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# Talent Management

- Banking ombudsman scheme
- Financial Inclusion, Differentiated Bank Licensing, Rural Banking
- Monetary policy


Mr. H. R. Khan, Deputy Governor, Reserve Bank of India inaugurating the APABI International Conference by lighting the lamp. (From right to left) : Mr. T. M. Bhasin, President, IIBF and CMD, Indian Bank, Mr. Rajeev Rishi, CMD, Central Bank of India and Mr. Jang Yung Lee, President, Korea Banking Institute.


Mr. H. R. Khan, Deputy Governor, Reserve Bank of India releasing the Special Issue of Bank Quest.

# CONTENTS




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लेखों तथा अन्य रचनाओं में व्यक्त किए गए विचार लेखकों के निजी विचार हैं । लेखकों द्वारा व्यक्त किए गए विचारों के लिए संस्थान किसी प्रकार से उत्तरदायी नहीं होगा ।

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## 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 ।

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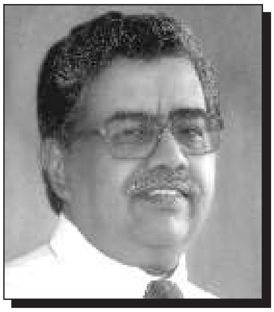
# editorial



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

*The previous Bank Quest, as you are aware, was a special issue on the eve of APABI Conference on the theme "Talent Management in Banks". That issue was released on the day of the APABI International conference at the hands of Mr. H. R. Khan, Deputy Governor, Reserve Bank of India. The talent management theme continues in this issue as well. This issue also contains articles on a variety of other subjects such as banking ombudsman scheme, financial inclusion, differentiated bank licensing, rural banking, and monetary policy apart from Institute's AGM speech.*

*The Institute had organized the Asia Pacific Association of Banking Institute's International Conference on $25^{th}$ September, 2014 in Mumbai. The first article in this issue is the excerpts from the Keynote address on "Talent Management in Banks" delivered by Mr. H. R. Khan, Deputy Governor, RBI. Mr. Khan spoke about various challenges and opportunities confronting bankers in addressing talent management issues. He discussed areas such as the need to handle partner organizations, competition for recruiting talent, trust deficit syndrome, rise of social media, perception of company values etc.*

*The second article in this issue is the text of the lecture delivered by Dr. Chip Cleary, Consultant - Talent Management, USA and co-author of the book 'The CEO's Talent Manifesto' on the topic "Talent Management Mental Models and Bottom-Line Results". This lecture was delivered as the $31^{st}$ Sir Purshotamdas Thakurdas Memorial Lecture which was organised as a part of the APABI Conference on $25^{th}$ September, 2014 in Mumbai. The lecture began with emphasis on today's priority of organisations across industries on talent development and issues / challenges faced by them in talent development. In his speech, apart from explaining drawbacks of the existing 'replicating experts' model for talent development, the author suggests a 'Bug swatter model', a quality improvement initiative for talent development. He elaborates on how this alternative model will help business leaders to manage effectiveness and efficiency and to achieve defined results.*

*In his presidential address at the $87^{th}$ Annual General Meeting of the Institute on $15^{th}$ September, 2014, Mr. K. R. Kamath highlighted the important banking developments relevant to the Institute's functioning and the performance of the Institute during the financial year 2013-14. Mr. Kamath urged the Institute's members to make use of Institute's e-learning, video lectures, mock test etc while preparing for the exams of the Institute. He also appealed to the members to actively participate in the Institute's research and other activities.*

*One of the major challenges of today's banking industry is "Financial Inclusion". Government of India, RBI and banks are exploring ways and means to reach the unreached. At the beginning of the current year, Dr. Nachiket Mor Committee has made several recommendations in this regard. We carry three articles (fourth, fifth and sixth article) in this issue focusing on the subject financial inclusion and Mor Committee recommendations.*

# editorial

*Dr. Dhiraj Jain, Associate Professor, Pacific Business School, Udaipur in his article on "Differentiated banking - Is India really prepared?", distinguishes 'differentiated banks' from 'universal banks' and discusses the need for introducing differentiated banks such as payments and wholesale banks, and possible challenges in licensing differentiated banks. He cites international experiences in differentiated bank licensing. The author provides arguments both in favour of and against the adoption of differentiated banking and offers suggestions for arriving at consensus on the subject.*

*The next article is by Ms. S. Anusuyadevi, AGM, RBI on "Financial Inclusion - Deposit, Payment and Bill payment-Any Alternative outlet?" The author elaborates on the policy initiatives of RBI and progress made so far. She suggests permitting mobile operators to operate as mini savings cum payment banks which will enable reaching the milestones set in the recommendations of the Mor Committee namely 'bank accounts to all adults by January, 2016 and to provide deposit and payment services within 15 minutes walking distance'. She also discusses Mobile service providers as Payment banks and also as bill payment operating units.*

*Dr. K. Srinivasa Rao, General Manager, Bank of Baroda in his article on "More Banks towards Rural Banking" mentions the recent thrust on the recommendations of Mor Committee. The author explains the growth in branch network, role of technology in going rural, rural share of business. He also explains the emerging opportunities and challenges in Rural Banking. He states that it makes a better business sense for banks to go rural using technology as an enabler.*

*In the seventh article "Monetary Policy and Inequality" Dr. Rupa Rege Nitsure, Chief Economist & General Manager, Bank of Baroda mentions the basic functions of the RBI and its mandate for monetary policy which flows from its monetary stability objective. The author discusses the relative importance of different channels of monetary policy and its effects on income inequality. She illustrates the effect of monetary policy on different households. Dr. Nitsure puts forth her arguments on distributive effects of monetary policy and the need for bringing down inflation. The article discusses the problems on account of fiscal and exchange rate policies and suggests measures to get desired results of monetary policy.*

*The APABI International Conference has raised several issues in talent management and explored new ideas, experiences and documented best practices to address the emerging challenges in Talent Management in Banks. We carry an exclusive report on APABI conference, which captures some of the important learning points from the conference.*

*Further, the issue also carries a book review by Mr. P. N. Joshi of "Gramin Banks-Revisited" written by Dr. N. K. Thingalaya, former Chairman and Managing Director, Syndicate Bank.*

*Before I close my last editorial let me express my heartfelt thanks for the overwhelming support that I have received from all of you over the last decade. How fast the time flies. Like Shakespeare said 'like the lightning, which doth cease to be ere one can say "it lightens".' My 10 years in IIBF has been no different. I consider it a great privilege that I have been able to work in the Institute, share my thoughts with you on various subjects / issues through the medium of Bank Quest and IIBF vision. I have learnt a lot of banking in IIBF and hope to be of continuous use to the banking sector.*

*Once again a big THANK YOU.*

*Dr. R. Bhaskaran*

# Keynote address on Talent Management in Banks

H. R. Khan *

Mr. H. R. Khan, Deputy Governor, RBI welcomed the international delegates to the 'maximum city' (Mumbai) and complimented IIBF for organising the programme. Excerpts from the Keynote address by Mr. H. R Khan, Deputy Governor, RBI is as under :

1. Talent Management is the topic chosen for the conference. Talent Management is very important. The core issues regarding talent management remain the same across boundaries.
2. There are challenges from the changing landscape in the banking space in terms of the opportunities and threats. The opportunity in this part of the globe (Asia Pacific) is that the growth engine has been strong notwithstanding some moderation in the recent past. In the medium to long term, the growth will remain intact. In fact, these regions are the growth drivers of the global economy, having huge wealth generation, income generation etc.
3. The BCG 2014 report has mentioned that except Japan, Asia Pacific was the fastest growing region worldwide during last year. Private wealth of this region had increased by about 30%. Massive wealth creation is taking place which is why one needs to look at this region. Banks need to play a critical role in this growth momentum process. Banking and finance should play a complementary role in the growth process. This is therefore an opportunity for the banks, with demographic advantages, to play a major role. Except Japan and Singapore, the other countries in the Asia Pacific region have a demographic advantage both in terms of numbers and the quality of the people. There are wide ranges of customer segmentation in this region - young Asia and old Asia (with a lot of savings). At the same time, banking penetration has been low in many parts of Asia, with many customers at the bottom of the pyramid. Some of these people may just be above the poverty line, but they are not very sophisticated, not financially secure or tech savvy but nevertheless, wish to access the formal financial system.


Mr. H. R. Khan, Deputy Governor, Reserve Bank of India delivering the keynote address at the APABI International Conference. (From left to right) : Dr. R Bhaskaran, CEO, IIBF and Mr. T. M. Bhasin, President, IIBF and CMD, Indian Bank

4. At the same time, there is a huge upsurge in the middle class. A study by E&Y says that the middle class in India would grow at a steady rate over the next decade and reach 200 million by 2020 and 475 million by 2030. In this class, there is a wide spectrum of customer segmentation with unique needs. Banks therefore will need to organise and deliver the banking products to suit the different segments.
5. Another issue is with reference to partners. The banking sector has evolved. There are and there will be multiple partners namely, technological service providers, corporate BCs-who facilitate branchless banking, telecom companies who assist in mobile banking etc. Handling different partners is both an opportunity as well as a challenge.

* Deputy Governor, Reserve Bank of India (RBI).

6. Competition is both an opportunity and a threat. The talent pool is limited. Hence, competition for recruiting talent from the same talent pool from banks, BPOs, consumer industries, retail sector etc will be fierce. There will also be intense competition to attract the best talent within the banks. This competition will be :

- between banks and non banking institutions;
- Within banks - among local banks, regional banks and multinational banks.

7. Today there exists a 'Trust Deficit Syndrome'. Post the global financial crisis, there were quite a few reverberations and reactions. One of them is the bias against the bankers. The bias against the bankers was because of the incentive structure- whether they are putting the real effort or not, if they are putting the sector in jeopardy by not really focussing on the core issues, whether they have crossed the line of suitability and appropriateness, mis-selling products, over exposure to complex derivative structures etc. These actions were delinked from their ethical moorings. Thus, there is an imperative need to ponder over the reasons for this type of ethical degradation. When talking of ethical degradation, what immediately comes to mind are the regulatory issues in banks in the US - the fines being levied for deviations. This problem persists not only in advanced countries but all over the world as well.

8. The trust deficit syndrome did not exist earlier. In the past there were four important persons in a district namely the District Collector, Superintendent of Police, School Head Master and the agent of State Bank of India (branch manager). In the heydays, after the green revolution, when branches were set up across villages, the branch manager was called to settle legal disputes. This indicated the implicit trust on the bankers. Things have however changed now. There is a trust deficit. The actions of certain bankers in both the public sector and private sector have been responsible for this trust deficit. Private sector banks set too unrealistic targets without taking into consideration whether the skills and capabilities are available, and also jeopardising the work life balance of their employees. Since these cannot be sustained, a trust deficit syndrome has arisen. As per the CFA Institute Trust Survey - only 50% indicated trust in banks.

9. Technology is both an opportunity and a threat. We need banking as a utility but may no longer require a bank to provide the utility; for instance, mobile banking. It may translate into 'banking without banks'. India is a pioneer in mobile banking. Although experts feel that we should move to mobile banking, it is necessary to understand that mobile banking is not only about remittances but also involves savings and hence mobile banking is related to bank accounts. There are two related threats when we talk about banking without banks. One pertains to the changing behaviour of the customer about where and how to shop for financial services and products and the other is the proliferation of alternatives to banks.

**APABI International Conference : 2014**

The Asia Pacific Association of Banking Institutes (APABI) was established in 1986 by 11 banking institutes (founding members). This is a semi-formal association. Currently 19 banking institutes in Asia and Asia Pacific Region are members of the association. APABI plays an important role in bringing together specialist training institutes that share a common goal to equip banks and financial institutions with the capacity to deal with the transformational developments that are shaping the financial sector by supporting the continued renewal of its most valuable asset, human capital. APABI Executive Committee meets once in two years and this meeting is being organized by one of the members along with a conference under APABI on a rotational basis. The APABI International Conference, 2014 was organized on the theme “Talent Management in Banks” at Hotel Trident in Mumbai by IIBF on 25th September, 2014. The conference was inaugurated by Mr. H. R. Khan, Deputy Governor, Reserve Bank of India by lighting the lamp in the presence of over 200 delegates including 40 international delegates.

10. Another issue which has assumed significant importance is the rise of the social media platforms. A survey report (Capgemini analysis) says that the social media users will increase from 1.97 billion to 2.55 billion by 2017. The growth in the Asia Pacific Region will be higher than the world average of 10%. Social networking has increased tremendously as was proved by the recent elections in India. The use of social media in elections is now a case study for

management institutes in India and abroad. So, social media is both an opportunity and a threat. The threat is people can avoid intermediation of banks and the opportunity of banks will be to leverage the social network.

11. Regulatory reforms have happened at a fast pace. Due to this and technology being available, data analytics, data handling and data mining have assumed added importance. Hence, here also, technology is both an opportunity and a threat.

12. All this boils down to how one manages talent to take advantage of all the opportunities and mitigate threats in an effective and efficient manner. HR or HCM (Human Capital Management) broadly encompasses -

    a. What types of staff are needed? Approach to hiring, manner of training, how to deal with performance management? How to ensure that personnel management conforms to regulatory prescriptions?

