwan are of medium-small size. Credit business to Large company scores 1.21.

Table-10 : What kind of training courses that the banks have more demand for Key-Position personnel?

	Average score
Credit business to Large company	1.21
Risk management	1.94
Personal consumption	0.26
Personal wealth management	1.00
Asset management	0.59
credit business to medium-small company	1.53
Loan to real estate	0.15
Trading	1.18
cross strait financial businesses	2.59

Note-1 : Rank number 1 (Highly important) → 3 point; Rank number 2 (Very important)) → 2 point; Rank number 3 (A little important)) → 1point.

Conclusion

While the overbanking situation in Taiwan has resulted in serious narrow profit margin for a period of time; The financial openness of China brings in a new potential market for Taiwan domestic banks. In the meantime, the rise of ASEAN markets also offers both new challenges and opportunities to Taiwan domestic banks. To tap in these potential market benefits, Taiwanese banks need prepare themselves in various aspects. Human resources area, in particular, requires some realignment in order to cope with challenges from those emerging market such as hiring strategies, and revising training or education contents from time to time. The courses shall consist of learning various foreign languages, adapting to diversified culture styles, and introduction of local business and legal requirement as well.

Finally, the payoff structure of Taiwan domestic banks is far below the international standards, especially, in comparison with other foreign banks. Therefore, how to offer an attractive payoff program and benefit package in order to meet with international competition in talents recruitment is crucial.

References

1. Bikker, J. (2010), “Measuring performance of banks : An assessment”, Journal of Applied Business and Economics.
2. Casu, B. and C. Girardone (2009), “Competition issues in European banking,” Journal of Financial Regulation and Compliance.
3. Fu, X. and S. Heffernan (2009), “The effects of reform on China's bank structure and performance”, Journal of Banking and Finance.
4. Rajwinder Singh (2013), “Human Resource Management in the Indian Banking Sector”, Journal of Human Resource and Sustainability Studies, 1, 21-28.
5. Robert Walters (2012), “Global Salary Survey 2013”.
6. Robert L. Katz (1995), ”Skills of an Effective Administrator”, Harvard Business Review, January-February 1995, p33-42.
7. Stefan Schneider (2005), “Human capital is the key to growth, Success stories and policies for 2020”, Deutsche Bank Research.
8. The Bank's Human Capital Strategy For Africa (2014-2018), African Development Bank & African Development Fund.

Reforming banking education in Malaysia

Tay Kay Luan *

There are 2 major forces dominating just about every advanced and emerging market; (1) the challenges of sustaining the banks profitability and (2) coping with costly yet necessary regulatory demands. Equally important, the rapidly but very disruptive technological changes are reshaping the competitive landscapes. The noticeable growth in online banking involving mobile applications, and other innovations are also changing the banks delivery value chain.

It is no longer a surprise when 75% of the interviewees in a recent talent survey, 'Study on talent and skills requirements for the banking sector in Malaysia' highlighted that regulatory changes are impacting the banks talent development significantly. The agenda of putting high priorities on a sound regulatory framework towards managing risk, and governance has created demand for certification in compliances and risk management, and at the same time demand for skills in applying and stress testing in risks. Additionally, the survey findings also highlighted an increase in demand for specialised skills in products innovation and selling as a result of the improvements to the banks service value chain.

The direct consequence of these developments is that the one size fits all approach towards talent management does not necessarily work anymore. The high demand for specialised skills to manage product innovation, compliance requirement, and risk across the entire business line means that today's career path is no longer a straight upwards trajectory but choices of both specialised and management roles.

Employers who can capitalise on these developments will be more successful with their talent development innovations especially those who can define and provide powerful employee propositions to attract the right calibre of talent.

The priorities among job hunters have also changed. The fierce war for talent in local market will continue in the coming years especially in areas where specialised skills are in short supply. At the same time employers will consider possible employment models with options to consider part time / contract work for matured talent that have reached retirement age or in higher level roles the hiring of overseas talent has already taken place. The possibility of outsourcing low value work to drive competitiveness and to generate operational efficiencies is also another option.

Talent shortages and opportunities

The key areas of talent shortage to be more acute apart from specialised roles are at the middle and specialist levels, across sales, risk management, compliance, credit and treasury. The talent survey sees the dearth of talent here as the next wave of growth in banks. Majority of local banks will be tempted to poach trained talent from their competitors but there are windows of opportunity to include overseas posting, employer branding, flexible career paths as well as learning opportunities and access to education and professional membership as added attractions.

The survey report highlights the importance of banking profession acquiring the right management skills or the desired behaviours for high performance. In particular, the high emphasis on the ability to communicate, analyse, present, articulate, or to lead are all highly valued and desirable. Absence of such non-technical skills can slow or disrupt the interdependent supply chain and ultimately its competitiveness. Industry evidence in the survey shows that the ability to understand, interpret,

* Chief Executive Officer, Asian Institute of Chartered Banker, Malaysia. (Formerly IBBM)

facilitate and in some cases, coach are no longer areas where employers can take for granted.

The absence of these critical skills would seem to be simply due to the lack of investment in development opportunities across the profession. While technical knowledge in recent years are given high priorities, clearly without the critical thinking skills and language proficiency much of the investment would be wasted. From a talent perspective, there are some fundamental questions that need to be answered - are the young and emerging talent well-equipped with the necessary competencies to help banks navigate the good and the bad times? What impacts will these have on the capacity developments, and how will these have an impact on the way banking institutes perform in their roles to educate and develop talent for the industry? What actions have been taken to re skill talent at mid management levels?

The talent survey identifies a number of actions that can be taken to address a number of these concerns in a rapidly changing environment. One is to have a special emphasis on the development of specialist skills supported by the right recognition and retention schemes. A number of these developments such as Basel III implementation have already been implemented across all the banks covered in the survey.

A more defined and robust continuous professional development scheme can be better adopted where individuals' key technical requirements including certifications are monitored and aligned to his or her career map and recognition programmes. By focusing on professional education that leads to membership of a professional body, there are opportunities to ensure continuing developments can be better aligned and prepared for the increasingly complex and challenging careers.

Shared responsibility

Given the challenges Asian Institute of Chartered Bankers (Formerly IBBM), as a professional body representing the banking profession sees the future talent development as a shared responsibility. As talent developers, banking institutes are not spared from the continuing turbulence in the economic and social landscapes experienced by banks. Banks will continue to consolidate their business within their expanding markets but their future growth plans will be in jeopardy if emerging talent issues are not addressed urgently and differently.

The traditional approach to manage and produce the future pipeline of potentials fails to stay ahead of the changes resulting in talent shortage which impacted banks with serious consequences. With rising squeeze in margins, banks will need to rethink and reposition the way talent are being developed in order to remain competitive. Banks are always in a hurry. For example, they are hard pressed for good talent in implementing Basel III, IFRS, and Foreign Account Tax Compliance Act (FATCA) to name a few, to support the regulatory demands in managing risk, or compliance. Indeed, by embracing the change, a much more holistic view of how talent will be developed is to be given the emphasis.

New agenda

The entire agenda has shifted, and faced with rapidly changing demands, - it is no longer adequate to continue with the business as usual approach. A wider transformation agenda to meet the strategic demands of the industry will be necessary. It is in this context IBBM with the support of the regulators and industry developed the 'Blueprint for the Transformation of the Malaysian Banking Education Landscape'. The blueprint contains a set of 8 broad recommendations that map the directions of future education agenda for banks, and affirmed the changes necessary to support the talent management.

In response to industry expectations the blueprint identifies key drivers to include global perspectives, multi-disciplinary environment, and change management as necessary for learners of today must embrace a deeper understanding of industry changes and developments.

Educating bank professionals in future will reflect expectations of banks beyond their traditional roles as intermediaries, including ones that embrace a bigger picture of its contributions to society and community. For example, the need to embed ethics and professional standards into the training syllabus, to establish the standards of behaviours must be sufficiently tested and attained to ensure public trust.

It is therefore not surprising that standards of delivery will be more holistic, quality of the content refreshed and reassured to ensure industry relevance. The transformation approach to banking education will be more discernible, and one that focuses on learning outcomes which empower bank professionals the flexibility and the opportunity to gain easy access to world class education. The focus then is really on establishing a highly regarded and reputable institution capable of collaborating with the best in the industry and having its own capacity to deliver world class education and training, so that talent can be agile, and able to navigate the complexities of a competitive yet regulated industry.

Content

The quality of content will adhere to professional standards and modern thinking that reflects their desired learning outcomes. In this instance, appropriate resources will be committed towards ensuring it's readily applicable, multi-disciplinary and that it includes the concept of professionalising the bank professions incorporating ethics education, and a necessary suite of behavioural competencies to complement the technical skills.

The design of the curriculum is to be based on the core industry competency needs supported by a broad range of development applications and applied courses. It has to focus on the development and delivery of appropriate content, which can be adaptable and applicable across the markets. New skills in niche market such as wealth management and investment as identified in the talent survey will also be supported by change management and customer advisory services.

The curriculum design in both content acquisition and development will have to match to that of international standards, yet relevant to local needs and regularly upgraded. Indeed, content development will have case studies giving opportunities for practical experiences, so as to sharpen or test their problem solving skills. The enhanced career roadmap will allow either managerial or specialised routes, necessary to support growing industry. Given the changes in the industry landscape a broad-based professional qualifications leading to award of Chartered Banker supported by relevant short term courses, would equip the aspiring bank professionals the necessary development support.

Learning architectures

The development of a robust architecture to support the new education agenda will embrace modern delivery covering wider geographies.

To transform the curriculum future delivery of courses, it will be necessary to have a robust IT infrastructure with fast internet access and international faculties to support the students. By the same spirit, e-learning through the learning management system will complement the delivery capability especially in cases where speed matters. For example, students can choose to do e-learning tutorials that will be designed to complement or add on to what is covered in the primary study texts of any qualification programme. It does this by specifically highlighting difficult or complex concepts that require more focus and explanation. E-learning tutorials are also meant to cover core knowledge that is considered absolutely fundamental to a learner's understanding and eventually crucial to a learners' better performance. E-learning tutorials are essential so that they cover core knowledge and/or difficult concepts that are deemed extremely important to a learner's knowledge base in a particular qualification.

Banking institutes will have a role to ensure appropriate investment towards innovative teaching facilities where students can strike the right balance between face-to-face interactions in the classroom and online learning to support blended learning. In this respect, the future delivery model will leverage on a holistic capabilities system that relies on technology to achieve greater scalability. The distribution channel will also be developed taking into account future trends in technology such as increased preference for personal portals and mobile applications.

Banks will also have to be flexible enough to empower their employees with such choices. Embracing e-learning as a delivery mainstream is one of those choices. Physical classrooms and facilities however, will not disappear. Instead, it will be integrated with the blended learning concept where there are opportunities to use the right facilities and technologies in delivering courses beyond the online learning.

Learners' choices

To respond promptly to industry changes, learning solutions will be broad based. Focus is not only on access but involves positive learning experiences that allow learners the empowerment, choices and a learning culture. A powerful development is the introduction of a more impactful blended learning culture and system and one that is more efficient through the integration of knowledge and application as well as bringing the learners closer to the desired learning outcomes.

Professional body

Professional bodies do have a responsibility towards ensuring relevance of their members. The new agenda for IBBM will demand the need to raise the value of professional standards in both qualifications and conduct. Increased professionalism will call for higher value of membership and practices. Gaining its reputation over time is important which will require industry support as in the case of accountancy bodies. Over-time, the value of membership is being seen as a necessary pathway for promotion to senior positions and employers' recognition will enhance its value and status. Membership will embrace values of responsibility and ethics as well as ensuring suitable applications and learning styles for the new generation to learn best, and the deployment of right teaching resources.

The continuing harmonisation of banking rules and regulations will allow opportunities for mutual acceptance of each other's qualifications. Such efforts would be seen as a value-added service to the mobile membership as experienced successfully in the professional accountancy sectors. There should also be plans to build and harmonise membership framework as part of the agenda to professionalising the profession. The benefits are indeed to facilitate cross-border transfer of knowledge and accelerate the application of international standards and best practices.

Keeping ahead of the curve will be necessary to stay ahead of the macro changes impacting the industry. The complex technological and societal changes of now and the future are forcing banking institutes and industry too, to rethink its policies and to rethink its roles and purpose in the new inclusive century.

In the final analysis, a transformation agenda for banking education will be appropriate and necessary to stay relevant.

IBF Singapore - Elevating Capabilities & Guiding the Industry in Developing Professional Development Roadmaps for Compliance Practitioners

Ong Puay See *

Global regulatory reform and innovation in the financial services sector continues to escalate. As a result, the compliance function has gained increasing significance within financial institutions. This had led to greater demand for highly-trained and well-qualified compliance professionals.

These global regulatory reforms have had an impact on the compliance industry in several ways. Firstly, the requirement for compliance officers with cross-border knowledge becomes more critical.

Compliance professionals not only have to be masters of their craft. They also have to increasingly inculcate the culture of ethics and compliance within the organisation. Compliance practitioners need to work closely with Board and Management to build compliance frameworks and systems that balances financial innovation with effective risk management. They will need to continue to take on the strategic role of asking tough questions to address such issues, as well as cascade this to the operational level to ensure that each and every staff member is playing his part to protect the larger system.

Technology has also transformed the financial services industry. This adds yet another dimension to the job of compliance officers. They have to understand and keep up with the pace of technological innovation within the organisation so that they can assess the resultant impact on risk management and compliance requirements.

With these trends, the responsibilities of compliance practitioners have increased tremendously. It is critical to have practitioners with the right compliance and risk management skill sets.

IBF Singapore - A Heritage of Elevating Capabilities For Financial Industry Practitioners

Amidst this demand for highly skilled financial workforce, the Institute of Banking and Finance Singapore ("IBF") continues to actively support the Singapore financial sector's efforts to develop the capabilities and technical knowledge of financial sector talent. IBF was established in 1974 as a not-for-profit industry association to foster and develop the professional competencies of the Singapore financial sector. IBF represents the interests of close to 200 member financial institutions covering banks, insurance companies, securities brokerages and asset management firms.

From its early days of offering banking diplomas to Singapore bankers, through to the administering of licensing examinations, IBF has worked with the Singapore regulatory authorities [Monetary Authority of Singapore] and the financial industry to promote continuous learning and the highest standards of workforce competency.

In 2005, IBF launched the IBF Standards [previously known as Financial Industry Competency Standards or FICS] as a practice-oriented roadmap for practitioners to attain the necessary competencies to perform different financial sector job roles. Training providers were appointed to develop IBF-accredited training and assessment programmes.

Keeping Pace with Industry Developments - Enhanced IBF Standards Framework

In 2014, IBF embarked on the next phase of its journey to raise standards for the industry. IBF's new mission is "to empower practitioners with capabilities for a

* Chief Executive Officer, The Institute of Banking and Finance, Singapore.

robust Asian financial industry". It gives renewed emphasis to empowering individuals to develop depth in core competencies and cross-functional capabilities and raise industry standards. It also conveys our aim to build individual competencies with a view to serving a wider Asian financial market.

The IBF examinations and the IBF Standards competency programmes now represent an integrated set of competency standards and practice-oriented development roadmaps for financial sector practitioners.

