

## **K C Chakrabarty: Human resource challenges in Indian banks - "foolproofing" the employees**

Keynote address by Dr K C Chakrabarty, Deputy Governor of the Reserve Bank of India, at the Conference of HR Heads of Banks and Financial Institutions, held at College of Agricultural Banking, Pune, 6 February 2014.

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1. Smt. Meena Hemchandra, Principal, College of Agricultural Banking (CAB), Pune; Shri R.K.Gupta, Executive Director, Bank of Maharashtra; delegates to the Conference; ladies and gentlemen! I thank the Principal, CAB for inviting me to inaugurate this conference of HR heads of banks and financial institutions. I feel the choice of theme for the Conference i.e. "Future Proofing of Banking Personnel" is quite interesting. Given that this Conference is now in its 7th year, I wonder whether hitherto you have only been deliberating about "present proofing" of employees. Given the enormous challenges that the banking profession has countered over the last few years, I can't fault you for doing so. The larger question is whether our banks have now reached a stage where they can feel secure about their existence in future? I will leave that debate for another day and for another forum. Irrespective of the outcome of that debate, there is little doubt that the employees of banks will have a big role to play in whatever future course banks chart for themselves. Hence, the relevance of this brainstorming session on HR function is easily appreciated.

2. So, let me now turn to the theme for the Conference. What do we want to achieve when we say that we are working towards "Future Proofing of Banking Personnel?" The Collins English Dictionary describes a future-proof system as something which is guaranteed not to be superseded by future versions, developments, etc. More generally, a future proof system would be expected to have the following characteristics:

- Not easily destructible
- Flexible and adaptable
- Ability to weather extreme challenges
- Non-obsolescence

3. On an individual bank level, "Proofing" could also mean insulating their human capital from being poached by the rival banks and also planning their man power requirements for meeting the future needs of the business. Thus, the purpose of "Future Proofing" is to prepare the employees against adverse developments in future. Undoubtedly, the rapidly changing business environment and the impending entry of new banks are posing new challenges for the banks in terms of recruiting skilled personnel and retaining the existing talent, but the larger issue is whether the existing crop of human resources are geared to perform optimally in the existing environment. With this consideration, I would like to give the theme of this Conference a wider sweep. You would agree that even in a benign economic environment with good economic growth as also with most banks having adopted technology, the productivity and efficiency in our system continues to be at extremely low levels. Also, this period has witnessed significant increase in employee compensation across all cadres in the banking sector. So, the need is to not only prepare our banking personnel to face the adverse developments of future, but also to ensure that they perform optimally and take full advantage of a perfectly favourable environment. Hence, rather than attempting to "Future-Proof" the banking personnel, I would like the banks to attempt "Foolproofing" their employees. By "Foolproofing", I mean preparing the employees to deliver what is expected of them. In that sense, the employees need to be proofed against sub-optimal performance under all circumstances, whether favourable or adverse. In my address today, I intend to highlight the key challenges that the HR function in banks in India faces and the measures that are needed for foolproofing the banking personnel not only against the adverse developments but also adequately equip them to perform to their optimal potential in the "Business as Usual" conditions.

### **Human Resource Management (HRM) in Indian banks**

4. HRM can essentially be summarized as a function that entails "planning, organizing, directing and controlling of activities relating to the development of employees in terms of enabling them to acquire competencies needed to perform their present and future jobs with ease and enthusiasm". The HR function in banks is no different from that in other organizations. It is a continuous process that seeks to ensure the development of employee competencies, dynamism, motivation and effectiveness, in a systematic and planned manner. It also deals with bringing about improvements in physical capacities, relationships, attitudes, values, knowledge and skills

of the employees for achieving the objectives for which the bank stands. If you ask me how the HR function has fared against the expectations, my unqualified answer would be that they have failed miserably. Part of it, especially in the case of Public Sector Banks (PSBs), can be blamed on the quality and competence of people that manage the HR function in these institutions. Quite often, the officials in HR departments virtually have no expertise or training in HR management and they land there more as a matter of providence than by design. The failure of the HR personnel in the banks and its impact on their performance has also got partly masked due to lack of competition in the banking segment.