13. Talent Management is a structured process for attracting, developing, retaining, deploying human resources with the right aptitude and skill sets and make them future ready. The old KSA model of capacity building (Knowledge, Skill and Attitude) is applicable here, with the addition of aptitude which is very valid in the context of talent management. It is thus a continuous process. Broadly from the organisation point of view, Talent Management involves co-ordinating the following dimensions namely :

14. Recruiting the right set of people, developing them, retaining them, employee development and engagement through formal and informal learning processes (as undertaken by IIBF in a big way in India), identifying high potential employees, developing leadership skills etc.

15. Another important aspect is about the company values and how is it perceived by others? There is a book titled 'Too many bosses, too few leaders' by Mr. Rajiv Peshawaria. This book focuses on the BBN model - brains (vision and strategy) bones (structure, systems and processes) and nerves (most critical - the culture of the organisation). Even when some banks in India went through a crisis, the customers did not leave the bank because of the culture which the banks had. It is important to understand how to build the company's value / culture in the talent managers? Recognising and rewarding talent is another pivotal issue. This is rather difficult in the public sector given the structure which these organisations have. However, certain measures are being examined to reward talent; for instance, having a variable pay. It is also important to manage the PPP - (Poor Performing Persons). Such people can be disruptive. They should be mentored, observed and if required, an exit system should be created for such employees. This is also part of talent management.

16. Focus of Talent Management is that one needs SMART (let me call this smart 1) persons; people - who are Skilled, Meticulous, Adaptive (willing to work in any environment), Responsible and Trust worthy (Reliable) in terms of customer service and they should be Team players. As Michael Jordan, the famous basket ball player was quoted as saying that 'talent wins games but teamwork and intelligence wins championships'.

17. The younger generation is easily bored, restless, want to solve problems quickly, detest bureaucratic bottlenecks, do not tolerate delays, and cannot be taken in fancy titles and positions, unless one gives good quality work to their satisfaction. It is therefore necessary to keep these aspects in mind while managing talent since banking has moved from 3-6-3 banking to 24*7 banking.

18. The banking sector in India has been largely resilient though the crisis of 2008-09 and are ahead in terms of prudential norms which enabled the Indian banks to weather the crisis. However of late, problems are creeping in - weak appraisals, poor asset quality, frauds, increase in customer grievances, poor risk management, inadequate understanding and leveraging of IT resources, manpower shortages, etc. The fallout of not having adequate talent / organisation structure is that one creates a vast network of intermediaries - good,

bad or ugly. Either they can coexist or may need to be banished. If they are to coexist, codes of conduct should be laid down, or own structures should be created so that one does not depend on these intermediaries. These are challenges being faced by Indian banks now.

19. The public sector banks in particular did not recruit personnel for a fairly long time. Owing to this, large scale retirements have already started to happen. There is a serious crunch of leadership in several areas like Risk Management, IT, credit appraisal, etc. There are hardly any leaders in pipeline. In many organisations, people have moved fast and are not mature enough to handle these tasks. Here enters the SMART 2 persons - leaders - who can Strategise things, Meticulous planners, Articulate and advocate changes required, Result oriented, tough Team builders. These basically relate to the middle and the top management. We need to ponder, what is the time spent by the top management / board in people process - recruitment, grooming, building capacities, aligning the needs, etc. Not much time has been devoted in the Indian context especially in the public sector. In many successful companies, CEOs spend a major part of their time in people management and not on sales, products or advertising.

20. Talent Management is not the job of HR alone but also of the top management. More focused attention from the top is required. The Khandelwal and Gopalakrishna committees (where Mr. Bhaskaran was a member) have highlighted the HR issues in public sector banks, capacity building in banks and non banks, enhancement of HRM practices, creation of the post of chief learning officer in banks, focussing on learning and strategy for addressing issues. There should also be a centre of excellence for leadership development. This is critical as it enables to develop leaders.

21. Some of the questions that really need to be understood and answered are :

a) Whether an organisation really manages its people and talent in terms of trying to know them, support them and negotiate with them both in terms of meeting the organisation goals and their own personal goals?

b) Given the multidimensional and generational workforce (age from 18 - 60); can one be in a position to create an environment that appeals to individuals with diverse needs, preferences and aspirations?

c) Is the top management prepared to shed the administrative task focus for Talent Management and treat it more as a strategic articulation for the success of their own organisations?

d) Whether banking institutions / capacity building institutions are geared to meet the challenges?

22. I hope the conference will deliberate on these issues.

**Post-crisis Inflation Persistence in India**

Inflation persistence is the tendency for shocks to push the inflation rate away from its steady state. Sources of inflation persistence have been identified as : (a) intrinsic persistence or backward-lookingness in price-setting behaviour; (b) extrinsic persistence arising out of the mark-up over costs; (c) expectations-based persistence emerging from the nature of inflation expectations; and (d) policy-driven persistence from monetary policy regime shifts. For a country like India which is exposed to a variety of shocks, this disaggregate approach assumes critical importance.

Recent studies in the Indian context suggest that : (i) inflation persistence increased in the post-global crisis period; (ii) both intrinsic and extrinsic persistence declined while expectations-driven inflation persistence increased; (iii) both intrinsic and extrinsic inflation persistence have, however, remained high relative to the cross-country experience; and (iv) the increase in expectations-driven inflation persistence could be due to consumers' incomplete information on the nature of economic shocks and also unhinged credibility around the ability of macroeconomic policies to deliver low and stable inflation.

*Source : RBI Bulletin, October 2014.*

# Talent Management Mental Models and Bottom-Line Results

Dr. Chip Cleary *

I'm honored to have the opportunity to spend time with you for the 31st SPTM Lecture. As I look at the list of people who have gone before me, I'm not just honored, I am humbled. This lecture has been delivered a long history of industry notables who have shared deep insight into a broad range of issues in banking and economics.

Today, for my talk, I would like to offer something a little different. I am not an expert in banking or economics. Rather, I come from the field of talent management with a focus on learning and development. I have spent the last 20 years helping organizations increase the impact they receive from their investments in learning. What I would like to share today is a perspective from working in the realm of talent across many different industries. I hope, and believe, that the lessons I have learned will be of use to this group now as the industry faces its challenges of talent development.

**The Challenge**

What I see today is that organizations across industries struggle with talent development. This is not a sudden news bulletin … this has been the case for decades. What has changed has been the level of priority. Today, as other sources of competitive differentiation have diminished, the importance of talent has risen. At the same time, I also see new thinking emerging that can help organizations tackle the substantial talent issues they face. I hope to share some of the highlights of that new thinking with you today.

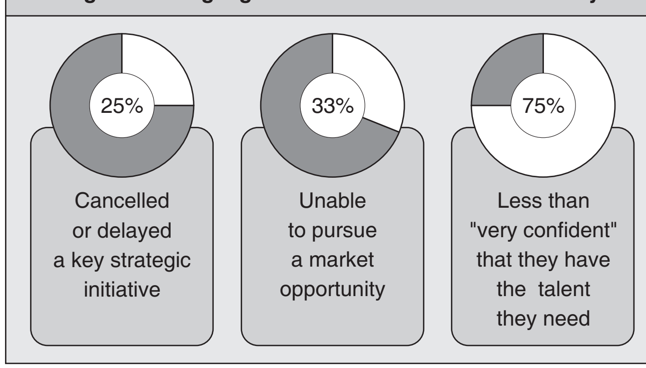
Yours is an industry that has squarely acknowledged the talent issues that confront you :

- Technology continues to redefine banking
- Multichannel interactions with customers
- Customers want solutions and not just products
- New offerings drives a new for high end speciality skills (e.g., risk management, financial advising, and so on).
- Turnover of 20%
- Growth of multiples of GDP growth
- Massive retirement underway in PSUs

Given the magnitude of these issues, one might wonder whether "challenge" is too modest a word and it would be more appropriate to declare a talent "crisis." It is a good time to convene a conference for talent management in banking.

At the same time, yours is not the only industry facing talent challenges. As the figure below illustrates, CEOs across industries are hampered by talent. As one CEO told me, "CEOs like to talk about talent. But now we must do more. It used to be that training was on my list of priorities. But perhaps it rated around number 40. It's moved into the top ten."

**Figure - 1 : Highlights from the 15th PWC CEO Survey**




What then, can we do to overcome these issues?

**The Problem That Lies Beneath the Problem**

What causes talent to be a challenge is not simply demographics and growth. Consider that as banks

* Consultant, Talent Management, U.S.A.

continue their dramatic growth, they will need other inputs as well as talent. However, most banking business leaders do not see, e.g., facilities as a critical challenge. Rather, it is simply another operational issue to be managed. What makes talent a critical challenge is that today business leaders lack confidence in their ability to manage it. When business leaders think about their need for facilities, they are confident that the need can be effectively quantified, assigned a cost, and delivered through reliable solutions. When it comes to developing talent, business leaders lack such confidence. They are unclear what investments to make, how to make them, and, when they invest, just what returns to expect and whether they receive them.

What I will describe tonight is what I believe lies at the root of this lack of confidence. Developing talent is a technical area. But everyone has some mental model of how to do it. What I'll suggest is that the prevailing mental model that business leaders have of to develop talent prevents them from being able to manage talent investments proactively and productively. I call this prevailing model the model of “Replicating Experts”. And while talent professionals should help educate business leaders, often they too share the same model and so the same blind spots that it brings. What I'll suggest is that this model leads business leaders away from productive questions they can ask to target, size, and evaluate talent investments. So, since they find themselves in a passive stance unable to materially affect the **effectiveness** of their investments, they focus on what they can, which is **cost**. The value of developing talent far exceeds the direct cost and so most business leaders find themselves only able to manage the tip of the iceberg of their investments. Small wonder that they lack confidence in their ability to manage talent investments.

What I will propose is a different mental model. This model is grounded in the domain of quality management. I call it the “Bug Swatter” model (I will describe why later). Under this model, developing talent is simply one form of quality improvement initiative. Since most business leaders have learned over time how to think of and manage quality management initiatives, this perspective allows them to bring to the table a range of perspectives that allow them to manage both the **effectiveness** and the **efficiency** of their investments.

This transition from managing the tip of the iceberg to managing the full iceberg is critical in making the shift from considering the talent challenge a wicked problem without obvious solution to a daunting challenge to jump into and work through.

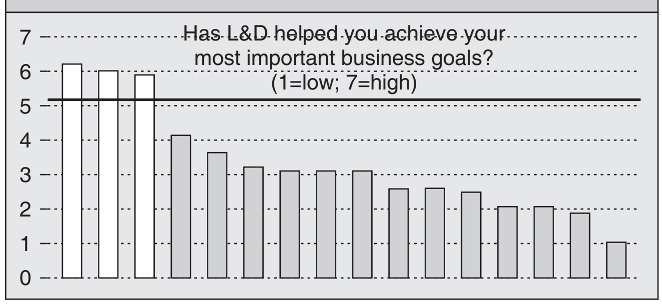
### An Unpleasant Truth

In my job, I get the opportunity to speak with a broad variety of business leaders about how to develop talent, with a focus on training. Most are deeply convinced of the importance of learning. For example, Jack Welch said “An organization's ability to learn, and translate that learning into action rapidly, is the ultimate competitive advantage.”

However, in my experience, relatively few are convinced of the effectiveness of their organizations' formal approaches to talent development.

The figure below is taken from a set of interviews I conducted with business leaders in one client organization. They are typical.

**Figure - 2 : Ratings from One Client Organization**




It's not just that business leaders face a crisis of talent. They face a crisis of confidence in their ability to develop talent.

### Demonstrating the Possibilities

Sometimes when tackling a challenging problem, it's helpful to look around to see who else has had similar challenges and managed to handle them. For those in talent, the IT function provides a litany of productive lessons.

Consider the transformation that IT has undergone over the past twenty years (summarized below).

**Figure - 3 : The IT Journey from 1985 to Today[1]**

- A big cost item
- Staff "speaks a different language"
- Focus on activity
- Unclear value
- Not aligned
- "Build your own"

- A major investment
- Considered a source of competitive advantage
- Focused on results
- Tangible value
- Strategic player
- Outsourcing an enabler

IT has gone from a difficult-to-manage function with which business leaders had difficulty interacting to a major source of competitive advantage that has learned to align to and support the business strategy. Is this not just the exact same journey that we require in talent?

In short, it's possible.

In my company, we have seen from an on-the-ground view, our ability to collaborate with organizations to make this transition happen in Learning & Development.

The talent problem is substantial … and it is also solvable.

**A First Root Cause Analysis Provided a Starting**

The root causes of the talent challenge are clear : industry growth, demographics, and external limitations of the degrees of freedom in key talent levers of recruiting, assessment, compensation, and performance management.

However, what are the root causes of business leader's lack of confidence in what is typically the most critical remaining lever: learning & development?

It doesn't appear to be technical capabilities. Those who work in the Learning & Development space have seen the technical opportunities for solutions explode over the past decades. We have e-Learning and virtual classrooms and social media and web-based performance support. We do not lack for arrows in our quiver when it comes to providing solutions.