Covering 13 industry segments spanning more than 50 specialisations, the IBF Standards were also revised to offer a comprehensive suite of accredited training and assessment programmes to guide a financial sector practitioner from licensing examinations through to certification across 3-levels : IBF Qualified (for new entrants); IBF Advanced (for senior practitioners and specialists) and IBF Fellows (for industry veterans). An IBF-certified practitioner is one who epitomizes the values of professional excellence, integrity and a strong commitment to industry development.

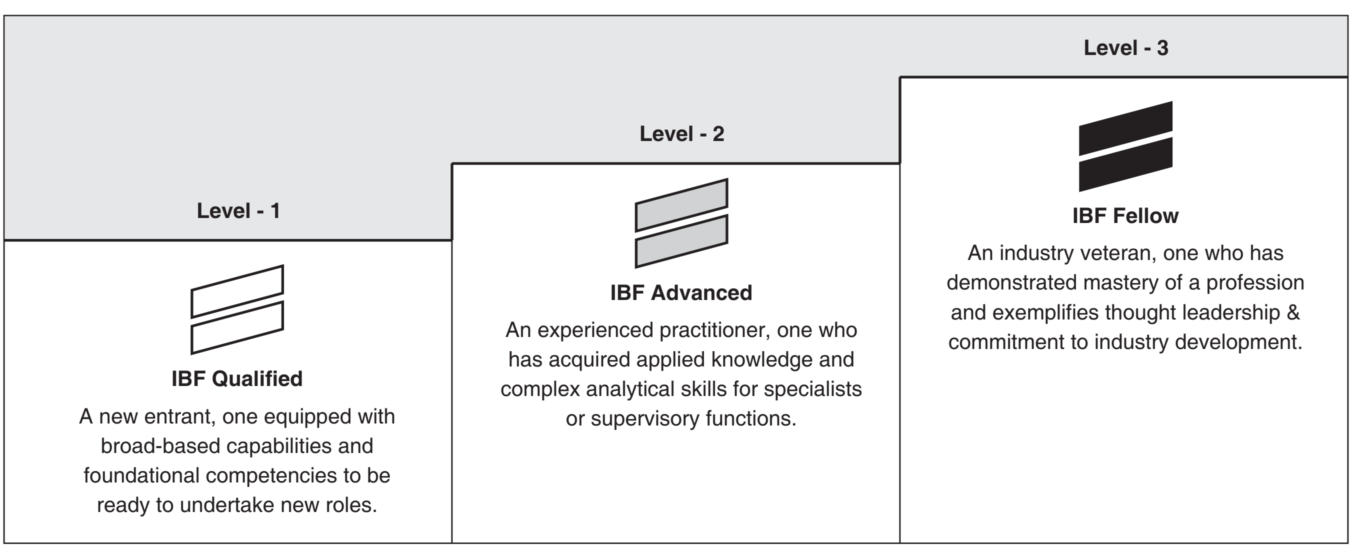
IBF has also introduced a new Certification mark - a set of parallel elevation bars - which symbolizes the close partnership that IBF holds with the industry. IBF aims to elevate individual competency whilst raising industry standards. The forward leaning symbol reflects the advancement and progression associated with IBF-accredited programmes and IBF-certified practitioners.

More than 14,500 financial sector practitioners in Singapore have been trained based on the IBF Standards. Specifically for the compliance segment, close to 2,400 compliance professionals have been trained, with over 200 certified. Many more are currently undertaking training and assessments to certify themselves as IBF-certified compliance professionals.

Financial institutions are encouraged to better leverage on the IBF Standards to raise the bar for the compliance profession. For example, apart from putting their compliance staff through IBF-accredited training and assessment, financial institutions could use IBF certification as a benchmark for hiring and career progression.

IBF has enhanced the standards for the Compliance, Corporate Banking, General and Life Insurance and Wealth Management segments to reflect relevancy of the current financial environment. Key enhancements to the standards include identification of portability of competencies across job specialisations within the segment to better facilitate career development and progression, and also recognition of prior learning to allow for exemptions for certain competency units with the attainment of relevant local or international qualifications .

Specific enhancements made to the IBF Standards for Compliance include focusing on knowing how to inculcate compliance mindsets and behaviour



within the organisation and developing the capabilities of a compliance officer from performing research and analysis of the laws and regulation at the foundation level to providing strategic advisory at the more advanced level.

Greater emphasis has also been placed on understanding the intent and principles behind the laws and regulations. A compliance officer will also be trained to not only possess general product knowledge, but to develop the capability to evaluate how the trends and developments of the industry will impact the strategic direction of the organisation.

IBF, together with its industry partners and stakeholders continues to play a key role in enhancing professional excellence for the industry, with the IBF Standards serving as an even more effective professional development roadmap. This will facilitate the compliance professional's goal to elevate his capabilities and meet the challenges of a career in the financial sector in the years to come.

For more information on the IBF Standards and IBF's training and assessment programmes, please visit www.ibf.org.sg.

Banking industry and capacity development issues in Nepal

Sanjib Subba *

The industry brief :

The Banking Industry in Nepal started taking shape only after the arrival of joint venture banks in mid 80s. The humble beginning of three joint venture private bank in 80s now boast about more than 200 private banks and financial institutions in the country.

With current GDP size of roughly USD 20 billion and population of 26 million Nepal is landlocked by India on the south and China on the high Himalayas north. With most of the land area is occupied by hills and Himalayas the major challenge has been the access to finance.

The 204 licensed Banks and Financial Institutions (BFIs) are mostly concentrated in the urban areas and it is assumed that more than 60% population unbanked or at least don't have access to formal finance.

The total human capital in these BFIs are over 16,000, a small number compared to other countries. This is mainly due to small sizes of BFIs with large bank hosting about 200 branches and small institution with 2-3 branches.

Lately, the merger has helped banks to grow the branch network, expand on human capital and increase in capital base.

The development of human capital for the banking industry has been a major challenge particularly due to the small sizes of the banks, there has not been any concentrated effort in setting in house training system mainly due to cost, infrastructure and resources. Thus in 2010, Nepal Ratsra Bank (Central Bank in Nepal) and Nepal Bankers' Association got together with support of Asian Development Bank to establish National Banking Institute.

Due to small GDP and long term political instability the country could not develop real sector as expected. Hence banks have been the major source of employment generation for fresh graduates.

The licensed BFIs, have been classified in four categories namely "A" class institutions are commercial banks, "B" class institutions are development banks, "C" class institutions are Finance Cos. and "D" class institutions are MFIs / RFIs. These institutions have total of 3430 branches nationwide serving 7724 population per branch.

The classification is mainly on capital base and geographical as well as product classification.

While the number of total deposit account is around 12 million, number of loan account is only 0.9 million indicating huge gap in deposit and lending. CD ratio stands at 78.1% as of June 2014.

The banking landscape is mainly retail bank and corporate bank. There is increased opportunity in SME and Micro-SME sectors.

Entry criteria :

Banks in Nepal usually have two entry points for employees. One at the clerical level called Trainee Assistants / Assistants which requires intermediate level to bachelors level and the other at Management Trainee level which requires masters degree as well as on the job training of at least one year. After successful completion they are inducted as junior officer. There are usually 13 level of hierarchy between entry level and CEO.

There is standard written exam and interviews conducted by each bank for the recruitment. There is no common entrance examination system in place, Public banks, though follow government's recruitment process.

* Chief Executive Officer, National Banking Institute, Nepal.

Human Capital :

As banking industry is relatively new in the country with large number of BFIs having history of only 10 years, the industry faced acute shortage of skilled workforce as explained earlier. Since first joint venture private bank came into operation only in mid 80s only few people have started retiring from the system. The average age of work force in private BFIs is roughly at 35 with large number of workforce under 30 at branch and operation level, with average work experience of not more than approximately 10 years.

The cut throat competition due to large number of players, tightening regulations and internal compliance has put pressure in the industry to continue performing at an acceptable level within limited resources.

Banking Education scenario :

On the training front, NBI is the apex body and delivering programs nationwide on a variety of banking verticals. These are mostly short duration courses from 1 day to 6 days. The process to develop long term certification / diploma course has started and expected to be launched by this year end.

The critical challenge industry is facing in the area of human capital management is mainly talent acquisition and skill set development. Due to rapid growth the industry lacks skilled human capital at every level but most importantly at the middle and bottom. The industry grew from a dozen BFIs to 204 just in a slightly over two decades period.

Credit, Operation, Trade, Compliances, Risk management, Treasury management, Retail Banking sales, team building, leadership and communication amongst others are critical skills required by the banks. We develop and design our programs keeping the industry requirement in mind and run periodic Training need Assessment nation wide.

Since the arrival of NBI we have been actively engaged in uplifting human capital quality in the industry nationwide and roughly deliver about 200 programs annually. With our humble beginning in 2010 with less than 25 programs in first year we have now enhanced our capacity to deliver program nationwide in variety of banking verticals. Last fiscal year which just closed on July 15th we delivered 200 programs and trained more than 6000 banking professionals, almost 40% of entire banking community.

Through our program we train bank tellers to top executive as well as board of directors of the bank. Apart from short training courses we run several workshops and conference round the year and already earned us credible name in banking education.

In addition of above, we actively work in access to finance areas mainly on “Financial Literacy” at remote parts of the country educating marginalized group, remittance dependent families, youths, housewives amongst others. This has helped create awareness of rural people on financial products, savings and entrepreneurship.

We are also actively engaged in banking publications and so far published four titles from Trade Finance, Credit, Deposit services and Financial Literacy Trainers manual. We have acquired copy right for Swiss banking education system and under this various titles are being published after local customization.

Training Resources :

Biggest hurdle in Nepal for a institute like ours is unavailability of professional / practicing trainers of banking areas. Since the industry is relatively new and not many bankers have yet retired from the industry we have to rely on existing banking professionals to serve as freelancer. This also hampers our ability to develop new programs, carry out industry specific research amongst others.

However with our effort of last 5 years we have managed to develop and nurture qualified pool of more than 30 trainers nation wide. We require these banking professionals to run brief demo session first and if they qualify we further ask them to attend Train-The-Trainer program hosted by us and once they are cleared we send them to the class room. We also select some of these to be trained as a trainer outside of country.

TRAK model :

NBI has developed its vision under TRAK model where T stands for Training, R for Research, A for Academic program and K for Knowledge Consulting. In our full maturity we expect to have these four major verticals.

We now have matured our Training division with over 200 programs all over the nation and our immediate focus is on Academic programs (long term certification / diploma) and Research works.

Conclusion :

In a nutshell, the BFI sector in Nepal is growing and there is abundant opportunity in the country. NBI has been playing proactive role in developing, designing and delivering industry specific needs in different verticals.

With our immediate focus on developing long term curriculum such as certification and diploma courses we will come closer to achieving one more milestone in banking education in Nepal.

☯

Keeping the Priced Assets of Banks : A contribution from the Bankers Institute of the Philippines

Teresita S. Galvadores *

At times, we run into an interesting question of : " What is a successful banking career for a bank employee?"

This question draws out different answers from different people. One may say that a successful banking career is that, which makes somebody liquid and rich, important and powerful. Another employee may define a career to be successful, when he/she has lots of quality time with the family and loved ones and can go on travels without feeling guilty for his absence. Others also define a successful career not in terms of money, fame and power, instead, what matters are the identity of work ownership, gaining additional knowledge while finding deep interest in the work being done. All of these are valid for different bank employees, with different goals. Definitely, all of these are attainable! Critical contributors to the attainment of these goals are the employees themselves, how much dedication is given in the delivery of the work performance and the Banks as employers.

People are considered by most organizations, including banks, as the most priced assets. While products and services of banks are categorized in a homogeneous manner, which sees product in one bank also offered by all the rest of the banks, the differentiating factor always comes in the form of the trust and reliance by the depositing public, in the performance of the bank, through its people. With products and services almost the same in banks, it is certain that work is also closely the same, with slight differences in how the operating systems work, processes implemented, infrastructure and the bank structure are put to use. Other than that, a banking work exposure is useful in as many banks as one gets employment from.

Do we realize that there are employees staying in the employer banks until retirement age? In the yearly loyalty awarding ceremonies of banks, one will see an impressive line up of awardees in the 10-20 year tenure. This alone spells out a message of how this particular bank is, as an employer, keeping their people for a long time.

Meanwhile, it is not much of a surprise too, to get a business card from a banker friend, who one has not seen for about 3 years or so, with a currently different employer and address, from the one you last remember to be his/her bank. The journey is ongoing. The movement of bank employees may be considered a reality.

Human capital is considered a measure of the economic value of an employee's abilities and skills make up. This measure, to a great extent, hinges on the basic production input of labor. Simply said, the requisite component of human capital is PEOPLE. The concept of human capital recognizes that not all labor is equal. The quality of employees can be improved by investing in the people. Education, work experience, abilities, skills of an employee have an economic value for the employer bank and the banking industry as a whole. As borrowed from a common quote : "An organization is as good as its people"!

Looking with focus on human capacities, it is strongly believed that like any other capital, the human capital can be improved and further developed. Additional investments through education, training, performance recognition / awards, benefits and perks all lead to the improvement in the quality and level of work performance of the bank employee.

* President, Bankers Institute of the Phillpines (BAIPHIL).

These factors are deliverables from the side of the leadership and management of the employer banks. Investment cost, on top of the regular packages for bank talents may be high. However, reinforcing the bank's workforce, takes a positive impact on the bank's stability, complementing productivity and which ultimately shapes the course of the banking organization, defining the bank's existence. A happy and contented employee will do his utmost to positively contribute to the well being of the organization and definitely takes pride in being with this organization. With this in place, the equation is complete, with the institution keeping the people who are entrusted to carry on the work of running the affairs of the bank, backed by the objective of protecting the bank and its owners and its stake in the organization. Even in a technology driven economy, financial organizations which choose to stand out by having notable edge on its fully equipped and tooled workforce, gain the advantage at quickly adapting to a fast moving societal change. On the other hand, if an employee has one or many of its work objectives unmet, other organizations become interested parties, finding the surfaced skills, fitted to their requirement. Thus, the movement.

In the Philippines banking landscape, what is truly heartwarming is the realization that the banking industry and its players, strongly believe that a workforce which is dynamic and attuned with the challenges brought forth by domestic and global change and development, innovation and shift in governance, is critically important. An adequately equipped workforce is identified to be among the potent business drivers.

Domestically or globally, it is observed that appetite of employees change. A good research of the value of one's position in the bank, while the employee networks towards a shift in career, has become a possibility. However, it is not always the financial factor to be considered. The pursuit of properly managing the workforce with the end intention of keeping good performers at the workplace, is always a joint collaborative endeavor between the employer who sets the direction and the employee with its work dedication and focus.

The Bankers Institute of the Philippines (BAIPHIL), a seven decade old training arm of the banking sector of the country, in close coordination with the regulators, has modestly remained steadfast in its role to reinforce the banking industry through training, education and information exchange. The best intentions of bank management to equip and re-tool their people is manifested in the active participation and enlistment of bank employees in the various trainings and seminar offerings. This is BAIPHIL's sincere contribution to the workforce of the banking sector.

Talent Needs of the banking and finance sector and the role of a banking Institute

Dr. R. Bhaskaran *

The role of a banking institute is to support banks in their talent management efforts by offering appropriate education, certification and training programs. To understand what all a banking institute could / should do it is essential to study the job roles of bankers and arrive at the knowledge, skills and competencies that are needed to perform the jobs in various business verticals of banking and finance sector.