5. In fact, until the opening of the economy in the early 90s, the banks in India generally neglected the human resource function. As I mentioned earlier, this apathy may largely be attributed to lack of competition and abundance of available opportunities which kept the banking sector profitable without breaking much sweat. Even after opening up of the sector, the Government control initially kept the wages under control. As availability of new jobs in other sectors in the post-liberalized economy improved, the banking sector started feeling the pinch. Further, with the entry of new players in the banking sector armed with innovative products, the system as a whole and the older banks in particular started to face a widening gap in skill sets of human resource. The new Private Sector Banks and Foreign Banks had a head start over their PSB peers as on the back of a market related compensation structure, coupled with technology-supported delivery processes; they were able to acquire younger and more talented staff with newer skills and competencies. The older banks, on the contrary, had to compete with the newer players with a huge baggage of disadvantages. The PSBs also lost trained man power to the newer banks due to attractive compensation structure and better career progression opportunities. It is against this backdrop that HR function in banking sector has not only assumed utmost significance but is also faced with myriad challenges that we would discuss.

### **Foolproofing employees: HR challenges**

#### **Defining job roles**

6. Having set the broader context, let me now turn to specifics. What are the HR challenges in the banking sector and how can we "foolproof" our employees? In all my interaction with HR

professionals in banks, I am told that lack of people is the biggest challenge. Obviously, finding enough people in one of the most populous nations in the world cannot be a challenge. So, what they actually mean is that they are saddled with too many non-performers.

7. This brings me to the first step that I would suggest the banks to initiate towards making their employees "Foolproof" and I begin by asking a few fundamental questions: "Do you know how many people you need for carrying out all activities in your bank? Have you done a detailed analysis of roles and responsibilities of each individual in your respective banks? More crucially, do all desks have a job profile?" At least in the banks that I have worked I have not seen a detailed job role of each individual or a job profile of each desk. Unless you do that, I am not sure how you can be sure of the number of people that you need. Defining job role of each desk would also enable an assessment of the skill sets required to man that desk. Thus, it would also help the HR in mapping each desk function to the available manpower by imparting training to the existing staff or by recruiting appropriate people with the desirable skill sets. Also, unless you have a detailed job role for each individual how can you make a fair assessment of whether your people are performing or not? I will return to the subject of employee performance measurement in a little while. So, the first task for all of you is to define the job profile for each desk. Believe me, the exercise could throw up some surprising outcomes as it might highlight the redundancies you have in certain job profiles.

### **Performance Measurement System**

8. Let me now come to the second area which needs a thorough overhaul in most, if not all banks - the employees' performance measurement system. Incentivizing talent with fairness and transparency is a key objective of HR managers and the goal of the promotion policy of every organization. A transparent performance management process enhances the abilities and morale of the human resource. As a part of the Top Management in all banks, wherever I have worked, I have faced a typical situation at the conclusion of every promotion exercise. Invariably, I hear from my HR department, that few people are "promotable" but not "postable" and then there are certain others who are "postable" but not getting promoted. The reason for emergence of such a situation is the faulty Performance Management System (PMS) that we have in the banks. The PMS is highly subjective or impressionistic and quite often determined by factors other than

actual performance at the work place. In fact, I observe that performance rating of a big majority of the employees falls in the top quartile. But the HR continues to complain about not having adequate number of good people. This dichotomy highlights the failures of the existing PMS in banks.

9. So, as I mentioned before, the way to make the PMS work, is to make it as objective an assessment as possible. We need to identify upfront the performance benchmarks for each individual and their performance and rating should follow from there. The objectivity in the PMS system would instill more discipline in the way performance is judged across banking system today and enable the banks to devise their reward and motivations schemes accordingly. A related question is how do you deal with the non-performers? I have seen banks with list of top performers but I haven't seen any bank having a list of top non-performers. There could be major potential gains from improving the performance of the top non-performers. An objective PMS will enable you to design your training and development programme based on the individual's strength and weakness. The point I am trying to make is unless you put in place an objective performance management system, you would not be able to improve people and bring in a system of accountability.