Four years ago, I became convinced that the key barrier lay in the area of business alignment, that aligning learning and development solutions so that they direct enable business leaders to achieve their operational goals and implement their strategies. It's certainly not news that a learning leaders should align to business. In fact, they have been consistently admonished to do so in conferences and by trade articles and by their own leadership for years.

What some of my clients asked me was “just how can I do better?” I thought that would turn into a two-week research project to compile best practices. What I came to realize was that concrete guidance on “how” was missing. If I want to better align, just what do I do?

As a result of that realization, my two week research project turned into a two year project. I have since collaborated with Tom Hilgart, who was a learning leader at a US-based insurance company, to define a “how to” guide for how to systematically create alignment. Our manta has been “It's not just about “trying harder”. It's about having a practical system.” The result is a book we co-authored, The CEO's Talent Manifesto (Cleary & Hilgart, 2013).

**The CEO’s Talent Manifesto**

Manage our investments in talent as methodically as we manage our other investments.

1. Pinpoint specific business requirements
2. Focus investments on priorities
3. Identify concrete business outcomes
4. State the results
5. Continually improve

In the book, we collaborate to take an approach that Tom developed when at CNA, expand upon it, and build out a methodology based on it.

Just to provide a sense of the direction of the work, some highlights of the methodology included :

- Carving out a role for a person who focuses on creating alignment and evaluating business results.
- Helping the business view their investments in talent as a portfolio and providing insight into the shape and health of that portfolio.
- Working with the business at the level of specific initiatives to focus on a specific form of results sought : business process results (e.g., increasing success rates, accelerating cycle time, reducing errors and so on).

1. Thanks to Ed Trolley, co-author of Running Training Like A Business for this analogy.

**A Deeper Issue : The Importance of a Better Mental Model**

Over the past two years, Tom & I have spent time sharing out the approach and talking with organizations about their opportunities and challenges in leveraging it.

Now, tonight we won't go into the approach in detail because I have come to believe that the methodology, while useful, has proven to be more difficult for many organizations to adopt than I had anticipated.

So although you might like nothing better than a walk of a methodology over your dinner, there is more interesting ground to cover.

What I have taken away from the past couple of years is that it's not just about having a practical system. A solid methodology is necessary but it is not sufficient. What must be in place first is a productive mental model about how learning & development can develop capabilities.

We all develop mental models about how the world works. So, business leaders develop mental models about how people become proficient. What I propose is that the current mental model that most business leaders rely upon represents an enormous barrier to tackling the talent challenges that organizations have today. It's not that the predominant model is flat wrong … but rather that it is unproductive. It prevents business leaders from engaging with talent leaders in a productive way. That's what I'd like to focus on tonight.

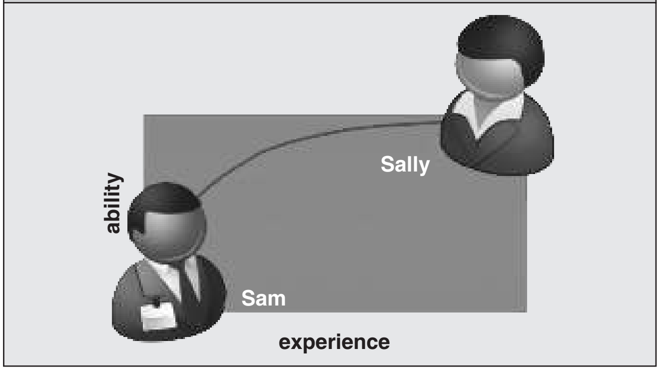
To achieve in learning & development the kind of transformation that IT has realized, we need to change the mindsets our organizations employ about how to manage talent. Tonight, I will outline what I see as the current predominant model, illustrate the impact it has, and share what I believe to be a more productive model.

**The Prevailing Model of How People Become Proficient : "Replicating Experts"**

When business leaders say "we face talent challenges", what they mean is "we need people who can perform the tasks we need done in order for us to execute our business strategy." While there are many dimensions that affect performance, typically organizations struggle most with whom to recruit (so which capabilities to buy and which to build) and just how to build peoples' ability to perform critical tasks.

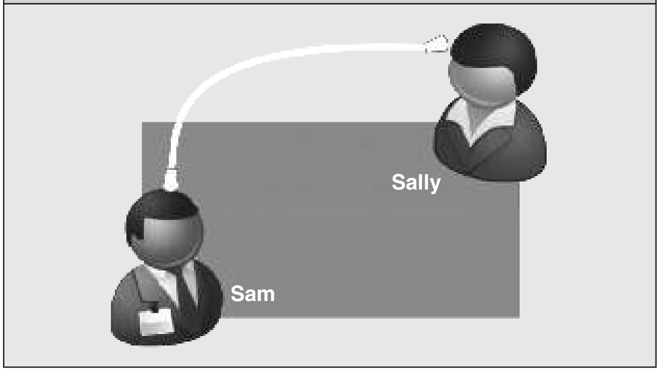
What we know is that if we choose people with the right aptitudes, over time they can become proficient through experience. If we were happy with the rate at which people naturally become proficient through experience (and willing to live with the consequences of their lack of proficiency), we would not need to invest in learning and development. What learning and development is for is simply to accelerate the growth of proficiency. What we want to do is help novices (like Sam below) rapidly become proficient (able to perform like Sally in the figure below).

**Figure - 4 : Moving Up the Learning Curve**




So far, so good. Now, it would be wonderful if we could simply plug Sam into Sally's head and download her capabilities to him. But only in science fiction. In the real world, we need some other way to help Sam.

**Figure - 5 : If Only We Could Do This!**



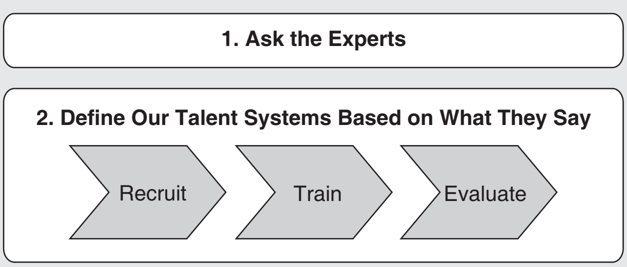

The question is "How do we figure out what to do for Sam?" In tackling this question, we are hampered by an obvious if extremely troublesome limitation: we cannot just peer inside Sally's head and see what makes her proficient. That is not visible to us. In fact, in many cases, it's not clear to her. Experts often behave differently in practice than they say they do when they discuss their work.

This is where the problem lies.

To determine how to build Sam's proficiency, what learning professionals typically do is what feels intuitively sensible to most business leaders : they ask Sally to tell us what Sam needs to know. I call this approach the "Replicating Experts" model of building proficiency.

In short, learning professionals conduct what they call a "needs assessment." Typically, this assessment is based on interviews. They talk to a range of experts, they may talk to their managers, and they may talk to novices to see what help they want. They then tally up the results. And then, they gear the learning & development solution around what they hear.

**Figure - 6 : How Many Organizations Guide Talent Development Processes**




The problem is that experts are not actually very good at identifying what is really important for novices. Experts, by their very nature, know quite a lot. They are proud of what they know and they are usually happy to share it. But they typically have also largely forgotten what it is like to be a novice. They have difficulty separating what is important for a novice to learn right away versus what is nuance that can be saved for later. They are keen to share all of their knowledge whether it is relevant to 90% of cases or only 5%. They tend to focus quite a lot of what one should "know" versus what one should "know how to do." And, in some cases, they actually behave differently in practice than they say they behave.

Since learning professionals target learning and development solutions based what they hear from experts and since this is failure prone, they end up with learning solutions that cost too much and produce too little result.

To illustrate, consider the figure below. This figure is from a document we were given by a client for an actual training project stating the performance objectives the project should support. I have deleted the specific content.

**Figure - 7 : Verbs Taken From a List of Performance Objectives**

Describe...
Identify the benefits ...
Identify the process ...
Given a business scenario, identify…
Identify…
Explain…
Identify…
Show...
Recognize…
Recognize…
Identify…
Recognize…
List…
Understand…

A couple of interesting observations come from this figure.

- This project, as specified, would not really enable a participant to do anything new that the participant could not do before the training began. These verbs indicate that the participant should understand a mass of conceptual content. Note, while the example is extreme in this regard, it is not wholly unusual in direction.
- The project, as specified, would be large as the list is extensive. When one performs this kind of needs assessment, one hears many things from experts. Since the whole model is based on asking the expert to relate what is in their head, it is difficult to eliminate something from the list. After all, the expert said it was important.

In short, such a list is common and it suffers from three critical flaws :

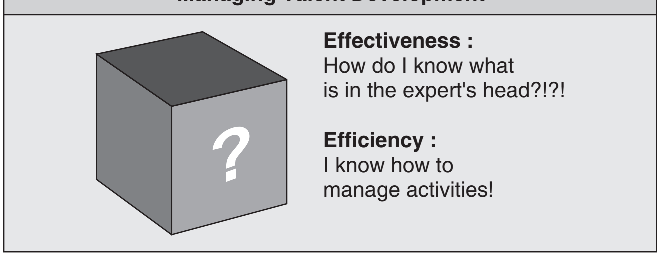
- It is too much : We routinely find that much of what experts say is important is not actually relevant to novices as they climb the early - and steep - part of the learning curve.

- It identifies the wrong kind of content : As noted, such lists of focus much too heavily on “knows” and not enough on “can do.”
- Some of the items are inaccurate : When we learn things, we often do so at a level which is not directly accessible to us later on introspection. So, we have theories about how we behave that can differ from how we actually behave. Good interviewing techniques, like the Critical Incident Methodology, can help address this flaw but it remains a common issue (Flanagan, 1954).

**When learning professionals rely on expert reports to charter learning investments, they start from a weak position.**

Now, let's step back from the role of learning professional back to our business leaders. If your model is that experts are the best source of guidance for how to accelerate novices to proficiency and you recognize that interviewing experts is a difficult task, well then you find yourself unable to contribute to the chartering of a learning solution. In short, chartering becomes a black box.

**Figure - 10 : The "Replicating Experts" Mental Model Prevents Business Leaders from Effectively Managing Talent Development**




A business leader who attempts to “Replicate Experts” will naturally not try to participate in driving effectiveness of learning solutions. So, training remains a black art where effectiveness cannot be effectively managed. At the same time, most business leaders are comfortable managing activities. They can comfortably ask for usage levels and course completion rates and the cost of learning solutions. To the extent that business leaders examine training, they will end up managing **training activities** instead of **training results**.

Scant wonder, then, that there is often a lack of concrete alignment between business and learning. Business leaders tend to believe that they cannot meaningfully contribute. As we will see, such belief is drastically misguided. The technical specialists in learning need concrete input and guidance from business leaders. Without it, it's not surprising to see a result like that shown in Figure 2.

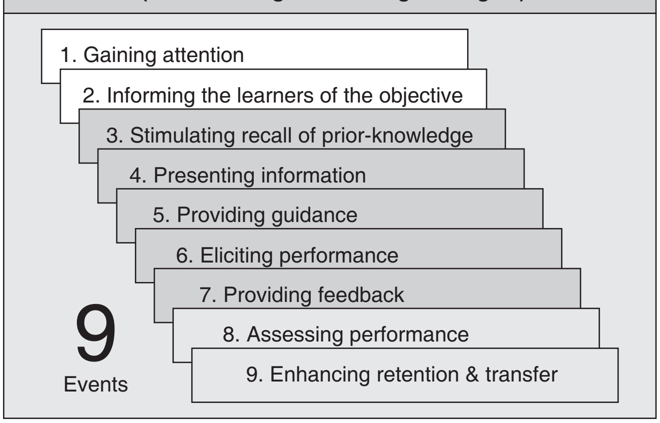
**From the Frying Pan to the Fire**

Before moving on, let's take one more step down the path after the learning solution is scoped. As it turns out, there is another mental model that again interferes with solutions. This time, the model is one used by instructional designers.

In short, instructional designers typically want to provide an **easy step-by-step journey for learners**. This means additional waste.

Back in the 1960's, Robert Gagne identified nine “events” of instruction (Gagne, 1985). His notion was that when novices learn from instruction, they go through a repeatable journey. We can create better instruction by guiding novices through this journey. Each step of the journey calls for its own approach.

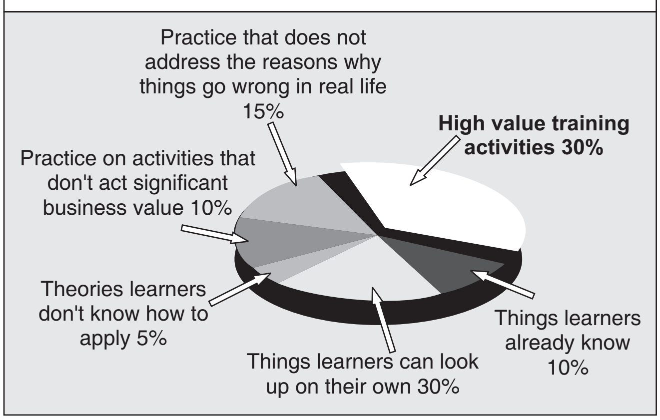
**Figure - 8 : Gagne’s Events of Instruction (Course Design - Teaching Strategies)**




When instructional designers create learning solutions, they find it easy to use models like this in unhelpful ways. Instructional designers usually want to make learning easy (which, by the way, it's often not). They take a model like this and try to create a complete journey for each thing they want to cover. The result is that training courses become very full. The first order effect is simply wasted time. Of course not every student needs every step. So, training courses become stuffed with material than learners don't actually require. The second order effect is that learners become disenchanted. This all feels like a lot of ground to cover to get to the nuggets. The third order effect is that courses become less effective. Because time is a precious resource, training time is limited. When courses take on too many objectives and then cover them using too broad a model, what happens is that the most critical elements do not get the dedicated focus they require. Almost always, those critical elements are practice and feedback. By cutting back on those, instructional designers accidentally cut out what really matters most.