Today, a Bank is a complex business organisation. It offers both commercial and service products. It is highly leveraged. A bank is highly visible and happenings within and outside the bank is subject to public scrutiny despite the ownership pattern of banks. No wonder then that the talent issues of the banks are equally if not more complex. In this background before addressing the talent issues of the banks it will be useful to discuss some of the important functions within banking as under:

Risk Management is the most important function :

Banks accept money from savers for the purpose of intermediation. Intermediation is essentially a process of calibrated assumption of risk. That risk is inherent in every aspect of banking business has always been known. But, in the last two decades, when banks strayed away from merely managing risk to using risk as an opportunity for augmenting income and sought to increase the return on owners' funds by resorting to higher leverage, it became apparent that risk is a more complex and challenging thing and can lead to major financial crises and even bring financial markets to a grinding halt. The Government and Regulators around the world reacted to the crises by imposing more regulatory norms. Today, thanks to disclosure norms and regulatory guidelines on critical aspects of banking, risk seems to be contained but risk management has moved centre stage in banking and it is the most important item in the top management agenda. Further, till recently it was thought that risk can be managed by resorting to hedging and other methods. But then, the riskiness of these tools has opened up newer risks which are more difficult to manage and have the capability of heralding global financial crises. Technology is another factor that has changed the face of banking in the recent years and added few more words in the ever increasing vocabulary of risk management.

Technology has changed the way banking is done :

Traditionally, banking was a well defined function with specific working hours and procedures. Branch was the only contact point and “Cheque” was possibly the only instrument for transacting business in banks. Use of technology in banking operations known as banking technology has changed such slow paced banking and has impacted the banks in a number of ways. The maximum impact of technology on banking is seen in the substantial time reduction in ledger keeping, accounting and transaction jobs. Processing of transactions has been speeded up. These activities had consumed most of the bankers' time in the past. In addition, technology has also enabled the introduction of newer delivery channels such as ATM, Cards, Internet, Kiosks etc. Due to these new channels, the need to visit and do a transaction within 'banking hours' is no more a necessity. Today access is 24*7 thanks to ATMs and net Banking. The ubiquitous counter that stood between the customer and the banker has given way to lounges and desks across which the banker interfaces with the customer. The customer of a branch has now become a customer of

* Chief Executive Officer, Indian Institute of Banking & Finance.

the bank. All these have naturally led to a debate as to whether the Branch (now referred to as Brick and Mortar structure) is needed at all? Yet the number of new branches continues to grow.

Technology has also caused certain rethinking on the type of branches. In view of this, today there are (a) full service branches which handle all types of business including relationship banking; (b) self service branches where the customer is able to put through he transactions with little or almost no help of the branch staff, (c) specialist branches dealing with a particular type of business say SME and (d) hub & spoke branches which is a mix of brick and mortar, technology and BC delivery methods.

Chart - 1 : Types of Branches

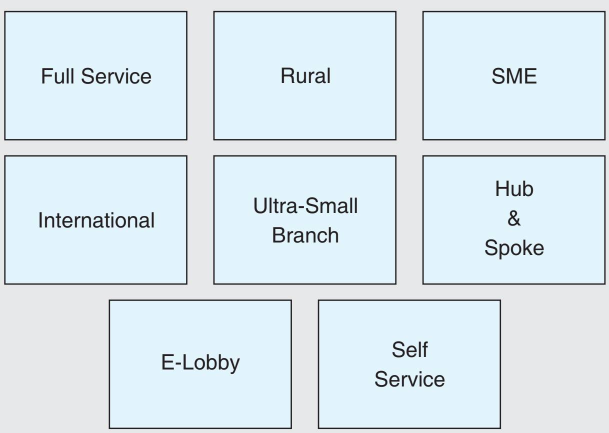
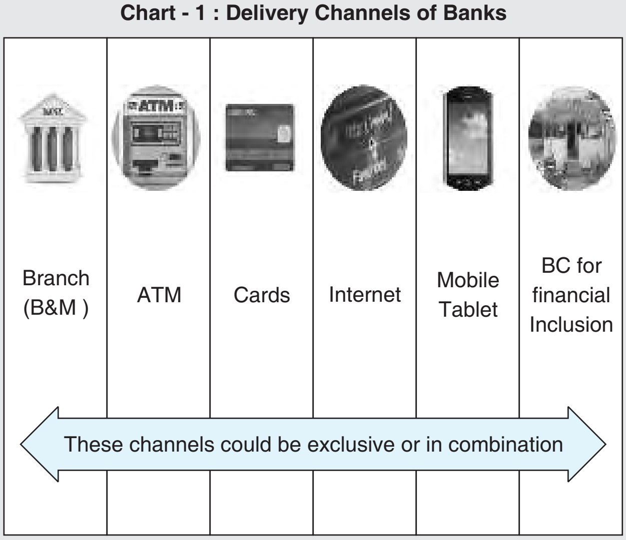


Chart - 1 : Delivery Channels of Banks



As banks got rid of the tedium of ledger keeping, there were discernible work space changes. The increased use of the new delivery channels has reduced the foot fall of customers in the branches and allowed bankers to walk out and seek customers for business development. Instead of waiting for the customers to walk into the branches, the banker has now become a feet on street person seeking to sell services and products and ever on the lookout for new business. On a lighter vein, technology has changed almost all the terminologies used in banks with Deposits and Borrowings giving way to Liabilities and all Loans and Advances being termed Assets! Profit has become Spread and Defaulted Accounts into Stressed Assets! Given the penchant for technology people to use the word 'verticals', banking too has become one of the many 'verticals' which even Basel Committee has taken note of! Selling has, like all other business, become all pervasive within a bank. Banks sell liabilities (deposits) and assets (loans) and many third party products (Insurance and mutual fund).

What is done manually has to be done differently when technology is used. Thus banking technology also brought about many changes in the way banking is being done due to process re-engineering. One such concept is the 'back office' which has shifted some activities, such as documentation, issue of cheque books etc. which were hitherto performed by the branches away from them and thus helped in reducing the foot falls in the branch premises. Back offices also handle a large amount of data, analytics and other jobs which make banks more efficient. Back office is a mundane work but contributes to business efficiency. Another impact of technology is 'score card' based appraisal which has revolutionized retail lending. Credit bureaus also owe their existence to technology due to which they are able to record the credit history of retail clients and pass it on to the banks on demand. The growth of retail loans has been higher due to score card based appraisal and credit scores. Addition of Internet and mobile as banking delivery channels are rather recent. This coupled with the introduction of Real Time Gross Settlement (RTGS) and Electronic

Fund Transfer (EFT) has completely revolutionized the remittance space. Similarly cards have also witnessed explosive growth rates.

Banks have also turned to outsourcing for a number of their requirements due to which not all activities are carried out by its staff. Even as BPO Companies take care of processes and technology related activities banks have innovated Direct Selling Agents and Direct Marketing Agents for lead management purposes. Also, banks use Debt Recovery Agents. One of the recent introductions in India is the Business Correspondent and Business Facilitator in the financial inclusion domain. IT services and IT maintenance are mostly outsourced. Such massive use of IT is not without problems. The most worrying among the problems is the 'IT Security' and 'prevention of cyber crimes'.

Nothing impacts banks as much as Regulation :

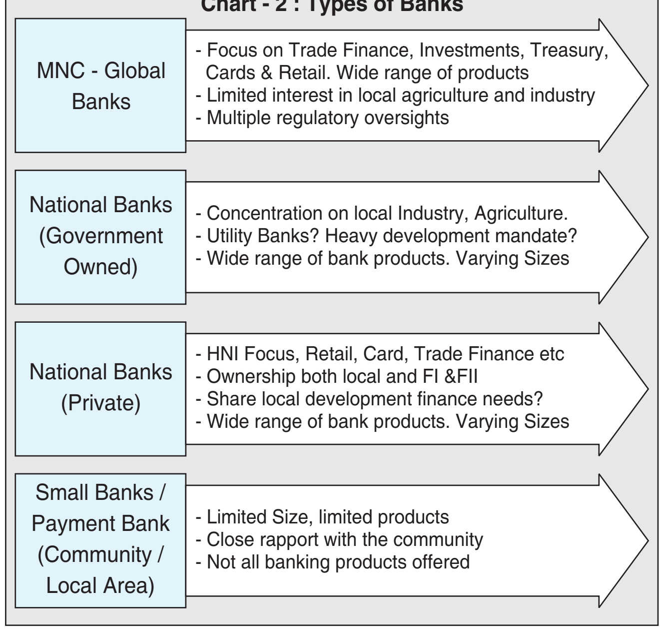
Finally nothing impacts banks as much as regulation does. Similar to risk, regulations have always been around. But post Global Financial Crisis (GFC), regulation has become more focused on financial stability, inflation control, growth and orderly financial market. To achieve these objectives the regulator has many tools in its arsenal. These days the focus of regulatory supervision has become sharper. Regulators issue frequent and detailed guidelines (long circulars) to banks on many aspects. Indeed it is an important job for a bank to understand these guidelines and prepare appropriate plans, procedures and rules such that the bank is not seen violating the norms prescribed by the regulator. Compliance to regulatory guidelines has become an important item of work.

One of the regulatory concepts is the capital adequacy. If a bank were to fail in complying with this norm it should be asked to cease doing business. This is easier said than done. Closing down banks has repercussions for the economy. Not closing also has repercussions as some one- in this case the tax payer - has to pick the bill for rehabilitating the bank. In view of this banking regulators are taking all steps to maintain financial stability. The banking supervision has become more focused and bank specific. Regulation, Governance and Compliance are three issues that get maximum board attention these days.

New Classification of Banks

In the past, categorisation of banks was on the basis of ownership namely public, private, government, co-operative etc. Another way to look at the banks was in terms of local and foreign based on where the bank is having its registered office. The recapitalisation of the global banks brought home the fact that it is Home Governments which made funds available for recap. Having done this, home regulators started putting stiffer conditions on the roles and responsibilities of such banks. This resulted in somewhat differential regulation on where the bank is registered and what kind of business mix it has. This classification became more pronounced when post GFC, Multi National banks began winding up their presence or paring their exposure in many countries. Today banking is talked in terms of four kinds namely Global Banks, National Government Banks, National Private Banks and Small / Regional banks. The regulation of each of these banks will differ in the future on the basis of regulatory perception of individual bank's risk profile and as to which bank is more risky in terms of financial stability and which is less risky.

Chart - 2 : Types of Banks



Banking is changing

What is the effect of all these on bank staff? Unlike the past many of the bank jobs have become more specialised. At the same time some of the jobs have become a matter of routine with no customer interface (back office, sign off etc.) while some others like risk management have become very pressurised and critical. Selling calls for the right attitude and a very clear view on what is allowed and what is not allowed. Customer has become more demanding. Customer service has become a challenge as unlike the past when the responsibilities to the customer was with a single person in a bank, today there are multiple persons involved in the delivery of a product to a customer which needs greater coordination and systems that ensure precision. Today there are a larger number of customer complaints due to reduced level of personal touch and the service delivery has become highly mechanical. The mobile and e-channels make lodging of complaints easier.

Chart - 3 : Changing Face of Banking?

Then	Now
Deposits	Liabilities
Advances	Assets
SSI	SME
Large Scale Industry	Corporate Advances
Small Loans	Retail Loans
Over due Accounts	Stressed Assets
Profit	Spread or NIM
Branch	Brick & Mortar
Business Segment	Vertical
Cheques	Net / Cards / Mobile

Essentially banks need to do not one but many things. Within this, for risk management, fund management, compliance, customer service, governance etc bankers need very special skills. Branch management, business development, credit appraisal etc also call for special skills but these activities have been there for a long time now and banks have greater experience in these areas. How effectively bankers acquire or develop all these skills and how efficiently they manage these functions, manage the routines and keep ahead? The market share will be determined by how good is the talent management function of the bank.

Business and Functional Managers in Banks

Traditional theories talk of two types of organisational functions namely line function and staff function. Staff function is one where the role is more in the nature of support to line function which owns the responsibilities for business results. Such a classification may not fit in the case of today's banking business. For example, risk management and/or compliance management in banks is neither a fully line function nor a fully staff function.

Today, banks need two sets of people namely Business managers and Specialist Functional Managers. A business manager is in charge of business units such as Branches, Delivery Channels, Specialist verticals etc. A business manager could be a Branch Manager (of any size or type mentioned above), Regional Manager, Zonal Manager, General Manager, Executive Director and CEO or MD. A business manager will be assisted by many line functionaries namely officers, accountants etc in the day to day business.

A specialist functional manager, on the other hand is one who is not in-charge of business units yet his/her role is important in business delivery. For example persons looking after activities, either wholly or within business units, like IT, Risk Management, Marketing, HR, compliance, etc can be called specialist managers. Unlike the traditional staff function these specialists have certain line obligations as well. Often the impact of their roles is kind of blurred. It is unique that in banks people move from one role to another rather effortlessly. Back Office is a new concept and takes care of accounting, documentation etc.

Most of the talent acquisition in the banks happens at the lowest level. Some of these acquisitions are for specialist roles as well. Yet a person joining a bank could move up alternating between the roles of specialist and business manager. The specialist and business management classification is more visible and distinct at the middle and top management levels of the bank and less so in the first level of management. In the front line a more apt classification will be transaction function and selling function. The skill sets required for transaction function and selling functions are distinct. Business Managers role is a combination of these two functions. Often front line staff move from one role to another effortlessly, yet it is advisable to keep these two roles distinct so that the service efficiency of the branch is not impaired. It is observed that the ratio of functional managers in a bank will be always lower than that of business managers

What about the leadership? Who will be a good leader? Will it be a business manager or a specialist? There are a number of interesting theories and propositions on the talent and leadership pipelines of organisation. The underlying concept in the 'leadership pipeline' is that a leader must move through the pipeline and not miss any important job role. This may not apply fully to the banking system because of the existence of specialist and business management roles. Generally it is seen that a bank CEO has moved through most of the business manager roles and some, not all, of the specialist roles.

It is important to note here that the underlying argument seems to be that these two functions are distinct. It follows that the business manager's competency is distinct from that of the functional manager. What are those competencies?

Competency and Competency Mapping

Competency is that combination of knowledge, skills and attitude which a person must possess in order to perform well in the work place. Competency is about a person's or a group of persons JOB SKILLS, strengths and weaknesses in performance, team work and decision-making within an organisation. Competency can also be seen in terms of one's ability to identify with the purpose of the organization or community and act in accordance with the values of the organization. Essentially this gives a meaning or purpose to the role or job.

Organisations are built by people. Given this, willingness to build relationship is demonstrated when a person is able to develop and nurture connections to the stakeholders of the primary tasks. This is team related competency. Another aspect is the ability to create and look for situations, experiment with the set of solutions that make it possible to complete the primary tasks and reflect on the experience. This is a learning competency. Is one capable of withstanding change is seen in the ability to act in new ways when it will promote the purpose of the organization or community and make the preferred future come to life.

Competency mapping is the method of assessing the functional and behavioural skills of a person and his/her strengths and weaknesses as worker/s of an organization. Organizations analyze competency and map competencies to understand how to best use each worker and how to combine the team strength to produce the highest quality work. Such analysis will help in achieving the right fit of persons and jobs. Competency mapping and assessment is also useful to individuals as it would help them prepare for a career, change of career or advance in a specific job field.

Competency can be improved or modified by interventions. Such interventions (certification / training) have to take into account the job roles, required competency and evaluate the same with the current level of competency of the employee and decide on what inputs and methods of training are appropriate to reach the desired competency level?