10. In the context of promotions, I have a question. Why do you need a grade/scale concept? Why people should move up vertically in the banks? Why can't they seek employment elsewhere if they need promotion and then come back to the same bank at a higher level? It is quite common in the private sector, why can't we have the same in public sector as well.

### **Training and development**

11. Let me now turn to third challenge that the banks need to overcome for Fool-proofing their employees which is training & development. In fact, training and development remains one of the most maligned aspects of HR management in banks. I have observed utter disregard in the way employees are sent for training. Neither there is an earnest attempt made to assess the utility of training for the employee nor is there any exercise to map the training needs of the individuals on the basis of their core competencies or their placement. This, again is partly on account of lack of a definitive job profile for each functional area.

12. Another important area pertaining to training is behavioral i.e. the attitude part. Behavioral training focuses on exploring the unknown and hidden potential of our human resource, which we call as human capital. With most banks now adopting modern technology, including new delivery channels; technology no longer remains a major differentiator among banks. You must remember that the key differentiator amongst the banks in the decade ahead will be the ability to harness the human capital and building a competitive advantage on the strength of their human resources. While with the implementation of Basel III, banks' return of equity is likely to go down, the same can be recouped by improving the return on their human capital by enabling the ordinary people to produce extraordinary results so as to prop up their sinking bottom lines.

13. I would also like to utilize this opportunity of interacting with the Heads of HR function in the banking sector to share my views on some of the other HR issues which would have a bearing on "Fool Proofing of the banking personnel" going forward.

***a) Employees compensation***

14. Finding skilled, experienced, responsible employees is a challenge for human resource departments in any industry, more so in a service-oriented industry like banking. The main task of the HR policy of banks is to create a favourable atmosphere where people get the opportunity to showcase their potential and receive adequate compensation. Inadequacy of compensation is made out as an issue in the PSBs, which encourages attrition. Let me set the record straight here. I have done comparative analysis of the staff compensation in the public sector and private sector banks and my finding is that the average compensation of the public sector bank employees is more than that of the private sector bank employees in this country. Add to that, the job security in a public sector and the scale tilts decisively in favour of the public sector. I think the challenge for the HR heads of PSBs is to percolate this message down to the lower levels. It will help in tackling the challenge of staff attrition and improve employee morale.

15. A related issue that I want to raise is why do public sector banks still conclude industry level wage settlements rather at individual bank level. Some of the banks have precarious financial conditions and if forced to give a raise at par with other banks, that would severely constrain their ability to do business going forward. Therefore, in the long term interest of the banks, it is

necessary that each bank revises the wages of its employees as per its ability to pay. Further, why the PSBs cannot even do employee wise negotiations on salary hike as in the private sector? This would be a motivating factor for the performers.

***b) Differential salary structure***

16. The recruitment policy of the banks should be oriented towards having a right-sized and right-skilled workforce in tune with their medium to long term business plans. For instance, in line with the national emphasis on financial inclusion and spreading banking services to unbanked remote areas, it may be necessary to bring in specialists who have knowledge of rural operations, agricultural finance, etc. and are willing to work in rural areas. In this context, I wish to raise a debatable issue. Should the PSB Boards not consider appointing employees who would be willing to serve in the rural areas at lower wages? I think it is high time the PSB banks created a differential wage structure for the employees serving in various areas. The spin off benefit of this would be in terms of increased viability of their rural business and increased financial inclusion.

***c) Role of the top management***

17. In a service-oriented industry like banking, the quality of human resources has to be the central plank. Unless the organizations leverage the strength of their human resource to the maximum, they would fail miserably in attaining a competitive edge in the global banking arena. This makes the role of the CMD and Board very crucial. The HR policy needs to be strategically aligned and connected with business. Given the criticality of HR issues, they need to be debated at Board level. Boards of banks need to spend quality time on formulation and deliberation of strategies involving leadership development, succession planning for critical levels and specialized areas, performance standards, compensation and rewards management, redesign of organization structure, etc. The banks need to have a policy which clearly spells out the short term and long term HR agenda. The CMDs of the banks should spearhead and champion the HR functions to reduce people's anxieties and simultaneously seek higher levels of productivity and performance. They should also frame policies which helps them manage the expectations of their staff, whether at the lower level or at the middle management level.