A few years back, the lead of design in my company reflected on how student time was allocated on average across the many, many course reviews he had done of client training courses. The figure below summarizes the results.

**Figure - 9 : An Informal Assessment of How Training Time Is Allocated**




What the chart shows is that for many courses, roughly speaking, 70% of time is allocated to low-value activities while only 30% is allocated to high value activities.

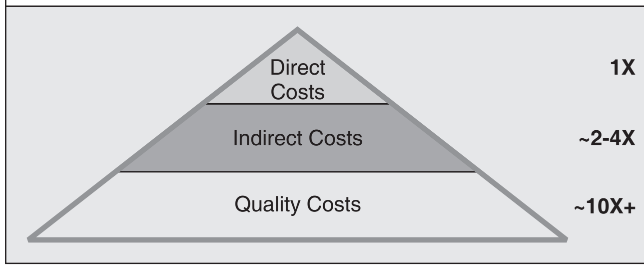
To sum, the "Replicating Experts" mental model contains the two planks we have just explored :

- To determine what capabilities novices should develop, ask experts (after all, only they know what is in their heads).
- To develop those capabilities, provide novices with comprehensive learning journeys that comfortably guide them by the hand.

**The Impact of the "Replicating Experts" Model on Total Cost of Ownership**

To capture a complete picture of the costs of training, we consider what we call the "Total Cost of Ownership" of training.

**Figure - 11 : The Total Cost of Ownership of Training**




The Total Cost of Ownership contains three elements :

- The **direct cost** of developing or purchasing courseware, providing instructors, providing facilities and so on.
- The **indirect cost** to the organization of consuming training. Typically, this is primarily the lost productivity of participant time off the job. When businesses use "adjunct" staff from the business to instruct or coach during training, it also includes this time.
- The **cost of quality** which consists of ineffective training (the training does not achieve its objectives) and poorly scoped training (when something that is important to the business is not included).

What is interesting about these numbers is that direct costs represent, by far, the smallest portion of them.

As we saw earlier, when business leaders proceed from the "Replicating Experts" mental model, they limit themselves to managing efficiency not effectiveness. What that means is that they focus on managing the direct cost of training. However, that is only the tip of the iceberg. What is really important is **reducing the cost of quality**. The mental model prevents business leaders from actively participating in doing so.

**Some Highlights from the Cognitive Science of How People Learn**

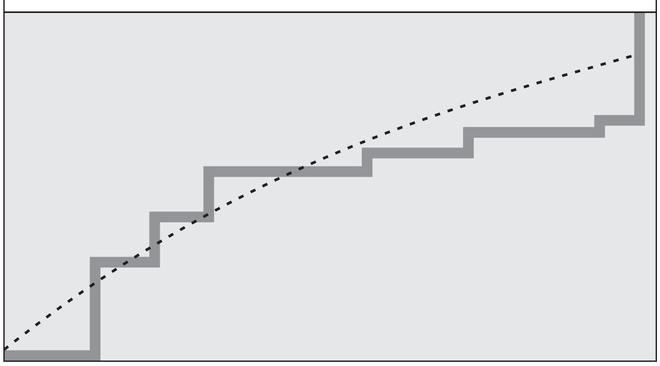
> I hear, I forget;
> I see, I remember.
> I do, I understand.
> — Confucius

To adopt a better mental model, it is useful to explore how people actually learn new skills. Luckily, we do not need to explore very deeply. A quick summary will guide us towards a better mental model of how to develop proficiency.

In Figure 4, we described the notion of a "learning curve." Now, that figure shows a nicely smooth curve that grows over time while gradually flattening out. This is a helpful abstraction in many ways. However, this is learning when seen from a distance. However, simply accumulating hours does not mean that one necessarily accumulates useful experience. If I am a bank teller and today all that I do is simply repeat just the same things I did yesterday in just the same way and nothing new happens, then I am not likely to be a better teller tomorrow.

To see what happens in learning, it's helpful to conceptually put the learning curve under a microscope.

**Figure - 12 : The Learning Curve Under a Microscope**



A polished granite block seems like a continuous smooth surface but really consists of a large number of small atoms. Similarly, the learning curve really is not a smooth curve at all. Rather, it really consists of a large number of specific and concrete learning episodes. Some of these represent large and important learnings and other represent smaller learnings. What are these learnings? For our hypothetical bank teller, they might include :

- I forgot to validate a customer's identity and divulged inappropriate information (an important learning).
- I didn't know the answer to a question about interest rates … but went and found it (a smaller learning).
- I use the wrong identifier in the account management screen … and realized that the system would take it at first then give me an inexplicable error later (a smaller learning … but one that consumed a long time to learn).
- I failed to explain why I needed additional background information from a customer … but the customer happily gave it and explained to me why I probably needed it (a learning where something worked better than expected.)

Now, to see how learning a skill works, consider the common pattern across these episodes. The teller was trying to do something. She started with a goal. She then ran into a surprise along the way. She then paused, reflected, and learned. In short, the process is :

- Pursue a goal.
- Get surprised.
- Diagnose what is different about what actually happened from what you expected to happen and reflect on which of your expectations you should adjust.
- Continue onward,

In short, learning is the process of adjusting our mental models of the world based on surprises that show where they go wrong.

Note : We often talk about this in the context of failures that prevent us from achieving our goals. And, usually, surprises are failures that prevent us from achieving our goals. However, they can also be when something works unexpectedly better. The key characteristic is that something happened differently than we expected. In short, we all have mental models and in each case, the teller's mental model was inaccurate.[2]

### A More Productive Mental Model - "Swatting Bugs"

We have seen that the "Replicating Experts" mental model blocks business leaders from having productive engagements with learning professionals. After all, business leaders know they have no special insight into what makes experts tick. As a result, business leaders lack confidence in their ability to drive and assess learning investments. And without productive engagement, learning professionals in fact are not able to target learning investments as well as they would like.

2. For more information, see Dynamic Memory by Roger Schank. (Schank, 1982).

If to tackle the talent challenge, we need to improve how business and learning align and if the “Replicating Experts” mental model is a barrier to doing so, well then we need a better mental model.

**A Point of Light**

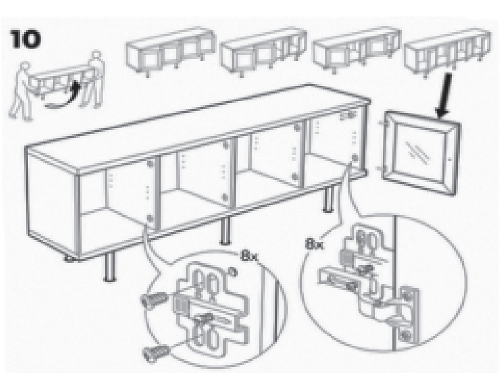
We have seen that surprises trigger learning. To help us down the path towards a better mental model, let's consider an approach to learning that is so effective I personally have found it not just surprising but downright shocking.

IKEA is a global retailer of “flatpack” furniture. This is furniture that comes in a flat box which one then assembles at home. IKEA operates in over 40 countries and sells over 12,000 products. They have over 5,00,000 visitors per year. In short, the business depends on build enough proficiency in about half a million customers to enable them to assemble one or more of thousands of different items. These customers speak dozens of different languages.

Does this business model seem an impossibility? How can one train so many different people to not only successfully take up this challenge but to do so voluntarily? How much must the training system required to do so cost to run?

In fact, there is no training system. What IKEA offers instead is remarkably simple. Inside each flatpack furniture kit is a small wrench you will need to assemble it, some bolts and screws, and a funny looking black-and-white cartoon. The figure below shows an excerpt from one such cartoon.

**Figure - 13 : Excerpt from an IKEA Assembly Guide**




What IKEA has done here is remarkable. They have taken a complex procedure and created a simple guide that allows customers to succeed. They have taken what would end up with perhaps an hours-long training course in many organizations and condensed it to a cartoon. And they have done this so well that customers keep coming back and they keep growing? What is the secret?

It's simple : quality management. IKEA has worked with real people as they try to assemble those flatpack kits. They study where those people actually make mistakes. Then, they separate the wheat from the chaff. They don't worry about every little mistake because many mistakes are easy for customers to repair. Take a piece off and put it back on the right way. Rather, IKEA focuses on the mistakes that really lead people down the wrong path. They then determine specifically which details to include in their drawings to warn people off of making those mistakes. And when a mistake is really damaging (because it would mean backing up many steps and would take a long time to remediate or because it might damage the furniture), IKEA reengineer the furniture itself to prevent the mistake (e.g., by putting connections slightly off center so that you physically cannot put the left leg on the right side).

In short, what IKEA has done is take what presents itself as a learning problem and addressed it as a quality management problem.

They have taken the goal of “swatting bugs” from the task of assembling flatpack furniture.

IKEA has tackled what seems an almost intractable proficiency issue with a remarkably inexpensive yet effective approach. This example drives to the heart of what we view as a better mental model. Rather than viewing learning as a way “replicate experts,” it is more productive to view it as a way to “Swat Bugs” in a business process. In short, it is one tool in the overall quality improvement toolbox. Learning = “Swatting Bugs.”

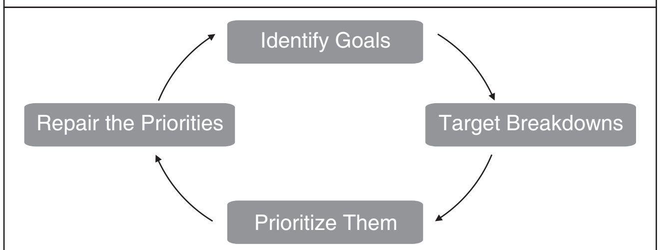
**Shifting the Mental Model**

Let's now consider what when a business leader adopts the mental model of “Swatting Bugs.” The task of managing investments in learning which before seemed difficult-to-manage and risky now becomes a known entity. Business leaders know how to manage for quality.

So, by bringing this experience to bear, they naturally tend to manage learning investments for effectiveness as well as efficiency. In short, business leaders who adopt the "Swatting Bugs" mental model, naturally manage the whole iceberg and not just the tip.

To see how this works, let's consider learning from the point of view of quality management. The figure below represents a simple version of a quality management cycle (there are many variations on this, e.g., the OODA loop, PDCA, DMAIC, and so on).

**Figure - 14 : A Simple Quality Management Cycle**




When a business leader thinks of learning as quality management, what happens when a need for learning arises? Let's consider a simple example, one with which most of us have had direct experience: car salespeople. Imagine that we are training car salespeople to perform better. Under the old model, we might interview our best performing car salespeople, write down what they tell us that car salespeople need to know, and create a long course from it. What happens under the new "Swatting Bugs" perspective?

### Identify Goals

Under the "Swatting Bugs" perspective, the first question becomes "What is our specific goal … what counts as improved quality?"

Business leaders know that "quality" means a process meets expected performance. A quality issue is a gap between actual and expected results. More specifically, a gap is a difference between the actual and desired performance of some specific business process along some specific dimension. For car sales, that could be that the making a sale takes too many person-hours or does not produce a high enough rate of conversions or cannot be run at high enough volume or is too erratic in conversions or so on. Right from the start, when a business leader adopts the "Bug Swatting" perspective, it requires the business leader to ask a set of questions that simply did not come up under the "Replicating Experts" model : **What is the process that we want to improve and what specific business process measure about that process is the focus?** And only the business leader can provide the answers. Productive engagement has begun.

Now, this question seems straightforward but in my experience, when business leaders sponsor learning solutions, they typically do not define success in such a productive way. And even when they do, it's typically not in a way that helps practically scope the project. Because of the focus on replicating experts, most often success is defined in terms of customer satisfaction ("Did the participants feel like they learned relevant material?"), cost ("Did it take 2 days or less?") and activity metrics ("Did we roll it out to everybody in under a month?"). These are helpful goals but they are not about the desired business result. The quality perspective helps business leaders to take control of the business results they seek from investments in learning.

When Tom Hilgart and I wrote The CEO's Talent Manifesto, we recognized that a major issue in talent development is how talent solutions are chartered. Too often, they either start with too vague a definition of results (e.g., "Increase revenue by 10%") or jump to too specific a statement (e.g., "Enable salespeople to explain product features"). In the book, we provide a step ladder that lays out the causal chain through which a talent solution drives business results. We urged talent professionals to focus on defining success in terms of business process measures.