The levels of competency can be broadly classified in terms of one's position in the hierarchy of performance such as (1) Beginner, (2) Experienced person, (3) Practitioner (more experienced) or Professional and (4) Expert. As an employee moves through the hierarchy it should be possible to time or position the intervention aimed at improving the competency.

Functional competencies and assessment

All the practical knowledge that a person needs to perform a job are known as Functional Competencies / Skills. To illustrate, functional skill required by a teller will include ability to (a) count and tally the cash, (b) work with computer applications, and (c) do the book keeping. In the case of Treasury officials he/she should know all about the instruments traded in the market, how the market operates, related regulations, market rules and practices and procedure and ability to put through the deals. Functional skills are generally easy to measure through skill tests or task-specific questions, and can help define whether a person is capable of carrying out his/her basic responsibilities. Every job requires some functional skills.

Behavioural competencies/skills and assessment

Ability to communicate, listen, dialogue, and withstanding pressure without any behaviour modification etc. comes under this heading. Personal skills such as ability to sell, lead a team, listen attentively, and enhance morale etc. can be measured by behavioural assessment. In the case of teller the ability to interface with the customer will come under behavioural skills. Behavioural skill is the focus of most competency studies; yet it is more difficult to quantify.

Behavioural skills are as important as functional skills more so in banks where the bank is always selling products in one form or other. As such one has to assess both functional and behavioural skills depending on the job profile so as to get a complete picture of an individual's skill-set.

In this background a discussion on the position in the hierarchy or performance based competency and capacity building is as follows.

- Level-I : Beginner : Characteristic : Rule-based behaviour, strongly limited skills and inflexible.

  Beginners will have some educational qualifications which may or may not be fully in conformity with the requirements for the job. Organisations can expect rule-based behaviour from such persons. They will do as they are told. Their skill sets will be highly limited and inflexible due to lack of complete knowledge (about the job say banking) and skill. Offering highly skilled jobs (selling complicated products and high end customer interface) may not be appropriate at this level. Jobs such as Teller, Data Entry, Back office work and jobs where systems are stronger and well defined will be appropriate for the beginner.

  Capacity building of beginners will aim at giving doses of knowledge and skills that are necessary to perform the given job. The interventions may be so phased that the candidates are able to assimilate and internalise the learning. In these cases training will focus on giving basic knowledge and practical demonstrations about the job to be performed.

- Level-II : Experienced : Characteristic : Undergone training. Done some work. Incorporates aspects of the situation.

  At this level the employee has gained some experience. This coupled with the knowledge inputs obtained in training or on the job or from manuals etc will help the employee to incorporate aspects of the situation in the working style. Jobs such as, scrutiny of credit proposals, selling of wealth management products, lead management for asset products etc are appropriate for this level.

  The intervention (training or certification) in such cases will focus on building up on the existing skills and the capacity of the person to assimilate more inputs.

- Level-III : Well Experienced or Practitioner or Professional : Characteristic : Acting consciously from long term goals and plans.

  A person becomes a practitioner or professional on acting consciously from long-term goals and plans. Typically an experienced person if he were to continue a particular line of work for sufficient time will become a practitioner. Also qualified professionals with experience become practitioners. The persons at this level will apply their knowledge to situations and take appropriate decisions.

  Typical Jobs : Credit Officers, Recovery officers, Wealth Managers, SME officers, Forex dealers etc. are examples of this level.

  These Practitioners need continuous development inputs both knowledge and skills. CPD is critical at this level.

- Level-IV : Expert : Characteristic : Long experience and decision skills. Has an intuitive understanding of the situation, capable of evaluating and creating.

  Long practice or experience coupled with substantial knowledge makes a person an expert. Due to intuitive understanding of the situation, he/she is able to come quickly to central aspects and decision issues. Typical

Jobs: Heads of Treasury, Risk Managers, Compliance Professionals,

What are the issues that would enable or come in the way of a beginner / novice moving on to becoming an expert? Firstly it could be the job rotation.[1] If the job rotation results in having to continuously learn new areas of work, move to new geographies and also poses challenge to work life balance then the need to obtain knowledge and skill at each new job will be more and the time taken to move from one level to another will be longer. This could result in delays in moving to the new level. The second issue is the speed of moving through the levels. If moving faster is on account of improper assessment or a hurry to fill up vacancies, then the remnants of a lower level impact the performance. A related issue is how to retain professionals or experts as they will be always in demand from friends and foes. There is a need for well thought out HR policies to support specialisation lest the specialist competency is lost. Job rotation merely as a matter of policy but not on the basis of need, will impact professional development.

Competency, Training & Development

Training function should be fully involved in developing specific learning plans for individual or groups of employees based on the measurable "gaps" between their given competencies and competencies required for the jobs. Training and development function should aim to address missing competencies and raise level of proficiency. Certifications play a critical role in giving desired knowledge inputs. Certification and training should focus on the skills, knowledge and characteristics that have the most impact on job effectiveness. For this it is important that training and development opportunities are aligned with organizational needs. Ideally training should go hand in glove with competency based certification which will result in the most effective use of training. Organisations can adopt a competency based training and development framework for ongoing coaching and feedback, both development and remedial efforts.

All employees need knowledge and skill. The level of knowledge and skill will vary depending upon the job role and business size. In case of standardised products, lower value and where systems are strong the required skill level will be lower than those products which are high of value and need customisation. Whether an employee needs knowledge and standard skills (certificate) and whether he/she needs specialised skills (Training and Certification) and how much of the skills and expertise can be obtained on the job will depend upon (a) the position of the person in the hierarchy, (b) length of service and (c) the level of expertise needed in the job.

The table below gives a summary on the requirement of knowledge and skill set levels in different levels of hierarchy. In all job roles attitude is important and should be appropriate to the expected outcome of job performance. Attitude is a trait that should be uniformly positive and facilitating group or team work.

Table-1 : Level of requirement of skill and knowledge at various job profiles in the bank

Sr. No.	Position	Type of Work		Required level of knowledge & skill for performance			
				Product	Procedure	Process	Policy
1.	Frontline Officer	General	Knowledge	Detailed	Absolute	Thorough	Aware
			Skill	High	High	High	N A
2.	Senior (Second level) Officer	Specific	Knowledge	Absolute	Absolute	Absolute	Medium
	(Wealth Advisor / Loan Officer)		Skill	High	High	High	NA
3.	Branch Manager	General	Knowledge	Absolute	Absolute	Absolute	Aware
			Skill	High	High	High	Low
4.	Functional manager First level.	Specific	Knowledge	Absolute	Absolute	Absolute	High
	(Credit / SME)		Skill	High	Medium	Medium	Medium
5.	Functional Manager Higher Levels	Specific	Knowledge	Expert	Full	Full	Expert
	(Credit / Recovery / SME)		Skill	Expert	Medium	Medium	Expert
6.	Specialist officers	Specific	Knowledge	Expert	Expert	Expert	Expert
	(Treasury / Risk etc.)		Skill	Expert	Expert	Expert	Expert
7.	Business Manager	General	Knowledge	Absolute	Absolute	Absolute	Medium
			Skill	High	High	High	Medium
8.	General Manager	General	Knowledge	Full	Full	Full	Full
	DGM and above		Skill	Aware	Aware	Aware	Very High

1. Banks resort to job rotation to prevent fraud etc. This may not achieve the objective. On the contrary what is needed is well thought out systems and procedures and very good monitoring.

Role of the banking Institutes in building competency for banks

The role of the banking institute is to support the banks in building capacities and competencies within the bank. The following chart captures today's educational needs of the banking and finance sector.

Chart - 4 : Education - Skill and Application Needs of the sector

Knowledge and skill inputs for new recruits. To make them job ready.
Knowledge & application skills for all employees in the use of technology.
Service related knowledge (KYC, Customer Service, Codes, Rates of Interest, Product details, Transaction banking etc.) for front line employees. Crucial. Accuracy is important.
Specialized Knowledge in new business verticals for middle to senior management. Depth of specialization steeper for higher levels.
Regular knowledge updates for all employees particularly regulation and product related (Continuous professional Development)
Specific process knowledge for service providers such as Software Companies, Debt Collection agents, Business correspondents (financial inclusion), Relationship executives. Domain knowledge for marketing and other agencies - outsourcers
Management and Leadership skills in different geographies and levels

Not all the above requirements can be met by offering courses and certifications. Some of the requirements call for both certification and training interventions. The following chart depicts the methodology appropriate for various inputs. It may be seen that there is no single method which is suitable for knowledge and skill inputs at all the levels. As senior officials have long experience it would not be appropriate to teach them in class room. Similarly discussion and conferences are not suited for imparting knowledge and basic skills.

Chart - 5 : Appropriate Capacity Building Methodology

Need	Methodology
Knowledge inputs	Education, Training and Certifications :
Basic Skills	Certifications-Training and workshops. On the JOB
Advanced Skills	Training, workshops, on the job.
Management skills	AMP, MDP, Mentoring Workshops and seminars.
Policy Level	Conferences. Face to face, Counseling, Consulting

Traditionally books and class room (Chalk and Talk) were the two most important training methods. Now, with the advent of technology teachers and trainers have access to huge on-line learning material and white boards which are web-enabled. Simulations and gaming soft-wares have made learning more skill focused.

Role of IIBF

Banking Institutes are involved in (a) certification and (b) training or both. An Institute has to have a clear view of the job role, level of the employee to whom certification is offered and the required competencies and offer appropriate training.

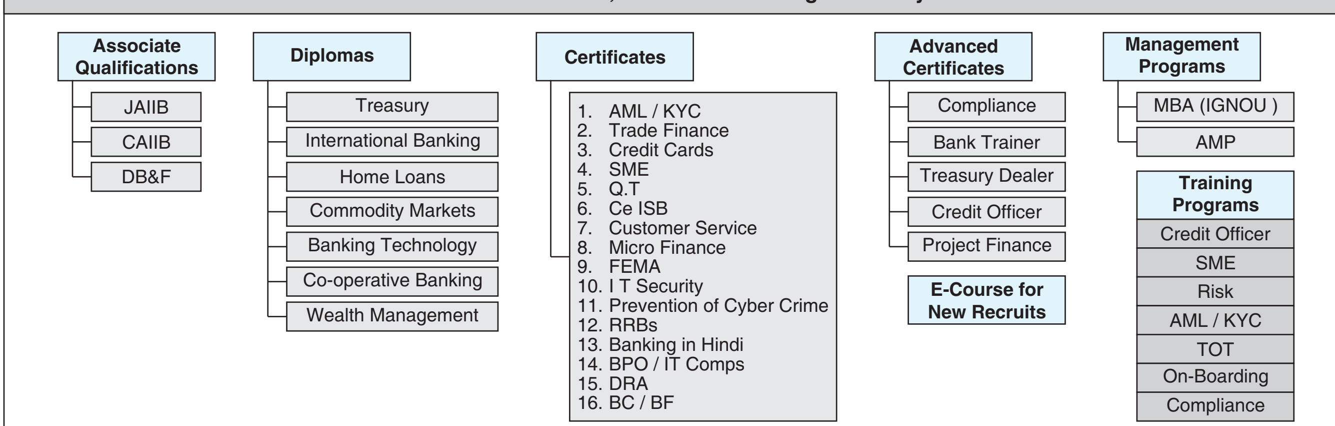
Table-2 : The rationale and approach behind the Examinations and Courses offered by IIBF.

Sr. No.	Name of the Qualification	Process	Appropriate for
1.	Certificate Examinations	Study of exclusive courseware, supported by e-learning. Testing on the subject and the concepts at the end of the study.	Front line staff in branches & junior staff in departments, who perform well defined jobs under supervision. Examination covers all relevant Knowledge for the job and indicative skills needed for performance. Example : AML / KYC, Customer Service, Basics of Banking, Banking Operations, Foreign Exchange etc
2.	Advanced Certificate Examinations	Study of Courseware, supported by e-learning, short Training / Contact Classes. In some exams testing can precede the training. Testing will be on the subjects, concepts and application	Covers all relevant Knowledge, indicative skills needed for performance, and ability to use independent judgement. Persons who perform functional management role at lower levels in a supervised environment. Example. Project Appraisal, Credit Appraisal
3.	Diploma Examinations	Study of Courseware. Testing on the concepts, subject and application	Covers all relevant Knowledge, indicative skills needed for performance, and ability to decide and improvise. Heads of departments, Senior officials who perform roles independently and supervise others in functional areas such as International banking, Treasury Management, Banking Technology, Wealth Advisory etc.
4.	Professional Certification	Study of Courseware (Generally two papers) supported by E-Learning followed by test and successful candidates to undergo case study based training.	Covers all critical aspects of the function including in depth knowledge and skill. Those who oversee and perform the role of compliance, risk, treasury etc and where there is not much supervision over the roles and the officers have to take professional decision.
5.	General Banking Qualifications	Study of Books- journals- web up dates - E-learning -Vedeo Classes & Contact Classes & Testing BLENDED LEARNING	Good and detailed foundation knowledge about banking, various products and functions
6.	Management Courses	Structured class room learning of specified number of hours. Assessments, Assignments, Group work	Middle and Senior Management : Overall management of banks and preparing future leaders. Advanced Management Course Post CAIIB - MBA in association with an open University

There is variety of ways of offering certification. IIBF currently offers Certifications, & Diploma Courses in distance learning course and Advanced Certifications and Management courses in a blended method. The above table gives the approach of IIBF in offering various types of qualification.

In line with the above the Certifications, Courses and Training offered by the Institute are as under. All these products are well accepted by the banking and finance sector in India.

Chart-6 : Certifications, Courses & Training offered by IIBF



PART - 3

Survey on Talent Management

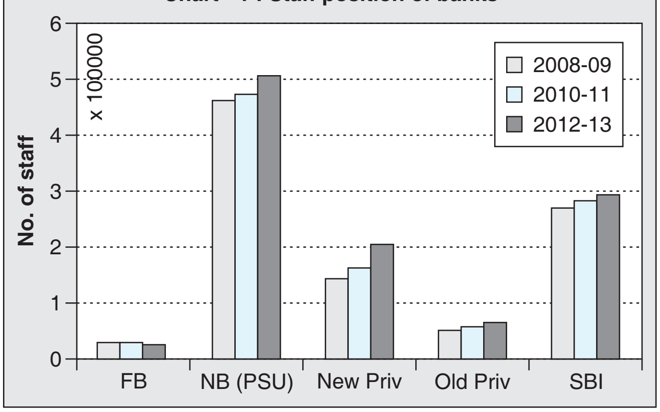
Talent Management in Indian Banks. A Survey Report[1]

Dr. R. Bhaskaran *

Bank Quest is the Institutes quarterly Journal. The Institute's endeavour has been to solicit and publish such articles in the Bank Quest which will be useful to the members of the Institute in updating their knowledge and informing them about latest happenings in the banking and finance arena. Bank Quest is a thematic publication with each issue focusing on a particular theme where a number of people share their ideas and views. This helps the readers in understanding the pros and cons and detailed views on an issue. Once in a while a 'CEO speak' special issue is brought out wherein the responses of the CEOs of various banks to some 13 questions are collated and published. In the last 8 years 4 'CEO speak' issues have been brought out. It is indeed a matter of pride for the Institute that most of the CEOs respond to the questionnaires and share their views very openly. All the issues of Bank Quest have been very well received, more so the 'CEO speak' issues.