## Road ahead

18. The current decade is already proving to be a challenging one for the HR professionals in banks, particularly for those in the public sector banks. This is because of the significant number of employees retiring during this decade. This not only poses unique challenges but also presents opportunities for HR managers across the industry. At stake is a chance to transform HR practices and create a workforce that can provide individual banks with a strategic edge in an environment that is likely to become increasingly competitive in the days ahead. The "retirement decade" provides an opportunity, especially for the PSBs, to transform their work force by hiring the right talent, right-sizing and right-skilling them and thereby bringing about a cultural transformation in the functioning of these banks. As the crop of the 70s bid good bye, the banks have moved on to a fast paced recruitment spree to welcome the gen next. The banks cannot afford to be complacent while recruiting new set of employees as their recruitment decisions today would determine the performance of their respective organizations over the coming decades. They must use more statistical tools to foresee their manpower needs over the medium to long term and prepare themselves by better planning. Sound MIS should form the basis of all manpower planning decisions including recruitment, placement, performance management, etc. The gap in knowledge and work experience between the outgoing and incoming groups is, however, significant and the impact of this transition could be potentially disruptive. This gap needs to be filled by "mentoring and coaching" the new incumbents by senior executives. The transfer of knowledge from mentor to mentee should be fast. Moreover, the mentor need not be physically present with the mentees; they can be together with the help of technology, sitting at two different places.

19. Although the banks in India have come a long way, they still have a lot of catching up to do to reach international standards. The gap in service delivery standards, innovations in products and services, corporate governance standards, creation of structured financial solutions, etc. is still quite wide. Our efficiency and productivity levels do not compare well, even with Asian standards. Our Risk Management systems also need to be strengthened to match global standards. The HR function has a very significant part to play if our banks have to improve on these measures and reach global standards.

20. We all know that banking in the future is going to be quite different from what we have seen and experienced in the past. Hence, we must be willing to shed the methods, structures, policies and technologies that succeeded in the past while retaining the useful elements. Most importantly, our employees' must get away from yesterday's mindsets and you as the HR chiefs; have a very critical role in ensuring this transition. Technology is also compelling us to reinvent ourselves, our methods and our way of doing business. As Peter Drucker, the American Management Consultant has said "we're in one of those great historical periods that occur every 200 to 300 years when people don't understand the world anymore, when the past is not sufficient to explain the future".

## **Conclusion**

21. Going forward, the human resources function in banks would be a key differentiating factor. HR can be a powerful asset or a debilitating liability depending upon how well it is harnessed. It is one of the most important challenges, rather a risk, which needs to be appropriately managed. For the bank employees to be "Foolproof", the HR personnel would have to review their existing policies and practices and reorient them, wherever necessary.

22. My purpose in putting forth the future challenges facing the banking sector is to enable you to ideate and deliberate on them during the course of the Conference and come out with actionable ideas for reforming the HR in your respective banks. I would like to stress that the "People" factor will be at the centre stage and play a critical role in the transformation of the Indian Banking sector. We need to improve their skill set, mould their mindsets towards providing customer service and convert our human capital into high value factors of production. As future is always difficult to predict, we need not be too disheartened even if employees are not fully "Future-Proof", but we must at least ensure that our employees develop a sense of empathy for the customers and do their best to serve the objectives towards which their banks are committed. Importantly, the inherent unpredictability in the business environment makes it imperative for HR processes to be flexible and to imbibe this flexibility and adaptability in the organization's ethos. As heads of HR in your respective banks, it is your duty to optimally harness the potential of your human resources both in the present and in the future. As Thomas Edison said "there is always a better way". We cannot be complacent even with our employees

becoming "Foolproof" under the existing environment. We would need to remain alive to the changing business scenario and keep re-visiting our policies and procedures to ensure that the employees stay prepared to face new challenges. The transformation of the HR function has to, necessarily, be top driven and I am sure that the HR heads assembled here would don the role of change agents in their respective organization.