**Figure - 15 : The Ability to Execute Framework (Cleary & Hilgart, 2013)**

What I have seen over the past two years is that for some people (both business and talent professionals) this perspective seems natural and intuitive and for others, it seems like a foreign concept. However, when one first positions a learning initiative under the quality management perspective, the approach "clicks in" with the expectations most people naturally have about how to manage quality.

As we move forward with our investigation, let's assume that the business leader has the goal to improve the conversion rate of the in-dealership sales process.

**Target Breakdowns**

The next step under a "Swatting Bugs" perspective is to identify the specific breakdowns that prevent successful process performance and perform a root cause analysis upon them. Note, at this stage if we were to work under the "Replicating Experts" model, we would be asking experts what novices need to know and be able to do. We are now starting in a different place with what happens in actual practice. In particular, we have a specific lens: what goes wrong in actual practice. We have therefore already eliminated a major source of waste : we will not be including any items in our needs assessment that are not directly relevant to improving process performance.

The first output of this approach to needs assessment is a list of typical failures. The figure below shows examples from one such actual analysis that NIIT conducted (for a different sales process … this is for selling digital cameras in a department store).

**Figure - 16 : Example Failure Points in an Example Real-Life Sales Process**

Expressing personal distaste

Judging by appearance

Failing to get answer

Providing incorrect answer

Ignoring 2nd customer

Shifting attention from customers

Ignoring the customer

Using inappropriate terminology

Failing to ask for sale

Now, as a business leader, consider your level of comfort with targeting these failures in a learning solution compared to what you might hear from an expert (e.g., novices must "follow the sales process" and "address objections" and "anticipate customer desires" and so forth). Which are easier tasks for your learning team to tackle? Which are you more confident will produce results? One quite compelling feature of such lists is how very concrete they are.

**Prioritize Breakdowns**

Another central principle in quality management is that while any process has many sources of variation and failure, not all sources are equal. If one wants to make wise investments in quality, one focuses hard on the few most important quality issues rather than trying to do a little work on many issues. In other words, one "swats bugs" just as IKEA has. Pick your targets and hit them hard.

The same holds when bringing the "Swatting Bugs" mental model to learning solutions. By prioritizing the mistakes identified, one can create less expensive solutions that produce significant business impact. Think back to the IKEA example.

At NIIT, we have developed a specific approach to doing this for talent solutions. We call the approach "Critical Mistake Analysis". What we have come to learn is that we have simply reinvented an approach that is common in the quality management field in the learning field, namely, Failure Mode and Effects Analysis (Forrest, 2010).

The figure below shows an actual Critical Mistake Analysis from the digital camera project mentioned above.

**Figure - 17 : An Example Critical Mistake Analysis**

| | Value Drivers | | | Projected Value | |
|---|---|---|---|---|---|
| Critical Mistake | Frequency (K Per Year) | Cost Per Occurrence ($ Per Time) | Ability to Reduce (% Reduction) | Total ($K Per Year) | Percentage of Total (%) |
| Provide wrong answer to a question | 859 | 1.5[illegible] | 67% | 880 | 22% |
| Suggest film camera if no computer | 740 | 1.20 | 67% | 590 | 14% |
| Not reserving an Out Of Stock item | 714 | 1.58 | 33% | 376 | 9% |
| Let customer handle non-functional camera | [illegible] | 1.18 | 33% | 385 | 9% |
| Ignore a browsing customer | 780 | 1.18 | 33% | 307 | 8% |
| Criticize the merchandise | 555 | 1.62 | 33% | 299 | 7% |
| Show only one digital camera | 740 | 1.09 | 33% | 286 | 7% |
| Show a camera before diagnosing need | 370 | 0.88 | 33% | 256 | 6% |
| Greet with a closed question | 790 | 0.67 | 33% | 175 | 4% |
| Ignore one customer while handling another | 787 | 1.28 | 17% | 181 | 4% |
| Not suggesting add-ons | 856 | 0.26 | 67% | 154 | 4% |
| Bother a customer who wants to browse | 357 | 0.84 | 33% | 100 | 2% |
| Ask about add-ons instead of suggesting | 1,018 | 0.28 | 33% | 87 | 2% |
| Leave the department for over 30 seconds | [illegible] | 0.81 | 17% | 46 | 1% |
| Hand off customer with a question | 952 | 0.28 | 17% | 31 | 1% |
| Total | 11,331 | | | 4,079 | 100% |

The notion behind the analysis is straightforward : calculate the “cost of quality” for each mistake and then focus effort on the highest value mistakes. The analysis considers how often the mistake happens, how much it costs when it happens, and how much we can reduce the mistake through a learning solution. In short, the calculation provides a projection, on a mistake-by-mistake level, of the value that a learning solution can be expected to generate.

An important feature of such dockets of critical mistakes is how value is spread across mistakes. We find that this is a Pareto phenomenon, that is, 80% of the value typically comes from perhaps 20% of the mistakes. The philosophy of “pick the big targets and hit them hard” shines through.

Now, as a business leader, how comfortable will you be with such a docket as specifying the impact from a learning investment? What we find is that such dockets lead to more productive and contentful conversations between the business leader and the talent leader. For example, the time required for training is often a point of concern for business leaders. One can imagine (and we have actually experienced) conversations like these.

| Discussion of Training Time Under … | |
|---|---|
| **The “Replicate Experts” Mental Model**<br>**Business :** We must ensure that the training takes no more than half a day.<br>**Talent :** You can see there is much ground to cover. I’m not sure we can cover it effectively in that time.<br>**Business :** Well, it all seems important. Do the best you can. Maybe you cover them quickly. Maybe introduce the topics and people will figure out how to apply them in the field. | **The “Swat Bugs” Mental Model**<br>**Business :** We must ensure that the training takes no more than half a day.<br>**Talent :** Here is the list of critical mistakes. We were planning to propose a session that would take about a day and would cover this part from the top of the list.<br>**Business :** What if we cut it back to half a day?<br>**Talent :** Roughly, we would limit our scope to the top half of those mistakes. Looking at the numbers, that means that we would cover perhaps 70% of the value we were planning to propose.<br>**Business :** I see. Let me think about this. |

The critical mistake docket provides business leaders with a much more concrete tool to manage the expected outcomes and the scope of the solutions they “buy” from talent.

**Implement the Minimal Solution**

As indicated by Figure 8 above, talent professionals who follow the “Replicate Experts” model tend to create comprehensive learning journeys that take the time and effort to walk participants through a step-by-step learning journey. When one views this from the perspective of “Swatting Bugs”, the thought that leaps out in response to such an approach is “Waste!”

Another core tool of quality management is process mapping. Process mapping focuses on laying out the steps in a process and separating those that add value to those that do not. The underlying notion, naturally, is to modify processes to eliminate or reduce steps that do not add value. “Comprehensive” is not the goal. “Desired output efficiently” is. In short, one should avoid providing a comprehensive journey when one can instead eliminate steps and more rapidly achieve the desired outcome.

The example of IKEA given above shows the extreme conclusion of this chain of thought where, in fact, the whole of the training process has been eliminated in favor of simply letting consumers assemble their furniture with the help of a very simple (albeit exquisitely crafted) job aid.

Now, this is not to say that the goal should be to eliminate training. One would not want to fly in a plane piloted by a novice pilot with the help of a job aid regardless of how good that job aid is. Rather, it is simply to say that training should focus on the specific steps required to enable performance. In most cases, what that means is enabling learners to practice in a safe environment and providing them feedback.

**Figure - 18 : Example Guided Simulation**

In short, in most cases, that means providing some form of guided simulation. What the figure shows is really only an implementation using modern technology of the age-old approach of mentored apprenticeship.

Now, from the business leader's perspective, the definition of what constitutes a minimal solution will remain the purview of the technical specialist, i.e., the talent professional. This is just as the selection of an application framework for an IT project would remain the purview of a technical IT specialist. However, whereas designing the activity may be a technical role, the business leader who employs the "Bug Swatter" mental model brings two simple but useful questions to the approach : 1) To what extent did it eliminate the mistakes we chartered it to remediate?; and 2) How much does it cost (considering both direct and indirect costs)? In short, the business leader is fully engaged with the business inputs and outputs of the solution but no longer concerned with the activity itself.

**Stepping Back**

We have now come full journey. As the PWC CEO Survey shows, talent has become pivotal in many industries. In the banking industry here, it is critical challenge.

What causes talent to be a challenge is not simply demographics and growth. Banks will need other inputs as well as talent. However, banking CEOs do not see facilities as a critical challenge but rather simply another operational issue to be managed. What makes talent a critical challenge is that today business leaders lack confidence in their ability to manage talent. They are unclear what investments to make, how to make them, and, when they invest, just what returns to expect and whether they receive them.

What I have tried to convey is that what lies at the root of this lack of confidence is the mental model that many business leaders have of how talent investments work, that is, how we grow proficiency. The prevailing model, "Replicating Experts", leads business leaders to adopt a passive stance in which they assume that they are unable to materially affect the **effectiveness** of their investments. So, they manage what they can, which to manage **efficiency**. Since the Total Cost of Ownership of talent solutions primarily lies in the cost of poor quality, this means that most business leaders find themselves only able to manage the tip of the iceberg of their investments.

In contrast, when business leaders adopt the "Bug Swatter" mental model of talent development and see it as simply one type of quality improvement tool, they bring to the table a set of perspectives that allow them to manage both **effectiveness** and **efficiency**. They realize that the onus is on them to start at the start and clarify not only the business process to be improved but also what specific measure is important for them as they seek to execute their strategies. They understand that while "expertise" may be difficult to pin down, what does rise to the surface quite visibly are breakdowns and by identifying and prioritizing breakdowns, talent specialists can provide quite specific and detailed charters for how talent solutions will achieve the desired business process results. And they learn what questions to ask of talent professionals to help evaluate whether their solutions perform as needed and where they need to be refined.

What I hope to have conveyed is that by adopting this "Bug Swatter" mental model, the business leaders here can hope to move the needle from having talent be considered a critical challenge to an approachable problem that can be addressed through clearly targeted investments that achieve defined results.

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**Financial Market Infrastructure Framework**

Financial market infrastructure (FMI) is defined as a multilateral system among participating institutions including the operator of the system, used for the purposes of clearing, settling or recording payments, securities, derivatives or other financial transactions. The term FMI generally refers to systemically important payment systems, central securities depositories (CSDs), securities settlement systems (SSSs), central counterparties (CCPs) and trade repositories (TRs) that facilitate the clearing, settlement and recording of financial transactions.

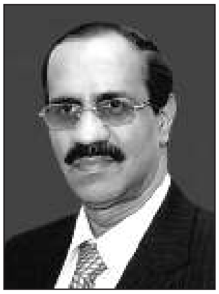
As a member of the Financial Stability Board (FSB) and of CPSS, the Reserve Bank is committed to the adoption and implementation of the 'Principles for Financial Market Infrastructures' (PFMIs). The policy on supervision and regulation of FMIs regulated by RBI describes in detail the criteria for designating a FMI, applicability of PFMIs to FMIs, oversight of FMIs and other related aspects. Hitherto the oversight was based on international standards such as Core Principles for Systemically Important Payment Systems (CPSIPS), Recommendations for Securities Settlement Systems (RSSS) and Recommendations for Central Counter Parties (RCCP).

In line with international developments, and as indicated in the 'Payment Systems in India: Vision 2012-15', the Reserve Bank has adopted the standards set out in PFMIs for regulating and supervising FMIs under the aegis of the Board for Regulation and Supervision of Payment and Settlement Systems (BPSS). All the FMIs determined by the Reserve Bank are expected to comply with PFMI requirements as applicable to them. The FMIs regulated by RBI are RTGS, SSS, CCIL and Negotiated Dealing System-Order Matching-(NDS-OM). RTGS and SSS for government securities are owned and operated by the Reserve Bank.

The assessment of FMIs, including those operated by the Reserve Bank, will be against the PFMIs as per the document 'PFMIs-Assessment Methodology' published by CPSS-IOSCO in December 2012.

The oversight of FMIs is carried out through a combination of off-site supervisions which include self-assessment, call for information, system of alerts, external and/or internal audits of control measures and prior approval of changes, on-site inspection and other measures which include periodic meetings with the boards and the senior managements of FMIs to discuss developments, oversight concerns and expectations.

*Sorce : Annual Report 2013-14, Reserve Bank of India (RBI) (Supplement to RBI bulletin September, 2014)*



# 87th Annual General Meeting**

K. R. Kamath *

Ladies and Gentlemen,

It is my pleasure in welcoming you all to this 87th Annual General Meeting of the Indian Institute of Banking & Finance. The report of the Council and the audited accounts for the year 2013-14 has already been circulated and with your permission, I take them as read.

Let me share a brief review of some of the important banking developments during the year 2013-14.

**Banking Developments**

The banking sector today holds the central position in supporting the robust growth of Indian Economy. The total asset size of the Indian Banking Industry stood at ₹1,08,093 billion, as on 31st March, 2013. Though the sector continues to be sound and healthy and offers a tremendous growth potential in the long run, currently, Indian Banks are faced with many challenges like deteriorating asset quality, large Government deficit, pressure on the net interest margins, increase in restructured loan accounts, expanding infrastructure loans, implementation of Basel-III, talent management issues etc.