This time around we decided to seek the views of heads of HR in the form of a survey on Talent Management and approached some 30 banks. As usual we raised some 13 questions. We got responses from 26 banks. Initially we thought we will use the same format as 'CEO speak' but found that it will be very voluminous and therefore decided to give the essence of the responses.

As a part of the survey, we had asked for data from banks on staff position, number of years a person normally spends in a particular position or grade, number of specialist officers in various grades and average age profile in each level of the hierarchy. We also studied the data of the staff position of the banks from various sources. The results and observations of the data analysis are as follows.

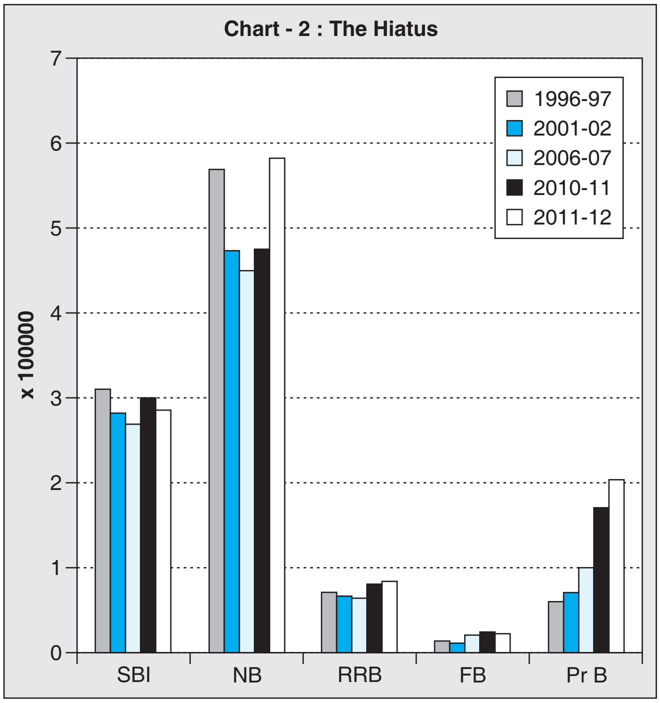


Indian Banks had employed more than 1.1 million people as on March 2013.[2] Between March 2009 and March 2013 (Chart-1) the employees' number has gone up by more than 1,42,000. During this period banks have recruited about 3,10,000 new staff[3] which meant that nearly 1,50,000 people had superannuated from the banks in the period. It seems the exodus will continue for few more years like this.

It is seen that generally the banks recruit most of its staff at the lowest level and groom them for higher positions. The practice of lateral recruitment for higher level positions is not much in vogue in PSU banks. Though Private Sector banks and foreign banks recruit laterally for higher positions it may not account for a significant % of the overall recruitment.

* Chief Executive Officer, Indian Institute of Banking & Finance.

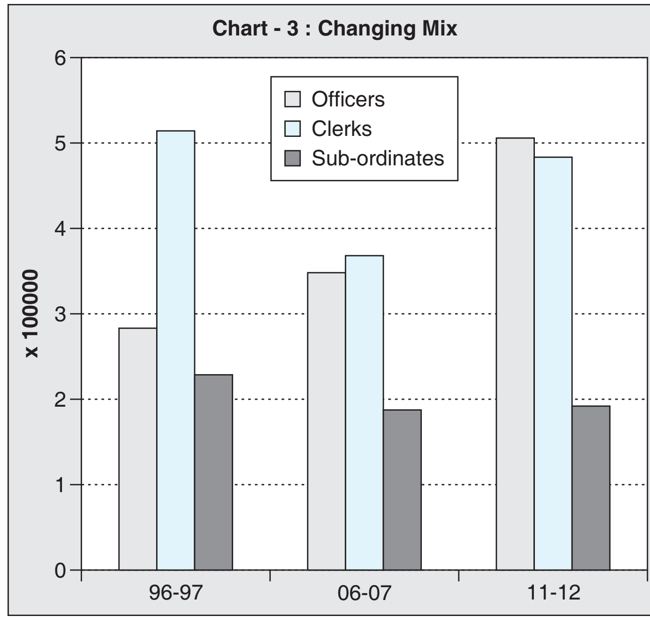
1. Study & analysis by Dr. R. Bhaskaran. Help in collecting and collating the survey by colleagues in IIBF is gratefully acknowledged. Views are based on survey and personal and not that of the Institute.
2. A Profile of banks : RBI http://rbi.org.in/scripts/publications.aspx?publication=Annual. Source of data for first 8 charts : RBI .
3. Estimated based on the number of new employees who became members of IIBF.



Almost all the banks have been recruiting heavily in the recent years. PSU banks recruit at the entry level clerical and officer staff through Common Written Examination and Interview. It must be added here that PSU banks had offered a voluntary retirement scheme in the year 2000-01. This was in anticipation of computerisation and the possible work reduction due to it. But it turned out that banking technology did not reduce the work load. On the contrary, it resulted in many new products, delivery channels and faster processes warranting more staff. However as these banks did not recruit but faced further reduction in staff a HR crunch (hiatus) was building up. These banks started recruiting heavily after the year 2006-07 and by 2012 have reached the same level of staff as prevailed in 1996-97. (Chart-2). Of course the mix of staff is different today.

New Private Banks and Foreign Banks recruit almost in a day to day basis and their HR is actively involved in the process. These banks have also entered into specific arrangement with Colleges and Institutes for recruitment.

The employees in banks can be broadly classified in terms of officers, clerks and subordinate staff.

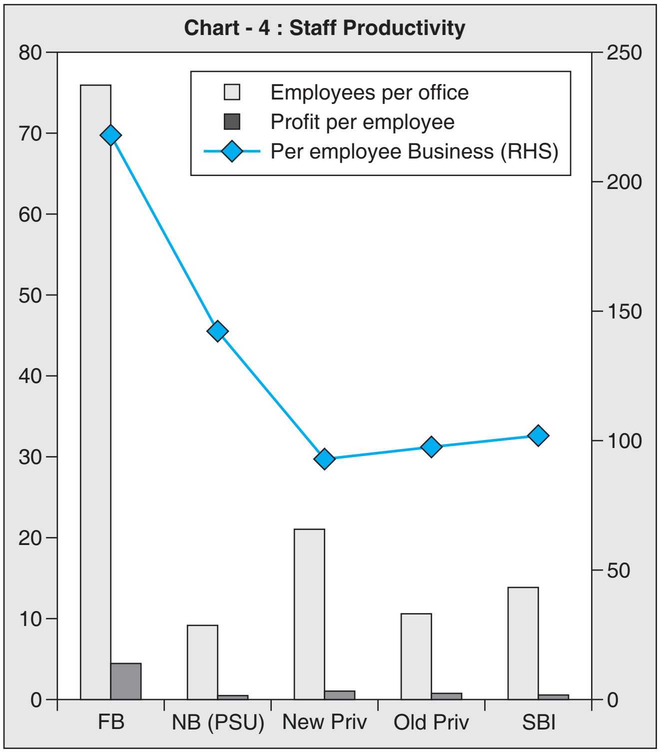


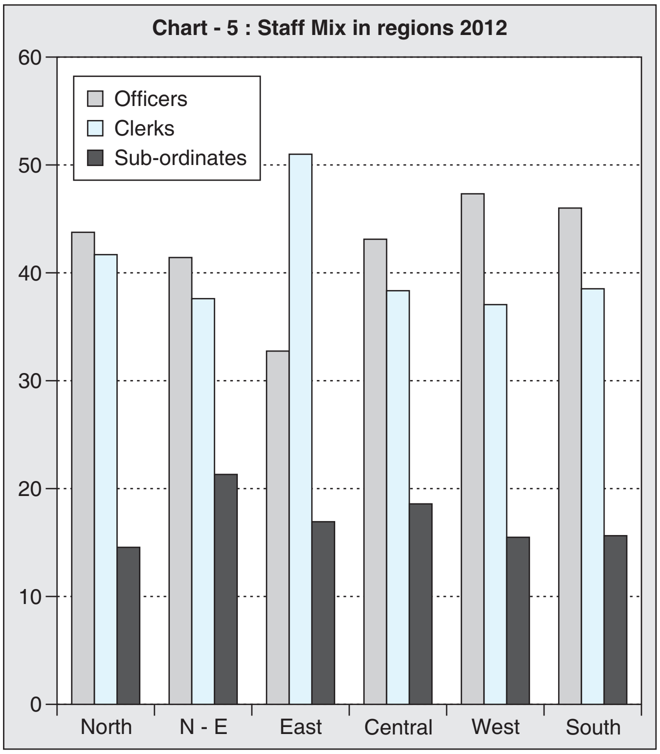
In the past the ratio of officers to clerks was less than one. (Chart-3). These days, on an overall basis the ratio is almost one. Possibly the shift in the ratio in the recent years could be due to PSU banks recruiting more officers. Also most of the new private banks and foreign banks recruit junior executives, not clerks. These executives are able to play a larger role than that of a clerk.

The HR policy of the PSU banks are driven by the Government as the majority ownership vests with it. As such the mix of staff, the compensation, the welfare policies etc. are set by the Government. Further HR policies of the PSU banks are similar despite different size, volume of business etc. These issues have implications for productivity and talent management.

The compensation package in the PSU banks is on the principle of equal pay for equal grade irrespective of the job role / profile while the new Private and Foreign banks pay as per the candidate's and job profile.

It is seen that the number of employees per office of foreign banks is high while it is almost same in the case of other banks. Foreign banks have recorded the highest profit and volume of business per employee (Chart-4).





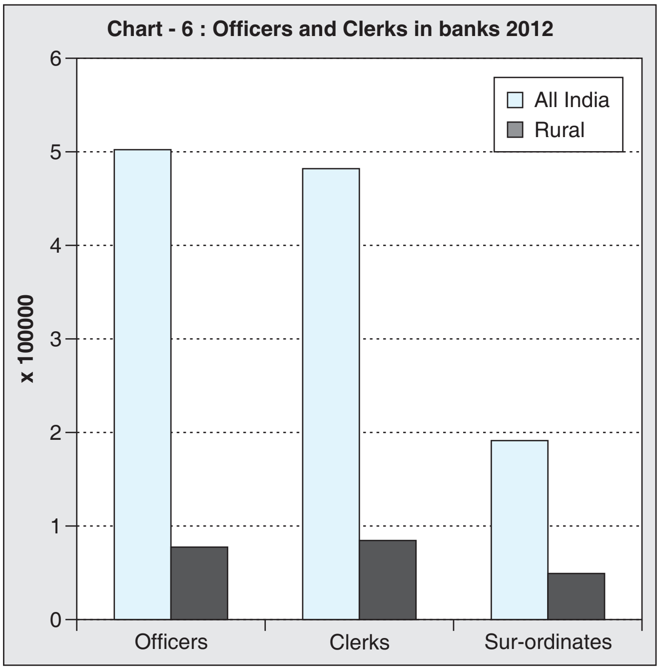
PSU banks recruit on an all India Basis and post staff across geographies. As against this the New Private and Foreign banks recruit people for the concerned geographies and not on all India basis. Generally these banks do not transfer people.

When banking was manual and had lot of ledger work the clerical posts were needed. With the advent of banking technology there is an urgent need to redefine the job roles.

PSU banks also practice 'one grade one pay'. Is this any more viable in view of the critical functions such as risk, treasury, compliance, credit appraisal etc?

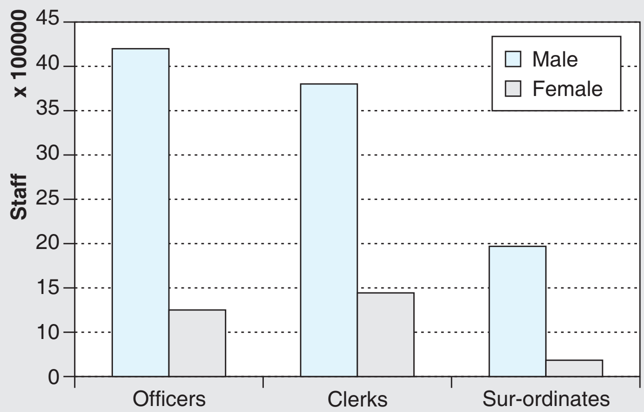
It is observed that the clerks to officer's ratio is not the same in all areas. It is seen that in the Eastern India the officers to clerks ratio is less than one where as in all other regions officers are more in number (Chart-5).

It also appears that the available staff is perhaps not evenly deployed across the country. The rural banking accounts for 36% of the branches, 31% of deposit and loan accounts and about 9% of total business; yet the ratio of employees in rural branches is only (Chart-6)



about 17%. Rural branches have more clerks than officers. It is well known that there is a shortage of staff in rural areas. In view of this, the strategy could be that rural branches are driven by strong and vibrant systems. But the rural areas suffer from power shortage.

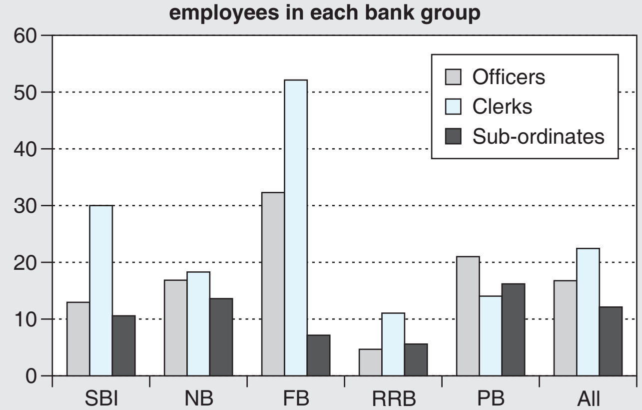
Chart - 7 : Mix of employees in banks



How to augment technology? Another question is how to motivate more staff to rural areas? Is the staff available in rural branches sufficient to propel financial inclusion drive?

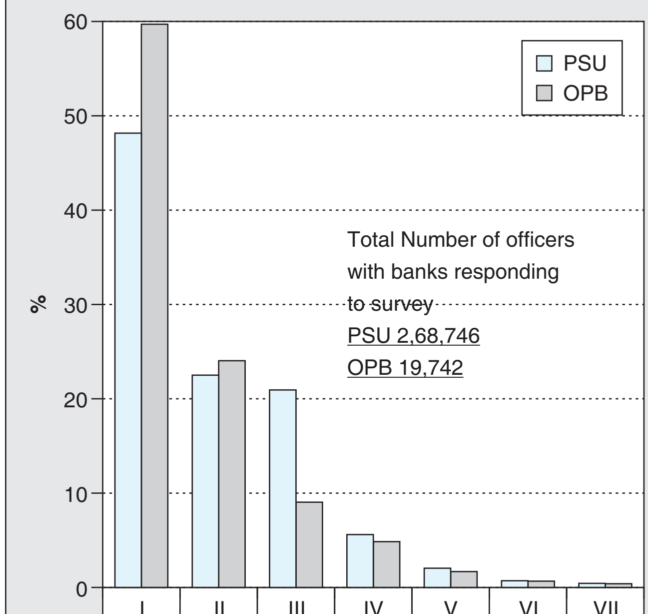
Gender is an important issue. It is seen from the charts that the number of men in banks is nearly four times more than women, nearly 5:1. It is also seen that the number of women in officers post is less than other cadres. This could possibly be due to their dual focus on jobs and home. Generally women take a larger load of home and unable to accept a transfer. Should not banks employ more women? Is routine transfers warranted? Are women avoiding officer's post in view of the possible job rotation and transfer? It is seen that (chart-7) the women employees accounted for about 18% of the total employees. Within this the number of women in clerical posts was higher (Chart-8).