Now, I would like to dwell briefly on the performance of the Institute during 2013-14.

As all of you are aware, the Institute is not only involved in offering examinations / certification, but also involved in education, training, research and consultancy; the aims of which are towards professionalizing the banking personnel. In this regard, I am happy to state that during the year under review, the Institute has performed quite well in all these aspects. Let me share with you some of the highlights.

**Membership**

As regards membership, the number of new individual members who joined the Institute during 2013-14 was 73,789 and during the last five years, more than 2.60 lakh new members have joined the Institute. The number of individual (ordinary) members has reached 5,75,168 as of 31.3.2014. The Individual members come from almost all constituents of the financial sector and about 70% of them come from Public Sector Banks. The Institute gratefully acknowledges the support received from both institutional and individual members in this regard.

**Examinations**

Your Institute is known for its Associate (JAIIB & CAIIB) Examinations. The Institute offers many levels of examinations (*viz.* Certificates, Advanced Certificates, Diplomas, Professional certificates, Associate Qualifications (JAIIB & CAIIB) and Management Course) aimed at building competency levels within the banks and financial institutions.

The number of candidates enrolled and appeared for Associate Examinations (JAIIB & CAIIB) has shown a substantial increase during the year. Among the electives for CAIIB, Retail Banking was the most preferred choice followed by HRM and Rural Banking.

The Institute also offers the electives as part of the Continuing Professional Development for the candidates who have already passed CAIIB. In this CPD, the most sought after elective was Treasury Management. The number of candidates who appeared for Diploma and Certificate Examinations together remained almost same as in the previous year.

* President, Indian Institute of Banking & Finance, Mumbai & CMD, Punjab National Bank.

** Held on 15th September, 2014

The pass percentage of Associate Examinations has shown an increasing trend during the year. While there was only marginal increase in pass percentage of JAIIB, there was substantial improvement in the pass percentage of CAIIB (increased from 20.17% in 2012-13 to 25.74% in 2013-14). DB & F recorded a pass percentage of 29.86% in 2013-14. The average pass in case of Diploma and Certificate Examinations remained more or less same as in the previous year.

Over the years, technology has played an important role to scale up Institute's activities and maintain quality. The Institute has been in the forefront in using latest technology. Today the Institute has a robust data base management system. Its applications are on-line and all exams are on-line as well. Both JAIIB & CAIIB is supported by e-learning of all lessons and video lectures. In this connection, it is indeed a matter of pride for all of us that more than 1,20,000 candidates working in more than 650 institutions are taking on-line JAIIB examination in 236 centres which is a record in the on-line mode of examination.

**Study Support Services**

In order to make distance learning a value proposition, apart from publishing the courseware, the Institute provides academic support in terms of e-learning, video lectures, mock tests, regular subject updates and condensed RBI Master Circulars on its portal, newsletter and contact classes.

**E-learning**

In this connection, you are also aware that the Institute has been offering e-learning for the JAIIB / DB&F examinations, two compulsory subjects of CAIIB, Diploma in Treasury, Investment & Risk Management and Certificate Course in Customer Service & Banking Codes and Standards. The Institute has made arrangements with most of the banks to place its e-learning material in their intranet such that candidates who are pursuing JAIIB / CAIIB and others can also have access to the e-learning in their work place. During the year, your Institute has completed the development of the e-learning for all the eleven elective subjects of CAIIB with about 130 hours of learning contents. This e-learning has been offered to candidates from the May / June 2014 examination onwards.

**Video lectures**

During the year, your Institute has prepared video lectures on all 3 subjects of JAIIB and 2 compulsory subjects of CAIIB. The recorded video lectures for about 115 hours on 197 topics are made available to the candidates appearing for May / June, 2014 examinations onwards.

I would urge upon all those appearing for the Institute's examinations to make use of all these study support services provided by the Institute.

**New Courses and Activities**

During the year, the Institute has introduced two specialised certificate courses *viz.,*

i) Certified Bank Trainer (jointly with NIBM)

ii) Certified Compliance Professional (ICSI)

The first examination of these new courses was conducted in January, 2014 and the response was quite encouraging. In these advanced courses, after passing the on-line examination, candidates are required to undergo 5 days classroom learning. For the first time, the Institute has stipulated a code of conduct to all the successful candidates in these advanced courses in consultation with the respective collaborating institutions.

The Institute has already started preparing new / updated course wares based on the revised JAIIB syllabus. As in the previous year, the Institute jointly with NIBM and IDRBT has organised meeting of the HR Chiefs and training heads and the suggestions received in the meeting are under the consideration of the three institutions for follow up activities.

**Continuing Professional Development**

As you are aware, your Institute has introduced a system of certification, which recognises the efforts of bankers who are endeavouring to build their professional development. The Continuing Professional Development Certificate aims at enhancing the professional competence through involvement in formal, structural and verifiable activities of the Institute. Your Institute continues to offer services such as monthly IIBF Vision, Fin@quest and quarterly theme based Bank Quest, annual lectures, regional seminars etc. In addition to organising the 30th Sir PTML and 2nd IGNOU-IIBF endowment Lecture, the Institute had organised four regional seminars at Lucknow, New Delhi, Guwahati and Bengaluru on "Customer Service" in collaboration with BCSBI.

**Training Activities**

The Institute has started its full fledged training activities since 2012. The training programmes are conducted as per the overall banking system's contemporary requirements on the one hand and in-house programmes as per individual Banks' and Financial Institutions' specific training needs. The total number of candidates trained in all these training programmes (both in-house and customized programmes) together was 1,414 during the year. The overall feedback on core programmes between April, 2013 and March, 2014 was 4.32 on a rating scale of 1(Poor) to 5 (Excellent). During the year, the Institute has conducted customised training programmes to TJSB Bank, Abhyudaya Co-operative Bank Ltd, Dena Bank, Indian Bank, Bharatiya Mahila Bank (BMB), Bank of India, HUDCO, DBS Bank Ltd.

The Institute also had organized the third International Trainers Training Programme at its Leadership Centre during February 2014 which was attended by 33 participants. The participants included 16 candidates from 9 overseas institutions.

A workshop on financing agriculture was organised in January 2014 exclusively for executives of foreign banks and new generation private sector banks. The programme was attended by 29 participants and well received by them. The Institute jointly with NIBM and IDRBT organised the Bank Executive Programme (BEP) during December 2013 to equip bank executives (Senior Management Officers in Scale IV and Scale V or equivalent), with appropriate skill sets to succeed in the emerging competitive global market place. In all, 29 senior functionaries from 19 Banks / Institutions participated in the BEP.

**Advanced Management Programme (AMP)**

During the year, 22 participants have completed the first Advanced Management Programme in Banking and Finance organized at the Institute's Leadership Centre. The 2nd Advanced Management Programme was launched on 10th November 2013 and I am happy to note that 29 bank executives from 18 banks / institutions have enrolled for the second AMP.

**Research Initiatives**

Your Institute has been encouraging various research activities through three major initiatives *viz.,* Macro Research, Micro Research and DJCHBBOR Fellowship (Diamond Jubilee and CH Bhabha Banking Overseas Research Fellowship). The Institute had received 33 research proposals under its Macro research for the year 2013-14 and awarded 4 research fellowships for conducting the Macro research study. In respect of Micro Research, the Institute had received 19 papers for the year 2013-14. The Institute awarded 7 special Jury prizes in addition to awarding 1st, 2nd and 3rd prizes to 5 bankers. The DJCHBBOR Fellowship for the year 2012-13 was awarded to carry out a study on "Effect of International Clearing Unions on Trade and Reserves" and the researcher has completed the project and submitted the report to the Institute. There will be scope for greater selectivity if more research scholars send in their proposals. Hence, I appeal to the eligible members to make use of this opportunity to do research and come out with innovative research proposals which may be more useful to the Industry.

**Collaborations / Consultancies**

As you are aware, your Institute has been working with other national and international Institutions and providing its consultancy services to them in the area of capacity building. In this regard, the Institute has moderated the question papers / suggested solutions and answer sheets of candidates in respect of 17 subjects pertaining to April, 2013 and October, 2013 examinations of Botswana Institute of Bankers. During the year the Institute has entered into a consultancy assignment with Institut Bank-Bank Malaysia (IBBM) to prepare question papers for certain modules of the Certified Credit Executive (CCE) programme being conducted by IBBM. The Institute has already prepared two sets of questions and has sent the same to IBBM. The efforts taken by the Institute has been appreciated by IBBM.

The Zambia Institute of Banking & Financial Services (ZIBFS) had adopted the CAIIB examination of the Institute as a Level-II examination. The Institute has helped ZIBFS in customizing the courseware to suit their (the Zambian) requirements. The first examination under Level-II was held by ZIBFS during March, 2014. As a part of the agreement, the Institute had prepared the question papers for all the four papers.

The Institute has entered into a MOU with Bahrain Institute of Banking & Finance on 21st February, 2014 at Mumbai in the areas of capacity building to improve the banking and finance education and examination in that country.

The Institute entered into a MOU with The Institute of Company Secretaries of India (ICSI) to jointly design, develop, deliver and offer a certification course namely 'Banking Compliance Professional' for the members of ICSI and CAIIB passed officers working in banks. This course has been since launched.

As a part of consultancy assignment, the Institute has developed 200 Frequently Asked Questions (FAQs) on banking & finance subject in English and Hindi for the use of Financial Literacy and Counselling Centres (FLCCs). The booklet and CD containing the FAQs were supplied to Head offices of banks for wider dissemination. Many banks have appreciated the efforts and contents.

**Future Perspectives**

I am happy to state that your Institute will be organsing the Asia-Pacific Association of Banking Institutes' (APABI) International Conference-2014 and the Executive Meeting of APABI on 25th and 26th September, 2014. This Conference will be attended by banking and finance executives from India and International Delegates from APABI member Institutes and other banking institutes with whom the Institute has collaborations.

In the area of new courses and examinations, your Institute will introduce competency based certificates to meet the needs of the banks and financial institutions. The Institute will introduce (1) Special course for the sub-ordinate staff in Banks (2) Certified Credit Officer Course during 2014-15. Further, the Institute is in the process of developing courseware on the lines of the Information Systems Audit and Control Association (ISACA) model curricula for the use of local bankers with support from IDRBT and the local chapter of ISACA in India.

The Institute will also take the next step in using technology and develop its own testing centre in Mumbai. The Institute will endeavour to offer language training in different languages.

**Awards / Recognitions**

Before I conclude, I would like to say a few words about the awards received by your Institute. The Institute has won a Jury citation and trophy during the 9th e-India award held at Hyderabad on 23.7.2013. This award was given under the category of “Use of Assistive Technologies for Training and Assessment”.

Your Institute has also got one more award i.e. in recognition of the Institute's leadership, development, marketing and Industry interface under the category of Business School. “Education Leadership Award” from LOKMAT National Education Awards at a function held at Taj Lands End, Mumbai on 13.2.2014.

I take this opportunity to thank my colleagues on the Council and members of various committees of the Institute, whose contributions have helped the Institute. I thank all the patrons, well wishers and resource persons of the Institute for their contribution in the ever growing activities of the Institute. I would like to appreciate and place on record the excellent work done by the staff of the Institute in making the Institute vibrant and relevant to the banking industry.

**Proposal**

Now I propose that the Report of the Council and audited statement of Accounts of the Institute for the year ended 31st March 2014 be adopted and passed.

Thank you for your kind attention.

# Differentiated banking - Is India really prepared?

Dr. Dhiraj Jain *

**Abstract**

The failure of various companies not getting a banking license from RBI and being asked to go back to the drawing board and draft a new application for differentiated permits instead of a full license is a clear indication from the RBI for a greater financial inclusion. According to one of the reports the differential banking activity licenses issued to Regional Rural Banks and Local Area Banks (LABs) could not achieve the objectives for which they were set out which prompted authorities to call for larger size banks to go for rapid financial inclusion in a timed bound and a phased manner. Unlike a single universal bank license which is a blanket license from the RBI allowing banks to offer a range of services, a differentiated license will allow banks to offer specialized services in select verticals like project financing, mortgage banking, industrial financing, etc. Though differentiated banks like cooperative banks, agricultural banks, foreign banks, financial institutions and NBFCs have been a part of the Indian Financial System for long, only a single class of banking license were issued for both domestic and foreign banks and all of them had enjoyed full and equal access to the payment and the settlement system and the deposit insurance cover. But with the introduction of differentiated bank licenses, newer dimensions of banking would emerge and whether this initiative would be able to fulfill the broader objective of financial inclusion or is the idea of a differentiated bank a little premature is a matter of discussion .

The differentiated banking practices have been in practice in a number of countries like Singapore, Indonesia, Australia , U.K. & Hong Kong and have been a success there. In India the banks registered as differentiated banks would specialize only in one area of banking thereby leading to higher risk and higher asset-liability mismatches. The Nachiket Mor panel has provided certain recommendations for the setting up of differentiated banks which could be useful. The major challenge that could arise for the regulator is whether it would be able to maintain the systemic stability in the banking system and whether this initiative could prevent banks to indulge in regulatory arbitraging having the lucrative part of the business going to a lot of players and universal bankers being cross-subsidised. The following study tries to understand the relevance of the differentiated bank licenses in the Indian context, the need to have them and to identify the major threats, opportunities and challenges that would emerge due to their emergence.