Chart - 8 : % of women employees to total employees in each bank group



The above observations are on the basis of the analysis of the data available in RBI website under Profile of Banks, Basic Statistical Return of Banks and Handbook of statistics on Indian Economy. As a part of the survey we had asked the banks about the average age of employees in various grades, length of stay in each grade, and number of specialist officers etc. What does this data reveal?

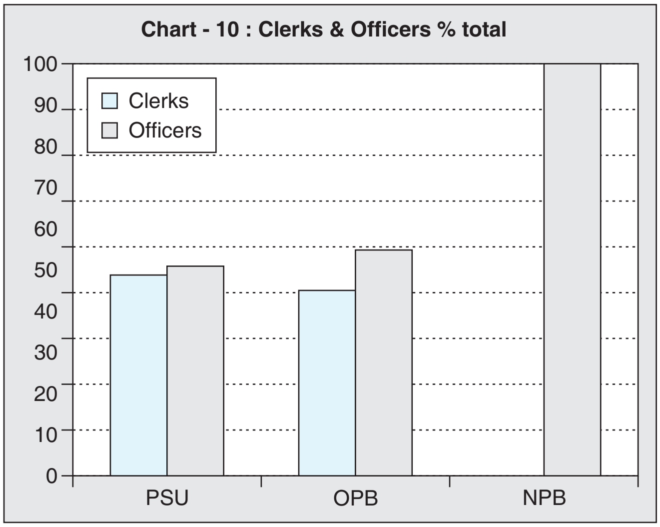
Chart - 9 : Percentage of officers in various Grades to total

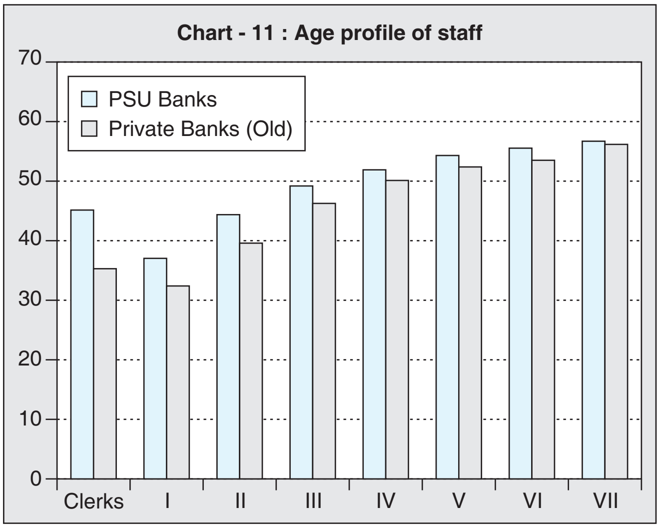


	I	II	III	IV	V	VI	VII
PSU	48.26	22.53	20.78	5.58	1.96	0.68	0.22
OPB	59.92	23.96	8.97	4.76	1.54	0.63	0.20

The survey results show that in almost all the top four positions the average age is about 55 and thus PSU banks are likely to lose the entire top management in the next few years. (Chart-11).

As indicated these banks have been recruiting in large numbers since 2007-08. This seen in conjunction with age profile data (of responding banks) shows a possibility that in a few years time these persons with about 15 years or so experience will occupy all top positions. Banks are giving them all sorts of training. Yet will they have the relevant experience? Will training programs make them ready? Should they not go through all the verticals for a sufficient length of time? Some tough questions indeed.





It is also seen that the ratio of senior management (Grade V, VI and VII) to total staff is about 2.75% of the PSU staff. Some of these are very big banks and they will definitely need more people in senior positions.

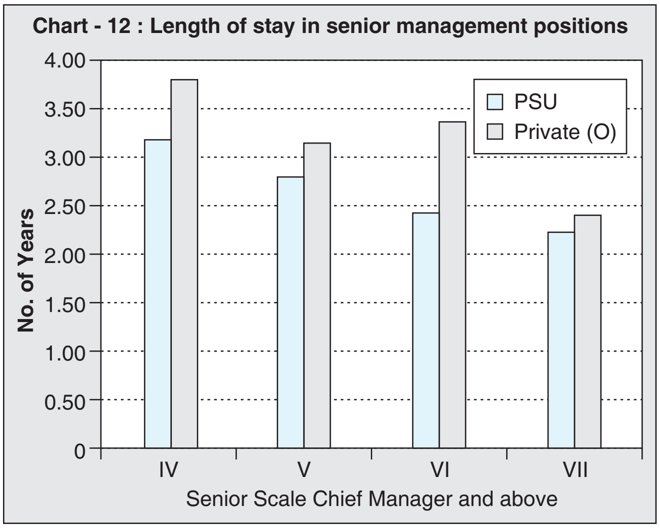
In the case of old private banks the ratio of seniors is about 2.20%. New Private banks are comfortably placed in this regard. In the new private banks, however the compensation differential between the top management and senior management is substantial.

As seen in the overall data on banks, in the case of banks who responded to the survey it is seen that the PSU banks and OPB (old private banks) had almost similar ratio of officers and clerks (Chart-10).

The responses from New Private Banks shows that they are fully officer oriented.

Another important issue is the length of stay in each grade. A longer stay in a grade could come in the way of career progression while a faster movement may not give one time to learn the job thoroughly. It is however essential that a person stays long enough to groom his/her successors. It is seen that (Chart-12) the length of stay in senior positions is less than 3 years in case of PSU banks. At the top most position a person stays for less than 2 years. This means that the experience gathered by the person over long years of service will hardly be available to the bank. Also the senior people are elevated as EDs of other banks.

As against this the new private banks showed an average age profile of 40 in the middle and top management. It is seen that there is higher attrition at the senior management in New Private banks. Newspapers often tell stories of private bankers, in senior positions who move out to establish their own enterprises or for CEO positions in other organisations.



As indicated we had asked many questions. Banks have given their response to these. The essence of the responses and the differing viewpoints among PSU banks, Old Private banks, New Private Banks and

Financial institutions is given under thirteen heads. It is always known that the style of management, business mix, performance and approach to talent management of these banks differ from each other. Indeed the responses throw light on the complex issue of talent management.

Skill Gaps

Banking has undergone massive changes in last two decades. The traditional form of Branch Banking has changed. Over the period, Banks have created new business segments *viz.* Personal Banking, Rural Business, Mid Corporate, Large Corporate group etc. In addition to this, areas like Risk Management, Regulatory Compliance, and Technology etc. have become vital in Banking. All these verticals require skilled personnel. It is in this background that we asked - **"Banks today have many new business verticals. Considering the expansion in the activities what are the skill set gaps / issues, if any, faced by the bank in recent years?"**

Almost all banks have indicated that they face shortage in skills in some area or other. PSBs (Public Sector Banks) in general are facing a larger shortage of senior bankers due to a very high superannuation's in the recent past. This trend is seen in most of the large PSBs and may continue for some more years. It is only after the year 2007 that the PSBs started recruiting after a long hiatus. In this connection banks say that they are also facing skill and knowledge gap with the junior personnel who have been inducted in the last couple of years.

Banks have started succession planning and trying to create talent pool of skilled personnel. By and large, the skill gaps are felt in the following areas :

- Risk Management
- Regulatory compliance
- High value credit management and trade finance
- Treasury and Forex operations
- Data analytics and data processing
- Sales & marketing
- Service operations (including back office operation like CTS / payment processing, account opening / maintenance processing, call centre operation, mobile and internet banking support)

In the past the banks had the availability of senior people to coach and groom the new recruits. But now with the exodus of senior people banks find that the coaching and mentoring function is not fully operational.

Some of the old Private Banks also point out about skill gaps in areas like cross functional work, business development, strategic planning & leadership.

As regards new Private Banks it is seen that they don't face skill gap in most functional areas. In this regard one bank has said that they have invested heavily in creating a supply pool of job ready resources for every skill set required. For this purpose and for certain levels and skills, the Bank has partnered with educational institutes while for others, the Bank has set up internal academies to upgrade and impart skills.

In sum it is seen that banks have established various business verticals but are facing shortage of requisite skilled personnel to keep them ahead in a competitive environment. Most banks have resorted to training and development to meet the skill gaps. They are in the continuous process of building capacity within or recruiting in the market for skilled personnel in the various functional areas and make appropriate system in place to face the challenges. Training plays a crucial role in their strategy to meet the skill gaps.

Specialisation

Most of the banks recruit staff at the lowest level and groom them for taking up higher jobs. In the case of private banks they also have a system of recruiting appropriately skilled people for specialist functions. Traditionally, Banks under Public Sector recruited generalists. In the past they also inducted professionally qualified personnel in some specialised areas *viz.* Rural Development, IT, Credit Analysis, Legal, Engineering, Economic Intelligence etc.

However as the scope of banking expanded newer areas of specialisation have come about. But these functional areas like compliance, risk etc which required specialised knowledge are being handled by officers taken from general stream, which might not be a competitive advantage for them. It is in this background that we sought the banks view on - **"The issue of generalists handling specialist jobs has been faced by many banking organisations. Is there scope for functional specialist cadre in banking sector? How your bank has tackled the "specialist" needs of the bank? How does your training division tackle the needs of building specialist workforce?"**

The PSBs are placing general cadre officers in the various functional areas that require specialised skills *viz.* Risk Management, Credit, Regulatory framework, Forex, Treasury etc. They indicate that the officers identified for these departments are trained in-house or at outside institution *viz.* IIM, NIBM, IDRBT, CAB, BIRD etc. Thus the banks depend on training to meet their specialised needs. Yet banks point out that there is a need to induct functional specialists with professional expertise & industry knowledge not only at the first level but also at higher levels. One of the banks has said that junior level officers should be initially rotated across various departments and the functional specialisation should start from middle level onwards.

In order to meet the requirement of specialists most of the large banks have reoriented and upgraded their Training system as per their needs. These banks have their own training system which are being upgraded & empowered. These institutions have introduced new and relevant curriculum as per the requirement of field functions. Some Banks have created role based training module both physical and E-learning.

In a large new Private Bank, generalist roles are limited to the first level managerial roles and non-supervisory roles in retail branch banking. The specific functions like risk, credit, product design, technology, wholesale banking, treasury etc are manned by MBAs & other professionally qualified people who are recruited from premium B-schools & institutes set up by the Bank in collaboration with premier institutes. The private banks have learning management system in which they host a large number of e-learning programs.

It is evident that going forward, in majority of banks there will be a definite need for creating functional specialists in the critical areas *viz,* Risk Management, Treasury, Forex, Regulatory Compliance, Credit, CDR etc. For meeting these needs the internal E-learning modules have to be made robust and e-learning may be made compulsory.

Lateral recruitment

In the wake of computerisation, PSBs implemented large scale VRS in the late 90's. But they could not replace the staff immediately. This resulted in a huge reduction in manpower and impacted all the levels of the organisation cutting across age, designation, specialisation, experience, etc. This coupled with usual reductions in staff due to resignations, superannuation, and normal attrition added to the problem of depleting manpower strength. The banks started recruiting in the year 2007 by which time a huge gap has formed in the ranks. Also the banks are faced with the challenge of almost the entire senior staff retiring in the next few years. We asked - **Talent crunch has been faced by banks after the VRS and also due to natural attrition at different levels. In this regard, banks have gone in for lateral recruitment also. What is the experience in your bank in this regard? Have you found contractual employment feasible for higher level posts?'**

Responses from banks have been varied. As already seen almost all the banks (PSBs) have stated that they are facing talent crunch. However, there is no uniformity among banks about the functional levels or specialist domains in which talent crunch is experienced, though the crunch is experienced right from middle to top levels. It is seen that banks have gone for different solutions to cater to their bank specific gaps. Many of them have gone for lateral recruitment in specialist / niche positions.

Banks have resorted to contractual employment for different levels ranging from specialist to Top Management jobs. This has not been very successful. Banks have taken to contractual employment not only for specialist jobs but also for routine banking positions. There is no set method or process to lateral recruitment and contractual employment with any banking group, *viz.,* Public sector or old generation private sector or new generation private sector banks. Evidently new private banks are able to manage the contractual employment with a greater aplomb than PSBs.

Banks have indicated that they have recruited laterally for specialist disciplines like Economist, Law, and Security etc. The experience in this regard is satisfactory. It has been useful in bridging skill gaps in specific areas. An old generation private sector bank has indicated that candidates for lateral recruitment at top levels should have great expertise in terms of leadership, communication, knowledge of various domains.

It is further seen that some banks have gone for availing the services of retired senior level officers whose contribution will continue to benefit the bank and for specialized functions. A financial institution has stated that it has gone for lateral recruitment in senior positions for areas like Risk Management, Core Banking Solutions, Corporate Communication and Engineering discipline. Such staff on contract basis is appointed for specified periods and it was able to manage these appointments well. .

New generation private sector banks are resorting to lateral recruitment primarily at the junior levels and for vacancies that arise from time to time in mid and senior positions. The bulk of the hiring is for front line positions for sales and service roles in branch operations and mainly due to bank's expansion.

As regards contractual employment many banks have stated that contractual employment has been found feasible more in higher level posts in specialist disciplines where single post exists. Wherever the contractual employee has to manage a team there have been conflicts. It has been reported that contractual employment at higher posts may not be advisable due to a host of reasons including continuity, loyalty, commitment, and integration. One PSB has appointed Chief Officer (Security), Chief Economic Advisor & Chief Technology Officer on CTC / contract basis. In this connection an old generation private sector bank has stated that contractual employment in their Bank has been only for EDs and above and that has been found feasible only for such higher posts. Another old generation private sector bank has opined that it has been able to implement succession planning at different levels and the availability of highly competent internal candidates is ensured and thus contractual employment for higher level posts was not felt required. One PSB has gone for contractual employment now, only for faculty position at their Staff College.

The responses indicate that banks have to resort to contractual employment and lateral recruitment to, temporarily, tide over the talent crunch within, even though the option is not to their satisfaction.

Assessment Centres

The dynamics in banking due to innovations in products, processes, technology and distribution is making job role fit a daunting task. Competency has become a critical question. An employee who is considered very effective in a particular job or level may be found wanting in a function or designation after getting promoted. Jobs are getting more and more complex. Will competency in one job necessarily mean competency in another? Assessing the employee potentialities therefore has assumed new and scientific dimensions. The concept of Assessment Centre is gaining momentum and relevance today. It is useful to ascertain the approaches of banks towards the assessment centre concept. We therefore asked - **"Assessment centres have been found useful to objectively assess the potentialities of employees for future placements etc. What has been the experience of your bank in this regard? What strategies are currently used to assess employees?"**

It is seen that different banks have addressed the concept in different ways, ranging from traditional appraisal to scientific assessment through assessment centre approach. Some of the banks have implemented assessment centre approach in letter and spirit and found it yielding good results. Some other banks have used the approach for assessing behavioural competencies. Another bank has used this specifically for leadership potential assessment for middle to senior management functionaries. Yet full-fledged concept of assessment centre has still not taken root in the banking system. Mostly banks are resorting to their own traditional methods of performance assessment.

Yet there are instances where assessment centre concept has been used. For example one old generation private sector bank has stated that during the last financial year they had used Assessment Centres for executives in Scale 5 and Scale 6 by signing up with external experts. Another bank has stated that the Assessment Centre approach is being carried out for group of high potential officers who have been identified by the bank. In this bank the exercise involves the mapping of the competency with the job role and the officers identified undergo around two days of assessment at the Assessment Development Centre. This exercise helps in mapping the competencies of the officers to the needs of the various job roles and help in identifying officers who have the competencies for being the future leaders for the bank. The assessment centre will also identify the development needs of the officers on various competencies.

A public sector bank has undertaken the Assessment Centre exercise for Scale-IV onwards Officials. Another public sector bank has been utilizing the services of Assessment Centers in various forms. The exercise of **Competency Mapping** has been initiated at the level of Assistant General Managers and Chief Managers to assess the critical competencies identified by the top management, required to perform their role effectively and the selected participants were required to attend at the Assessment Centers. One more bank surveyed has been using Assessment Centres during the past 2 years for assessing behavioural competencies and this tool is mainly used for senior management people. While they have been getting a fair behavioural assessment through the results of the assessment centres, there have also been pitfalls. <u>The bank is of the view that over-reliance on this for crucial positions may not be desirable</u>. Another public sector bank has been using the results of the behavioural assessment through the assessment centres over the last 2 years to serve as an additional input for talent management process, where apart from the assessment centre results various other inputs are also provided to the talent committees for arriving at various talent related decisions. One bank has stated that it has developed competency framework for their personnel.

A large new generation private sector bank has elaborated its Assessment Centre approach as follows :

- Nurturing talent is an important leadership competency in the Bank. As per this competency, superiors are expected to know the strengths and weaknesses of their team members and invest personal time in developing their subordinates. The culture of the Bank facilitates extensive interaction between superiors and their teams and hence most of the superiors have a wealth of information on their team members. The Bank follows a discussion based potential identification and assessment process, where managers from various functional domains come together and identify potential leaders. This exercise is conducted for employees in middle management and above grades.

This bank follows a leadership potential assessment process and the talent identification ethos of the Bank stems from its commitment to meritocracy. All employees who have established their performance credentials and are top performers of the organisation constitute the consideration set of the annual leadership potential assessment process. That bank has also institutionalised a process called Leadership Potential Assessment where employees in the middle to senior management grades are assessed for potential by cross functional panel of skip level leaders who have leadership potential themselves. These leaders serve as "Talent Scouts" for the organisation. The cross functional panel ensures balanced assessment by seniors across different functions and not necessarily by bosses in employee's hierarchy. The evaluation process focuses primarily on behaviours demonstrated by the employee during the year while performing his/her allocated role.

Assessment centre concept has made an entry in a few banks and is set to grow in the days to come. An objective assessment by a third party will be useful in assessing the talent potential is acknowledged by the respondents.

Today employee appraisal is a vexed issues in many organisations especially the public sector. In many banks that follow annual Performance Management System (PMS) the individual and even joint assessments are not found acceptable by many of the performers. There is a feeling, in such institutions that the current system is not able to spot and nurture really competent and performers. The current system of one pay per one cadre has not helped in the assessment. In such a scenario there is a scope to use Assessment centre approach, which will be more objective and acceptable to employees in the long run. A combination of traditional system and assessment centre approach will be more appropriate.

Motivation

Employee motivation, being one of the important objectives, organisations consider human resources as very important asset to achieve their organisational goals. Some organisations treat employees as internal customers and some believe employees first and then customer. Commercial banks strive to have a highly motivated work force. The banks in general and the public sector banks in particular are having huge HR challenges especially after the voluntary retirement scheme introduced in 2001. It is in this background that we said - **"Employee motivation has many dimensions. What are the important steps taken by your bank in this direction in recent years?"**

Most banks have reacted to this in terms of elaborating monetary rewards. The employees get various benefits under the industry level settlements. These are, of course, positive factors to recruit and retain the people. Banks provide other facilities like Performance Linked Incentive Scheme. The public sector banks follow this subject to government guidelines. Apart from monetary incentives, banks have the practice of extending non monetary measures like appreciation letters, awards, publishing the achievements with photographs in the house magazines, Chairman's club memberships etc.

To create loyalty among the staff and reduce the attrition, measures like periodical promotion process, favourable postings, deputing for domestic and foreign training programmes, extending scholarships to the wards of the staff are followed. Many of these measures are in line with the Maslow's Theory of human satisfaction. Some banks use measures like mentoring to motivate the new recruits, conduct contests in business areas to encourage staff members to actively involve in developmental activities, Staff Suggestion Scheme, effective training system targeting personality development, providing better work environment in terms of aesthetics, and better work facilities to motivate their employees.

For developing loyalty with the organisation some banks follow steps like

- Celebrating special occasions like the birth day / wedding day of the employees, foundation day of the organization, Silver Jubilee award for completing 25 years of meritorious service, providing dress materials with bank's name to the employees.
- Conduct of annual HR surveys to gauge employee satisfaction and motivation.
- Recognising high level of ethical values / actions shown in dealings.

Banks also organise events like sports / music / photography contests, health camps, talent sponsorship for children of employees, and family get together at different centres to motivate the staff. Employees of these days desire for work-life balance. In view of this banks have policies like encouraging their staff to avail at least a minimum number of leave (say, 10 days) annually and conduct awareness programs on various health related issues.

Measures like retiree's family meet; tie ups for medical insurance for retirees are initiated to give boost to the employees showing that organisations care for their employees during and after their service.

Competency Mapping

The next question we asked was - **"What are your views on competency mapping? Are there any competency mapping exercises undertaken in your bank? If so, what has been your experience with the same?"**

Competency can be considered as underlying characteristic required for performing a given task, activity or role successfully. Every organization, to perform effectively, should have mapping the competency of its employees to ensure that right man is put at the right place so that the maximum returns are extracted from the human resources. Commercial banks being a service oriented organization, competency mapping is all the more important. Nevertheless the concept is yet to be made universal in the banking sector. All banks have indicated that competency mapping is an effective exercise to have performing human resources. However, some banks do not have competency mapping system in place, in many it is in a nascent stage while in some it is only at the executive level only.

The measures initiated by the banks in this respect include maintaining detailed profile of all the staff members, evaluating the performance appraisal, identify and groom a talent pool of officers to address succession planning needs. The methodology would involve identifying core competencies of the staff and readiness of the workforce to take up positions identified. This will also help to have a pool of officers ready to fulfil the bank's succession planning needs. Some banks identify the skill sets of Chief Managers in age group of 40 - 45 with the help of external expertise and groom the staff members on the basis of their competency. Few banks have developed a competency framework consisting of 3 main aspects *viz;* functional competencies, behavioural competencies and exposure requirements. Various critical positions have been identified to match these specific competencies (both functional as well as behavioural) and exposure requirements have been mapped out. These efforts aim both talent management process and succession planning for critical positions.

Some banks have leadership competencies (called DNA Anchors) which are necessary for any employee to succeed in the organisation. This competency framework forms the bedrock of all people related processes in the Bank.

Going by the responses to the survey it is observed that banks will have to initiate necessary steps for a more methodical competency mapping exercise periodically to ensure talent management essentials for a dynamic business organisation.

Manpower and Business Planning

In view of the massive retirements in the recent years and equally large number of recruitments, banks in India are facing great challenges on manpower front. Almost all banks in Public Sector; Old and new generation banks in Private sector and the financial Institutions are not in a position to garner experienced manpower of appropriate quality to match with their business plans and commitments. The PSBs are also governed by GOI guidelines on manpower which is kind of uniform for the PSBs. Hence we asked - **"Is it possible to match Manpower Planning to the business needs of the Bank? What is your Bank's experience in this regard?"**

Though all banks aver that it is possible to match manpower planning to business needs, there seems a lot of difficulties in practising this. In this regard, one of the largest banks in Public sector has evolved a system to make rolling plan of business goals *vis-a-vis* manpower requirement for a period of next five years. Further, the Manpower planning is an annual exercise and the same is synchronized with business goals. Similarly, in most of the banks in public sector, the planning exercise of manpower requirement in different scales of officers is based on additional need for branch expansion and the staff reduction owing to superannuation, VRS, and attrition,

Banks in general find it difficult to match manpower with business needs, mainly due to unavailability of required manpower and the attrition of trained staff. While all the banks have manpower planning process in place with HR Departments, the views and suggestions of other verticals involved in business planning / augmentation are seldom sought.

The new Private Sector Banks say that they have a business focus in view while assessing manpower requirement. In one of the leading new generation private sector banks, manpower forecasting and environment scanning is carried out on monthly basis which helps in understanding the manpower requirement for the business. Based on this exercise, recruitment plan is devised and implemented on priority. In another leading bank in private sector manpower budgeting is the activity of finance department which seeks requirement from various business unit. Hence, in this bank the manpower requirement has direct correlation with business plan.

In case of a leading financing Institution, a self evaluation is made once in 5-10 years of its roles and responsibilities with reference to challenges due to changes in internal / external environment, business opportunities, work process reengineering. This evaluation helps in assessing the manpower requirement of required skill / experience etc. and accordingly the recruitment is strategized. If the period of self evaluation is reduced and the frequency is increased the manpower planning process will be more effective.

It is well known that PSBs resort to CWE and do not have much of lateral recruitments. In view of this it is apprehended that they may not be able to match the man power availability to the man power warranted based on business plans. There will always be a lag in filling up vacancies. The overall view is that in case the manpower planning department and the business units of the public sector banks exchange views and coordinate more regularly, the matching of manpower planning with business needs will be feasible provided the banks have flexibility in recruiting.

Training Days

Often it is heard that every employee must undergo training every year at least for some specified days. What is the practice with banks? Our query was - **"How many days of training per year are mandated per employee in your bank? Do you think that there is a need for minimum number of training days a year?"**

In the last decade, banking in India has witnessed great amount of transformation with particular reference to the Products, Process, Technological changes and also the expectations of customers. Banks, particularly in Public sector, are facing issues concerning the prevalence of knowledge gap amongst its employees. This could result in losing business opportunities and push down the rate of business growth. To avoid such an eventuality banks have felt the need of imparting training periodically to each employee, which is essential to update knowledge for skilling and re-skilling at various levels.

In view of this a leading bank in public sector plans to provide at least one institutional training to each of its employee every year for a minimum of three days. It has also mandated each employee to complete role based e-lessons or Certification courses depending on the scale of individual officer which will also have impact on the annual appraisal. Also most PSBs have their own training colleges and have training policies in place, however, imparting training based on the needs and requirement of each individual is a challenge. Banks usually specify minimum Seven days of training to each employee on annual basis which is not mandatory. Although, it is not mandated, efforts are made by Banks to ensure imparting class room training to each employee every year. One of the leading banks in public sector introduced the system of giving its employees "Training Credits" i.e. marks based on the number of days of training and successful completion of mandated tests. Such "Training Credits" are considered at the time of annual appraisal of the officers.

Small Banks in Private sector give more emphasis on the training at work place i.e. "On the Job" instead of class room training of minimum duration on annual basis. In one of the leading new generation private banks, employees are required to complete the role specific learning agenda and the bank conducts tests to assess the threshold level of knowledge and subsequently issues “Fitness Certificate” to perform. Performance of the test gets recorded during the annual appraisal of the employee.

The training objective is very well appreciated by all banks and there is a need to have mandatory compulsory classroom training of three days to each employee every year. This will give an opportunity to each employee to update his knowledge and get appraised with banking developments.

Certifications and skill sets

In the present day of banking, there are continuous changes in regulatory landscape, increasing public awareness and customer expectations, improvement in technology and consequent changes in process, introduction of new products, increasing competition etc. As a result, banks who have updated and skilled employees have advantage over others. Hence we asked - **There are multiple ways to upgrade the skills of employees. In this regard what are your views on certifications to upgrade the knowledge and skills?**

Banks are using multiple ways such as training, e-learning, information through portal, circulars etc to upgrade knowledge and skills of their employees. Certification in a specific area is one such way through which banks are encouraging employees to upgrade their knowledge and skills. Banks have given the following reasons for the need for a certification of bank employees : (a) they are important means to upgrade knowledge and skills (b) provide alternative means of skill up gradation (c) are useful for banks in deciding on the incentives, promotions, placements and transfers (d)necessary for staff motivation and to keep their interest in banking alive (e) necessary for development of skills necessary for specialised category of jobs and also to enhance confidence level (f) certification process acts as a stimulus to have trained manpower and helps in building quality manpower (g) effective method to maintain and upgrade the skill sets. Further banks have given the following views on certifications to upgrade knowledge and skills of their employees.

Public Sector Banks : Certifications are an important means to upgrade knowledge and skills. Some banks have also made certification courses of important institutions including IIBF mandatory for upgrading skills and knowledge. Majority of banks have introduced incentives through honorariums / increments and reimbursement of fees to their employees who successfully complete such professional certifications. There are banks that have made passing / undergoing minimum number of lessons on e-learning mandatory for newly joined staff. Banks are using latest technology / methods such as power point presentations, video conferencing, on the job training, on-line CBS to upgrade their employee's skills. Some banks are using intranet for this purpose. One of the banks has its own distance learning certification programme. Banks have also started their own blogs site to enable their staff to provide feedback / opinion, information on their new products, services, facilities, news etc.

New Private Sector Banks : These banks feel that certification process will act as a stimulus to have trained manpower. It will also help in building quality manpower. It is an effective method to maintain and upgrade the skills of employees. Prescribing role based certifications and also certifications in cross functions will ensure upgrade of knowledge and skills. The Banking and Financial Services Industry (BFSI) requires employees with the solidity of domain knowledge blended with contemporary skills like customer service, credit assessment and selling skills. In view of the emerging gaps, *viz.* demand-supply gap, skills gap, experience gap, certification is recommended in areas like frontline staff who directly come in contact with customers, supervisory staff, relationship manager who need credit and investment knowledge, specialist roles such as treasury, market risk, credit risk, accounting, legal, technology, business analytic, human resource etc. Banks also suggest periodical review of the content, curriculum and pedagogy for quality & sufficiency. With this process of certification, banks suggest to create multi-skill employees in various processes / domains which in turn will supplement in job rotation.

Old Private Sector Banks : In addition to the certifications by organisations like IIBF, banks have introduced their own internal certifications for employees to ensure that they are updated in the norms and rules specified by the Bank. Some banks have extended special rewards also for employees clearing certificates from IIBF. This apart, banks are using Training, Intranet, User Manual, Knowledge Page, Booklets, House Magazines and, Internal Circulars to upgrade the knowledge of their staff.

Financial Institutions : Apex Financial Institutions are providing importance to Training and Development. The training institutes set up by them are providing training to their own staff as also to staff of client banks. This apart these financial institutions are having virtual online portal wherein the information / data about all aspects of the financial institution, important data / information on client banks, latest instructions from regulators are available. They are in the process of bringing about online certification courses to staff for upgrading their knowledge and skills. They are encouraging staff members to undergo courses and receive inputs from professional entities like the IIBF and universities. They have also introduced schemes which offer financial support for such learning initiatives of officers.