**Key Words :** Differentiated, license, regulator, risk.

## Introduction

Addressing the 34th Bankers Conference (BANCON 2013), the previous Finance Minister Mr. P. Chidambaram expressed his view that most of the banks were clones of each other rather than having a separate and a differentiated identity. Differentiated banking licenses would be a breakthrough step and be important as they would be innovative in their structure and would lead to a better attainment of the financial objectives.

The failure of various companies on not getting a banking licence from RBI and being asked to go back to the drawing board and draft new applications for differentiated permits instead of a full licence was a clear indication from the RBI for a greater financial inclusion. According to one of the reports the Differential Banking Licence (DBL) issued to Regional Rural Banks and Local

* Associate Professor, Pacific Business School , Udaipur.

Area Banks (LABs) have not been able to achieve the objectives for which they were set out which prompted authorities to call for larger size banks to go for rapid financial inclusion in a time bound and a phased manner. So what exactly are differentiated banks? Can they make a difference? Would they able to attain that ultimate objective of financial inclusion?

Unlike a single universal bank licence which are blanket licences from the RBI allowing banks to offer a range of services, a DBL will allow banks to offer specialized services in select verticals like project financing, mortgage banking, industrial financing, etc. Though differentiated banks like co-operative banks, agricultural banks, foreign banks, financial institutions and NBFCs have been a part of the Indian Financial System for long, only a single class of banking licence were issued for both domestic and foreign banks and all of them enjoyed full and equal access to the payment and the settlement system and the deposit insurance cover. But with the introduction of differentiated bank licences, newer dimensions of banking would emerge. These differentiated banks would specialize only in one area of banking thereby leading higher risk and higher asset-liability mismatches. The Nachiket Mor Panel has provided certain recommendations which could be useful.

After the nationalization of banks in 1969, RBI first issued licences to private banks in 1993 where India's largest private lender ICICI Bank Ltd; and the most valued bank HDFC Bank Ltd; were among the beneficiaries. The second set of licences were issued in 2004, when Yes Bank Ltd; and Kotak Mahindra Bank Ltd; were established. The third happened in April 2014. Although there has been no specific directive to this effect, various Government and RBI officials have been asking banks to dilute their holdings in non-core companies, where the lenders acted as seed capital providers.

**How differentiated would they be ?**

Consumers may not like the idea but it will not be an issue in rural areas where access to any kind of bank is welcomed. Companies who were unsuccessful in getting a licence have been asked to go back and draft new applications encouraged by the RBI Governor's assurance that the applicants could apply for a differentiated permit instead of a full term.

Commercial banks, Co-operative banks, Financial Institutions and Non-Banking Finance Companies (NBFCs) constitute the Indian financial system. Under Section 5 (B) of Banking Regulation Act, 1949, banking means accepting, for the purpose of lending or investment, deposits from the public, repayable on demand and withdrawable by cheque and draft. India has been following the universal banking model where banks are holding companies that operate different businesses like asset management, insurance, asset reconstruction, stock broking, etc., through subsidiaries, joint ventures and affiliates and have been issuing a single class of banking licence to both domestic as well as foreign banks and all of them enjoy full and equal access to the payments and settlement system and the deposit insurance cover.

But in a country where only 35% of the adult population has access to formal banking services, the debate has all along been on whether there is a need for a few large banks or many small banks. The April 2007 monetary policy for the first time spoke about a graded approach to licensing for both domestic and foreign banks. Subsequently, a brief technical paper recommended in favour of continuing with the existing system till a certain degree of success in financial inclusion was achieved and RBI was satisfied with the quality and robustness of the risk management systems of banks. One of the preconditions for creating niche banks is a deep interbank market as any shock, leading to liquidity crunch, could translate into a bank run.

The perception of RBI has changed and it is getting ready to open doors for different types of banks even as various aspirants and banking consultants have been speculating on their profile as to whether there will be different banks catering to different segments of borrowers or will they be structurally different? If RBI chooses to have niche banks for different segments, it could end up having mortgage banks and banks for lending to infrastructure, agriculture and small and medium enterprises and so on. But this is unlikely to happen due to various reasons .

- First, there would be a concentration risk and a downturn in a particular sector that could jeopardise the operations of a bank. This is the only reason why most of India's project finance institutions had to reinvent themselves and become banks.
- Secondly, sector-specific banks also run a risk of asset-liability mismatches. For example , a mortgage bank or a bank dedicated to infrastructure financing will have long-term assets, backed by short- to medium-term deposits.

So the focus would more likely to be on banks with different structures. The Nachiket Mor Panel on financial inclusion has spoken about at least two such categories - payments and wholesale banks. The payments banks can be created by converting Prepaid Payment Issuers (PPIs). There are more than two dozen PPIs who provide mobile wallets or cards that customers could use to make payments with the money that's stored in them. They could gradually convert themselves followed by others . Over a period of time, they could start offering other services as well. The panel wants such banks to have a minimum entry capital of ₹50 crore, one-tenth of what a full-service bank requires, since they will have a near-zero risk of default. The panel has also suggested setting up of wholesale banks to provide credit and deposit products to other banks and financial institutions that lend to small businesses and low-income customers.

According to the panel, high quality NBFCs that are already engaged in financial inclusion and the so-called priority sector lending activities could be converted into specialized wholesale consumer and investment banks. These wholesale banks will be able to deliver on financial inclusion goals immediately without putting the depositors at risk as they are not envisaged to take retail deposits .

Again, the successful ones could be considered for graduating to full-service banks. Currently, many banks buy assets from others to fulfill their priority sector obligation under which a bank needs to give loan to agriculture and small businesses to the extent of 40% of total loans. Such asset buying happens through the securitization route. The wholesale banks will be the aggregator of both deposits and loans, allowing smaller and more specialized banks and financial institutions to transfer their own systematic exposures to them.

Consumers may not like the idea of differentiated banks as they would need to approach different banks for different financial needs but since the idea is to cover the vast tract of unbanked geography, this will not be an issue as access to any kind of bank will be welcome in rural India, unlike the urban pockets where most banks are one-stop shops, catering to every financial need of a customer.

**Need for introducing differentiated banking**

The RBI-constituted Nachiket Mor Committee for financial inclusion first mooted the idea of having differentiated banks in the country. The panel's suggestions include specialised payment banks, retail banks, wholesale banks, infrastructure banks etc. But various banks and research institutions have questioned the need for DBL are of the view that it is a bit too early to introduce this differentiated banks' model in the domestic context. Though universal banking model remains a dominant and the most preferred model across the globe, there are countries like the US, Australia, Singapore, Hong Kong (China) and Indonesia that have been offering DBL. The banking environment in India is not mature enough to accept this type of banking and hence would be a bit early to introduce such a model in the domestic context. Around 40 per cent of India's population fall into the financially excluded category and the regional rural banks have not had many encouraging experiences with the local area in this regard. The differential banking activity licences issued to RRBs and Local Area Banks (LABs) could achieve only limited success which have prompted authorities to call for large size banks to go for rapid financial inclusion in a time bound manner. In the differentiated banking environment it would be very difficult for a differentiated bank to survive by selling only one or two products. Studies have also shown that only the foreign lenders, who undertake niche business activities even though they have a universal banking licence, could be possibly interested in DBL. These differentiated licencing model could be tried for fee-based business areas like credit card, remittances, payment and settlement business and other businesses of the like.

**Regulatory structure**

As of now differentiated bank licences are only a nomenclature. The RBI is in the process of framing the rules and regulations and the other norms on the basis of which these differentiated banks would function. It will finalize the guidelines for issuing differentiated banking licences till September 2014 after which such licences will be issued on tap. Various types of DBL such as payment banks, wholesale banks and retail banks would be framed. The payment banks would help widen the spread of payment services and deposit products to small businesses and low-income households, the wholesale banks would deal with larger institutions and retail banks will focus on individuals or smaller businesses. This increasing supply of banks through on-tap licencing and providing flexibility to innovate would help achieve the target of differentiated banking within the universal licencing framework.

These new licences would be issued to widen the reach of the ₹84 trillion banking industry in an economy where, according to a 2012 World Bank document, only 35% of adults have access to formal banking services.

**Challenges ahead**

Issuing DBL, whether to domestic or foreign players, would come with its own set of challenges. Ms. Shikha Sharma, the CEO of Axis Bank expressed her concern, saying that India is a vast market and needs different approaches to different regions and segments and at the same time have to guard against regulatory arbitrage between differentiated banks. Different rules for different entities could prove to be disruptive. The various challenges that these differentiated banks could pose could be depicted as follows :

- Maintaining systemic stability while encouraging the presence of various kinds of banks : Once DBL are issued, there would be a significant level of market instability and how a proper balance be maintained among them is a point to be seen. It would be quite interesting to see how the banking landscape would change with the coming of these newcomers. Issuing new bank licences is just one aspect of the larger financial sector reforms. Both the government and the new RBI Governor Dr. Raghuram Rajan are committed to financial services reforms. There could be significant policy level directions in the areas of consolidation and the presence of foreign banks in India. There could even be complete reorientation of the banking structure.
- Banks indulging in regulatory arbitraging : Under the norms, every bank is required to keep a percentage of its deposits with RBI in the form of CRR on which it does not earn any interest; invest in government bonds under the need for SLR; and 40% of its loan book must consist of agriculture and small loans. Once we have different kinds of banks, these norms would not be uniformly applicable to all and hence there could be a scope of wide spread regulatory arbitrage .

**Arguments in favour of the adoption of DBL**

With the broadening and deepening of the financial sector, banks are slowly migrating from a situation in the past where the number of banking services offered by the banks was limited and all banks provided all the services to a situation where banks were finding their niche areas and mainly providing services in their chosen areas of expertise . Many banks keep the plain vanilla banking as a small necessary adjunct. It is widely recognized that banks providing services to retail customers have different skill sets and risk profiles as compared to banks which mainly dealt with large corporate clients.

The present situation where every bank can carry out every activity permissible under Section 6 of Banking Regulation Act, 1949 has the following implications, relevant to the subject under consideration :

- For a wholesale bank dealing with corporate clients only, it becomes a costly adjunct to maintain a skeleton retail banking presence. Moreover, it becomes difficult for such a bank to meet priority sector obligations and obligations for doing inclusive banking.
- Retail banks may have to create risk management and regulatory compliance structures which are more appropriate to wholesale banks, thus resulting in the non-optimal use of resources.

- Similar supervisory resources are devoted to banks with different business profiles. This may also result in non-optimal use of supervisory resources.
- The priority sector lending regime for foreign banks has been causing some discomfort for some of the foreign banks. For example, some of the foreign banks find it difficult to fulfil even the less rigorous target of 32 per cent in respect of priority sector advances.
- Some banks find it difficult to provide ' no frills' facility to economically disadvantaged. For them the more liberal licencing regime causes a different set of problems.

**Arguments against the adoption of DBL**

Differentiated banking model has not worked for India in the past and it is still too premature to implement it in India. It would be bit early to introduce such a model in Indian context, as a significant percentage of the total population is still financially excluded in the country. Differential banking activity licenses issued to Regional Rural Banks and Local Area Banks (LABs) could achieve only limited success which has prompted authorities to call for large size banks to go for rapid financial inclusion in a time bound manner and a phased manner. The other issues include the impact on priority sector lending by allowing some lenders to focus on niche segments. It also flags risks involved in allowing niche players unlimited access to wholesale funds through inter-bank borrowing. Finally it points out that banks function by engaging in cross-subsidizing loss making business in one segment with earnings from another which will not be possible for these differentiated banks. DBL model can, however, be tried in the fee-based business areas like credit card business, remittances, payment and settlement business and thereafter should gradually move to areas like infrastructure and corporate financing. Bankers needed some assurance from the regulator that new bank licenses don't get 'special' regulatory treatments.

Given an opportunity, some of the banks may like to follow a niche strategy rather than compete as a full service all purpose bank. On the other hand, there are some factors which point towards the desirability of continuing with the existing system of universal banking :

- The penetration of banking services in India is very low. A very small percentage of the adult population has an access to a bank account and less than 14% of adult population has a loan account with a bank. Under such circumstances, it would be incorrect to create a regime where banks are allowed to choose a path away from carrying out banking to the masses.
- Priority sector lending is important for banks. The revised guidelines on priority sector lending have rationalized the components of priority sector. Investments by banks in securitised assets, representing loans to various categories of the priority sector, would be eligible for classification under respective categories of the priority sector (direct or indirect) depending on the underlying assets, provided the securitised assets are originated by banks and financial institutions and fulfill the RBI guidelines on securitisation. This would mean that the banks' investments in the above categories of securitised assets shall be eligible for classification under the respective categories of priority sector only if the securitised advances were eligible to be classified as priority sector advances before their securitisation. These measures would make it easier to comply with the priority sector lending requirements by those banks which had faced some difficulties in this regard.
- The business model adopted by such 'niche' banks would depend heavily on the ample inter-bank liquidity available. Any shock leading to liquidity crunch could translate into a run on the bank. This situation has been clearly illustrated recently in UK in the case of Northern Rock Bank.