Specialised training Institutions

Banking is changing everyday with changes in technology, regulation etc. In order to meet the needs of ever increasing customer expectation in this competitive environment, banks need to equip specialist in emerging areas such as compliance, risk management etc. In this background we asked - **"Do you advocate the need for specialised training bodies to impart training in emerging areas or whether the bank can take care of its training needs effectively?"**

Banks are unanimous on the need for specialised training bodies to impart training in emerging areas in addition to their own internal training. The view in favour of external specialised training bodies is based as follows - (a) In the era of super specialisations and availability of multi source information / data and knowledge specialised training bodies can devote necessary resources and time (b) Internal set up may not be able to give an effective industry perspective in emerging areas (c) Emerging areas in the banking are complex and are better understood by specialised institutions (d) There are certain limitations of resources-Financial, Human and infrastructure with individual banks to take up all the trainings internally. Though banks are unanimous on the need for specialised training bodies to impart training in emerging areas, their requirement in specific area, choice of specialised training institution etc. differs to a great extent. This depends on the size of the bank, their priority of training area, their own training resources etc as shown under :

Public Sector Banks feel that a blend of internally designed training content and collaboration with the specialized training bodies is the most effective and efficient model of taking care of end to end training needs of the employees of the Bank. In areas where banks have their expertise, they can do internally and in specialized / new or niche areas, it is always better to develop the skills with the help of external specialized bodies. In this regard banks are taking the help of NIBM, IDRBT, IIBF, CAB, IIBM, BIRD, IIMs, ASCI etc for specialised trainings. Most of the banks have identified specialised areas such as Risk Management, IT and Treasury, Credit, Forex for external training.

New Private Sector Banks suggest specialized courses and general banking courses at graduation and post-graduation level so as to create entry level talent. One of the banks has suggested to have specialized courses and general banking courses at graduation and post graduation level to begin with and then exploring the possibility of setting up a Banking University.

Old Private Sector Banks feel that specialized training bodies like NIBM, IDRBT, FIMMDA, IIBF are required to impart training in emerging and specialised areas such as credit, forex, treasury etc .

The financial institutions take the help of specialised training institutions to train their employees for their training needs.

Continuing Professional Development

For an employed person to seek learning in campus is difficult. But if the learning is not up to date there could be knowledge gap which could prove costly for the banks. In the case of public sector banks, the task has become more critical due to the fact that a wide age gap has emerged between the top management and the middle management cadre. In view of this CPD is important. We asked the banks- **"CPD of bankers is considered important but difficult in India going by the spread of employees in the country. What are your bank's initiative in this direction?"**

To ensure continuing professional development of its employees across the country, Banks are arranging executive development programmes / soft skill development programmes for senior management on a continuous basis though renowned business schools/ training institutes. Banks are also nominating the senior officers for various trainings on leadership and advance management to institutes of repute. The focus is on areas such as leadership, strategic vision, Industry & Regulatory related aspects.

In the meantime, staff members are being encouraged by the respective banks to pursue advance management courses / various professional courses / fellowship programmes as a part of weekend classes, distance learning courses conducted by renowned institutes / colleges like IIBF.

Majorly, banks have adopted a blended approach to take care of the professional development of their staff across the country. In addition to nominating their officers for various professional development programmes as deliberated above, they have done fine-tuning of their existing training framework through the network of Apex training centre(s) as well as number of regional training centres. They have also introduced e-learning portal covering the entire gamut of topics on banking.

Training of the new recruits

The traditional system in Banks' was to train their new recruits in their own training institutes to orient a new recruit with the culture and expectations of the Bank. The new recruit coming from a different organization or being new to the professional world, would find this orientation process valuable in aligning with the expectations of the Bank. However in view of the large scale recruitment and in view of the need to make the candidates, quickly job ready is there a need for a finishing school after college but before joining the bank? Our question was- **"One of the challenges faced by banks in these days is to impart training to the new recruits. Do you think that the new recruits should be sent to a finishing school rather than trained in traditional system in banks own training institutes?"**

The Bank's induction process involves a comprehensive training, learning and interactive process where the new recruits are not only oriented to the culture and expectations of the Bank, they are also given a chance to interact with the top executives of the Bank. The Executives inputs from their professional life, experiences and feedback goes a long way in tuning them with the culture of the organization. Generally the new recruits are put through classroom training as well as on the job training.

However, in the present scenario, where the recruitment is happening at large scale every year in the banking industry, the in-house traditional system, somehow, is not found to be adequate to cope with the desired level of competency / proficiency. Therefore, of late the banks have started engaging outside agencies for providing training to their newly appointed staff. Finishing schools help in getting trained staff that are productive from the day one at the desk. Also in a competitive environment where customer delight is the aim, a finishing school trained officer will be in a better position to handle a customer on the first day. Both PSBs and Private banks say that both the systems i.e. finishing school concept and banks' in house training system will have to co-exist and complement each other.

Finishing school has come about along with the growth of new private sector banks in the country.

Today, thanks to finishing schools these banks are able to attract people in large number and able to stipulate qualification and skill set conditions before absorbing them. Finishing schools work with the identified candidates and make them job ready. Hence finishing schools have come to occupy an important role for such banks. However the situation in PSU banks is different considering the large number of intakes and the geographical spread of the candidates. Traditionally banks could attract people from middle and lower middle class strata and they may not be able to join finishing schools before joining banks. In case finishing school approach is made compulsory in banks, the quality of candidates will definitely go up, as they are put to special induction training. If this becomes the only mode of entry into banks, possibly, it will also preclude financially disadvantaged from joining the banking sector. There is a school of thought which argues that it is on the job that a banker learns a lot and as such pre-training is really not needed for branch jobs to start with. The jury is wide open on this.

Suggestions

We also sought banks **"suggestions that would help to improve the talent management in the bank and the industry."**

Public sector banks employ the largest number of poeople in the country and they have many things in common as the ownership vests with the government. The operational guidelines are uniform as also compensation and recruitment policies. The overall emphasis of this segment is the need for - continuous training , close engagement with workforce, appropriate compensation packages, constant care on staff welfare including family welfare, providing challenging assignments, opportunity for deputation to other banks, on line training opportunities, use of retirees to groom, well laid out career and succession planning, continuous identification of skill gaps, providing matching training, providing opportunities to grow - almost a huge wish list. The very fact that most of the respondents have highlighted one or the other of the above aspects show that there is tremendous scope to improve the talent management aspects in such banks.

PSBs have expressed a sense of concern about the near exodus of their top managements due to massive retirement of staff in public sector banks. PSBs did not recruit much during the years 1996 to 2006 or so and this has resulted in a huge gap between the top management and front line staff. Since 2007 there has been large scale induction of a large number of new employees. The issue therefore is how quickly the new comers could be trained to take up higher jobs faster. Not all of banking expertise comes from college education. Lot depends on the job experience at varied centres in the country. Expecting new comers to fill the top management vacuum immediately may not be realistic, hence the concern in regard to talent building. There are suggestions like providing online tutorials, training with the help of retirees, mentoring of juniors to help talent development. There are also suggestions to the effect that national level training institutions should help fill the skill set gaps in banks by identifying areas of importance and also providing practical training in critical areas like risk, treasury, credit, compliance, forex etc. One suggestion is in regard to deputation of staff among different PSBs to understand the work culture across that will help them to perform well at higher assignments in due course of time as EDs, CMDs are placed across PSBs.

Old private sector banks are of the view that the training needs should be standardised through skill mapping and skill development procedures. This will help to identify the skill needs as per national or international standards and improvement could be attempted. But as each bank works in a unique manner, though within in the overall system, it will not be feasible to lay down a uniform training standard across the board. As IT set up in banks has made available more persons to join the mainstream banking, the need to groom them for business assumes importance. They also feel that the retirees can be used to train the new comers. One of the methods suggested to instil skill is regular interaction with eminent leaders from the industry. As talent spotting and grooming are the core challenges before such banks, one bank has suggested that IIBF can play a role in creating a data of people looking for career in banks and this may be shared with the banks for them to use the same as needed.

The new generation private sector banks, which have started without any legacy issues, with officer staff and in a highly computerised set up feel that the employees should be given growth opportunities and grooming to reach higher levels. One bank has suggested that joint reviews should be undertaken to identify the future potential and opportunities should be made available to realise that in due course. Job rotation is another suggestion from this segment. This can be contrasted with the situation in PSBs where constant job rotation has affected building up of specialisation. Hence there is a school of thought that job rotation should be minimum as in developed countries where people work in the same field for a very long time. The new generation banks also feel that due to the explosion in banking activities there is an urgent need to provide appropriate training, continuously to up skill the employees. These tasks cannot be wholly undertaken with in-house resources as the enormity of the task is rather huge. Hence they feel that services of outside bodies like finishing schools could be resorted to in banks' training activities. Further, they also suggest the old system of apprenticeship could be ideal in banks to groom new comers. Some banks used to have two years of probation in the past when the employee has been given opportunity to work in different desks, in locations to understand the banking work. That was another form of apprenticeship. The fact the new generation bank is seeking such long term training and grooming of staff only vindicate the fact that banking can be only picked up with sufficient training-whether on the job or in finishing schools / training bodies. New generation banks also advocate for extensive e-learning and internal online testing to keep the employees updated in related desks.

Financial institution segment states that extensive use of IT in HR front has helped them to save lot of manpower from routine activities that enabled them to release number of people for other activities. The IT has also enabled them to improve their turnaround time while dealing with customers. Their experiences suggest that IT enabled operations is the key to tackle the challenges ahead and a knowledge led work force will help the organisations.

The respondents have thus re-iterated the need for knowledge management and training to update the competence level of bankers. In this regard varied suggestions have come *viz.* Providing learning, standardisation of skill mapping and skill development procedures, planning the training for the life cycle of staff, utilising the IT tools in HRM, filling up of vacancies on time, utilising the services of retirees to train the new employees, arranging guest lectures by eminent speakers, allow the employees for “out of box thinking', regional level recruitments, compensation packages, opportunities for learning, fun work environment, career and succession plan, friendly work place, leadership training, cross deputation among PSBs, deputing people for training to apex bodies, local language training for outstation candidates, job rotations, joint HR reviews etc.

All such suggestions point to the need to create a responsive and empathetic work platform, which seems to be currently missing in a highly competitive, target driven and talent scarce work environment. Hence the stress on training and development. Here the role of banking institutes, training bodies both in house and external assume paramount importance.

The survey hints at huge talent gaps at different evels in organisations, more so in PSBs due to massive retirement on the one side and entry of new recruits on the other. Banking is a subject that requires practice to hone the skills, hence the gaps at different levels. Operational skills can be acquired only over the years. How to reduce the learning time to develop well skilled bankers at a very short period concerns one and all. Can the training period be reduced? Could on-boarding be achieved faster? Is e-learning the panacea for all issues? How to make electronic class room effective? These are issues that defy an easy answer.

The aim of organisations, going by the survey, should be to strive to have the right talent pool to take care of the current and future needs. Hence talent management is not a destination to arrive at, but a continuous journey. Right fit in talent management could be achieved through trial and error but the process must be on relentlessly. Banks have therefore adopted different strategies in this regard. The stress on learning and self learning is gaining significance. Here also, the experiences of banks differ largely. There is, hence, an urgent need to reflect on the strategies that could be adopted to address the ever increasing talent needs in banks.

The survey has made it necessary to ponder over the Institute's role and how the institute can play a supportive role to the banks in the talent management sphere. Training and certification have a definite role in skill building and constantly evolving to be relevant is the real challenge. It is a pursuit worth the efforts.

The survey has elicited feedback on many vital areas affecting talent management. From the responses and analysis given above it emerges that on all the areas of study noticeable differences could be seen in the approach of banks belonging to different groups and even among the banks in similar groups. However certain commonalities are also evident. These responses, when seen in the context of data analysis presented at the beginning of the paper shows that the talent management issues are bound to escalate in the next four - to five years when more retirements and new recruitments would take place. It is apprehended that there will be acute talent crunch at different levels, more so in PSBs. As specialist staff is in short supply, the need to augment such officers at a short period will be the major challenge for banks and training bodies. Even today banks have started inviting quotations from training institutions for this purpose. Going forward there will be greater need for external training bodies and even finishing schools to train and groom the new entrants, as the in-house facilities may not be adequate to tide over the training needs of such banks.

In the case of PSBs there is a need to constantly keep adding to the manpower lest the banks may once again find themselves with huge gaps in certain grades. The staff mix in banks both cadre wise and gender wise will also call for some deep reflection and action. Today, the banking operations have undergone vast changes and therefore the profile of staff also will need some changes. The preponderance of clerical staff in PSBs will need a review in the light of the ambitious plans before banks in regard to customer service and financial inclusions and the need for skilled persons in different geographies. There are clerks with rich experience and it appears that if their job roles could be enhanced banks will be able to manage the current crunch more easily.

There is a need and scope to make use of the assessment centres for evaluating the potentials of employees at least from the middle level onwards.

There has to be more alignment between the HRD and the business wings to ensure that proper allocation of staff in banks. There is a definite case for more operational freedom to PSBs in the HR front.

The survey gives sufficient hints to the effect that banks are now looking for job ready candidates and there is not much time to groom and nurture talents. Given this there is scope to realign the course curricula at the graduate, PG and MBA levels such that more and better informed candidates will be available to banks in future.

A reading of all the international articles in part II of the this issue also shows that the situation in other countries may not be much different except the huge staff crunch in the PSBs. Banks in other countries face similar challenges like computerisation, new age banking, need for specialists, new types of banking (Islamic Banking) heady growth, Gen Y, customer expectations, financial inclusion etc. How these challenges will be managed will be of interest to those working in talent management domain and the customers of the banks will benefit if there is efficient and happy people in banks.

The Institute would like to thank all the respondents for their detailed replies to the questions covered above. But for their co-operation and timely responses the above compilation would not have been possible. I am sure the findings listed above will be of interest to banks on the one side and the banking institutes on the other.

Various courses offered by IIBF

A. Flagship Courses

- JAIIB
- CAIIB
- Diploma in Banking & Finance

B. Diploma Courses

- Diploma in Treasury, Investment and Risk Management
- Diploma in Banking Technology
- Diploma in International Banking and Finance
- Advance Diploma in Urban Co-operative Banking
- Diploma in Commodity Derivatives for Bankers
- Advanced Wealth Management Course
- Diploma in Home Loan Advising

C. Certificate Courses (For Bankers)

- Certificate in Trade Finance
- Certified Information System Banker
- Certificate in Anti-Money Laundering / Know Your Customer
- Certificate in Quantitative Methods for Bankers
- Certificate in Credit Cards for Bankers
- Certificate Examination in Banking Oriented Paper in Hindi
- Certificate Examination in SME Finance for Bankers
- Certificate Examination in Customer Service & Banking Codes and Standards
- Certificate Examination in CAIIB - Eleven Elective Subjects
- Certificate Examination in IT Security
- Certificate Examination in Rural Banking Operations for RRB Staff
- Certificate Examination in Prevention of Cyber Crimes and Fraud Management
- Certificate Examination in Foreign Exchange Facilities for Individuals
- Certificate Examination in Microfinance

D. Certificate Courses (For IT Companies)

- Certificate Examinations in Basics of Banking / Credit Cards / Functions of Banks for employees of IT Companies

E. Certificate Courses (For Others)

- Certificate Course for Business Correspondents / Business Facilitators
- Certificate Examination for Debt Recovery Agents

F. Advanced (Blended) Certificate Courses

- Certified Bank Trainer
- Certified Banking Compliance Professional
- Project Finance Management blended Course with IFMR, Chennai
- Certified Treasury Dealer
- Certified Credit Officer

G. Management Course

- Advanced Management Programme

H. MBA Course

- CAIIB linked MBA with IGNOU.

Registered with the Registrar of Newspapers for India under No. R. N. 6073 / 57