**International experience and practice**

International experience and practices of licensing procedure followed in major could be grouped into two *viz.,* limited banking licence - equally applicable both for domestic and foreign banks and limited bank license-different for domestic and foreign banks. In addition, there are countries where different licences are being issued for commercial banking, savings bank, rural banks or credit unions . In certain countries no distinction is made between domestic and foreign banks. Thus, there is no widely accepted recommended model available internationally.

Some countries have a DBL where licences are issued specifically outlining the activities the licenced entity can undertake. Singapore, for instance, has five different kinds of licences - Full Bank, Qualifying Full Bank (QFB), Wholesale Bank (WB), Offshore Bank, and Representative Bank - while Hong Kong has a three-tier structure general licence, restricted licence, and deposit taking companies. Further, the regulator is also considering making bank licences available on tap to those who fulfill the necessary conditions, rather than grant licences only for a limited time.

**Conclusion**

It could be seen that one of the major objectives of the banking sector reforms has been to enhance the efficiency and productivity of the banking system through competition and have a better financial inclusion. It is also the aim of authorities to provide banking services to maximum number of people thereby leading to greater financial inclusion. To enable the banking system to operate at optimum efficiency, and in the interest of financial inclusion, it is necessary that all banks should offer certain minimum services to all customers, while they may be allowed sufficient freedom to function according to their own business models. Thus, it would be prudent to continue the existing system for the time being. The situation may be reviewed once a certain degree of success in financial inclusion has been achieved and the RBI is satisfied with the quality and robustness of the risk management systems of the entire banking sector. In addition, it could consider a more frequent review of applications and then grant the differentiated licences thereby leading to the final objective of total Financial Inclusion. But as of now there is a serious need for a consensus to be made regarding its adoption or non-adoption. There could even be a complete reorientation of the banking structure.

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# Financial Inclusion - Deposit, Payment and Bill payment - Any Alternative outlet?

S. Anusuyadevi *

Financial inclusion[1] or inclusive financing is the delivery of financial services at affordable costs to sections of disadvantaged and low-income segments of society, in contrast to financial exclusion where those services are not available or affordable. This article attempts to suggest one alternative to make it a reality given the efforts put by the Regulator in the form of policies, incentives, welcoming inputs / suggestions from the renowned personalities in the field of finance through setting up of various committees.

**Policy initiatives by the Regulator :**

RBI first time in its annual policy statement of 2005 -06 recognized the importance of financial inclusion as banks were after creamy layer customers leaving the less privileged cold in terms of access to banking facility. In pursuit of its objective of making financial inclusion a reality, it had advised banks to open no-frill accounts with nil balance or minimum balance and charges that would make public to bank with banks. Over a period of time, in its quest to make financial inclusion an affordable one to public that remained unbanked, RBI came out with lot of policy initiatives such as use of business correspondents and expanding scope of who can be business correspondents.

**Progress thus far[2] :**

The Reserve Bank of India has planned two phase initiatives to achieve financial inclusion. (i) The first phase was from April 2010 to March 2013, a three period wherein the target was to reach unbanked areas of whose population was more than 2000. In phase I, the progress has been opening of banking outlets in 2,68,000 villages and 7,400 rural branches and 109 million Basic Savings Bank Deposit Accounts (BSBDAs). Nearly 9.48 million farm sector households and 2.24 million non-farm households were provided small entrepreneurial credit. (ii) In Phase II, the objective is to provide bank account to every household / person in the country by providing banking services for unbanked villages of 4,90,000 villages with population less than 2,000 and increase the usage of ICT in providing banking services.

**Structure for financial inclusion :**

The Reserve Bank of India has been banking on banks to provide financial inclusion through business correspondents, ultra-light branches and giving incentive to banks to open the branches in Tier I and II for the number of branches it opened in Tier III, IV and V places etc., Financial inclusion, a worthy objective, has been pushed by the regulator through targets and incentives. Nevertheless, it appears that financial inclusion never seem to have been owned or internalized by the institutions that may be instrumental in making it possible as many accounts have been opened but never operated.

The regulator, undaunted but rather mindful of the fact that majority of people still remain unbanked despite its noteworthy efforts, set up a committee headed by Dr. Nachiket Mor to look into providing financial services to low income households and small businesses inclusion. The committee has come out with many recommendations to further the financial inclusion. Two of those recommendations are ensuring bank accounts to all adults by January 2016 and providing deposit and payment services within 15 minutes walking distance.

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1. Wikipedia definition.
2. Data for this section is taken from information available in page numbers 79 to 82 of RBI- Annual Report 2013-14.

Issue is how to make these recommendations a possibility. Is it by opening a new set of banks or by using an array of BC agents or is there any other possibility to realize these recommendations within a reasonable time frame? One thought that comes to my mind is allowing mobile operators to operate as a mini savings cum payment bank. Any rationale for such thinking? Possibly, owing to the following reasons :

i) Wider reach : There are about 87 crore people who have mobile connections[3]. Mobile service providers could connect to people in remote areas through the retail agents present everywhere. The customers utilize retail agents' services to top up their card or buy a new connection.

ii) The KYC norms are followed by the service provider by collecting address proof, photos, and minimum verification before providing connection. To open an account in bank, with liberalized KYC[4] norms, one needs either permanent or local address proof to facilitate migrant workers. This is already being followed by the mobile operators since migrant labourers are able to get mobile connection.

iii) Each mobile connection is identified by a unique mobile number with portability. Each bank account needs to be a unique number. Hence mobile numbers can be used as account numbers by the mobile operators.

iv) No Frill or BSBDA accounts are minimum or zero balance accounts to make banking affordable. In mobile connection, prepaid customers charge their mobile on need base and the amount could be as low as ₹10/-. Hence small account maintenance will not be a deterrent for service providers.

At present, based on the eligibility criteria fixed by the Regulator, issuing of pre-paid instruments are allowed under three categories viz. (i) Closed system payment instruments (ii) Semi-closed system payment instruments and (iii) Open system payment instruments[5].

v) If Mobile operators are allowed to provide an open type less than ₹10,000/- pre-paid card payment systems, savings and withdrawal of small amount would be possible with mobile number acting as a card which can be loaded with cash as and when salary / wages are received. Remittance to their folk at home will be possible by simply loading their folk's mobile number.

vi) Additional security measure such as tagging mobile number with person's finger print can be thought of. Finger print reader with connection to mobile operator's data base can be provided to the retail agent so that validation can be done by the retail agent before permitting withdrawal.

**Mobile phone service providers as Payment bank[6]:**

Mobile service providers, if and when enrolled as payment bank, can be used to provide remittance facility from one account to another mobile account number. This is more useful for migrant workers as they don't have to have service of a bank. They can visit the retailer who deals with mobile prepaid services, pay the amount to be transferred by giving the mobile account number similar to recharging the mobile number. The other end, the recipient's mobile account number would be charged with that amount and he or she can go to nearest retailer and after biometric verification withdraw the amount. The transaction can be confirmed through sms in language of account holder's choice and in built mechanism to retain the sms for a particular period of time (say 6 months) in the sim can be thought of so as to avoid paper receipt and it can be sent to both the sender and receiver of amount.

For money to be transferred to a number belonging to a different service provider and if the service provider does not have the presence in that state, transfer can be made by collating such transactions and amount can be transferred to another service provider's mobile account through clearing function. Clearing can be done by a centralized agency similar to the

3. Committee on Comprehensive Financial Services for Small Businesses and Low Income Households-www.rbi.org.in.
4. RBI circular dated June 9, 2014 on KYC documents.
5. RBI Master Circular dated July 1, 2014 - Policy Guidelines on Issuance and Operation of Pre-paid Payment Instruments in India.
6. Draft guidelines were issued by RBI on July 17, 2014 on Licensing of Payment banks and Small banks.

electronic clearing being done at present. Since mobile service providers need to be categorized as mini banks, necessary clearing fund maintenance may have to be maintained by the service providers with the centralized clearing agency.

**Mobile service providers as bill payment operating units[7] :**

Mobile service providers, if allowed, can operate as bill payment operating units and they can on board billers by enlisting utility providers such as schools, colleges, gas, electricity, water, property tax etc., and they themselves can act as aggregators by accepting payment request to these utility service providers. Mobile service providers can provide instructions such as utility service provider, amount, user's name, user account with the utility service provider etc., and such instructions from other service providers can be collated and segregated to arrive at net payment and settlement by Bill payment system entity as envisaged in the Report of GIRO Advisory Group[8].

**Conclusion :**

Thus allowing mobile service providers to provide open type pre-paid instruments can be a solution to achieve the target of providing saving account and payment facility for all adults by January 2016. Given that they already allow certain utility service payment, allowing them to be a bill payment operating unit may hasten the process of setting up national GIRO based Indian bill payment system. With right checks and balances in place, mobile phone service providers reach can be tapped to make a financial inclusion a reality with minimum cost and within a short time period.

(The Author works with Reserve Bank of India. The views expressed here are not that of the bank).

7. Draft guidelines were issued by RBI on August 7, 2014 with regard to implementation of Bharat Bill Payment System.
8. Report of GIRO advisory group - www.rbi.org.in.

**Cardless Cash Withdrawal Facility for Unbanked Persons**

During the year, 2 entities were granted 'in-principle authorisation' to set up a payment system in India which will facilitate unbanked persons to withdraw remittances initiated by 'senders / remitters' from their bank accounts. The proposition behind the cardless service is to enable bank account holders to transfer / remit funds, within permissible limits, to an unbanked beneficiary using a mobile number as the identification of the receiver and pin codes for enabling withdrawal. The service will be made operational on submission of system audit reports by the said entities. A brief schema of the approved systems is given below.

Remittance will be possible by an account holder to a non-account holder using the internet or his debit card at an ATM. The sender will use any participating bank's ATM to transfer funds to the receiver by activating a special button. Thereafter he will be prompted to provide the following information :

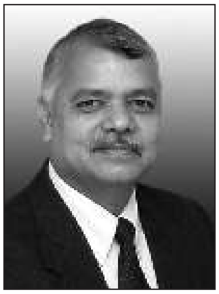
- Receiver / beneficiary's mobile number
- Amount to be remitted
- 4-digit sender code of his choice
- Own (sender's) mobile number

The beneficiary will be able to withdraw the money in full at any of the ATMs of the participant banks using a set of pin codes - one received from the bank and the other from the remitter. At the ATM, the beneficiary will need to activate the special button and provide the following information :

- His own (receiver) mobile number
- The sender's code (received on phone / Short Message Service (SMS) from remitter)
- The transaction pin (generated by the bank and sent to him by SMS)
- The amount (also received from the bank and remitter by SMS)

On successful completion of the transaction, the remitter will get an SMS of successful delivery of the value. The service will be chargeable to the sender. The withdrawal can also be enabled through a micro ATM {hand held device with a Business Correspondent (BC)} to extend the reach of the system.

*Source : Annual Report 2013-14, Reserve Bank of India (RBI).*



# More Banks towards Rural Banking

Dr. K. Srinivasa Rao *

The recent thrust of Dr. Nachiket Mor Committee on speeding up outreach by a host of measures including proposals for differentiated banks is very apt and interesting. It will trigger setting up a host of banking touch points, each focusing on their niche areas. The National Banks with agents, National Consumer banks, National wholesale banks, National infrastructure banks, Payment network banks and so on. This approach will enable each set of banks to exclusively work on cost efficient outreach reducing inbuilt cross subsidization. The grant of two 'in-principle' licenses to IDFC and Bandhan Financial Services sets the ball rolling in this direction. Moreover, Reserve Bank of India is also seemingly keen to go for differentiated bank licensing policy and to make them available on tap. Hence, for all other aspirants who have applied for bank license can again approach RBI for differentiated banks. On the whole, the scenario clearly emerges in favour of banks cruising fast towards the hinterland where the potential base of customers are concentrated who do not have any banking relationship.

Accordingly, banks in the recent past have rightly recognized the emerging business potentiality in the hinterland targeting population in centers in Rural (0 - 10,000) and Semi-Urban (10,000 - 1,00,000). Once predominantly tilted to expand in urban India, banks have now changed the gears and have begun to move towards rural markets. With 68.8 per cent people living in villages with a literacy rate of 68.9 per cent, it opens up new and innovative opportunities for banks. Moreover, the recent thrust on financial inclusion to ultimately connect 6,40,867 villages (as per census 2011) spread across 2,50,000 Gram Panchayats is able to make an impact on the social fabric of Rural India. The increasing agriculture income, rise in rural enterprise and shift in consumption pattern among rural household are all set to create new micro markets in Rural India.

Similarly, the recent thrust on application of widespread technology in increasing the network of alternate delivery channels by banks has made it possible for banks to better serve the rural economy. In order to assess the impact of increasing rural banking in the local economy, it will be interesting to discuss as to how the focus is shifting by expanding the Rural and Semi-Urban Bank Branches (RSUBRs) as against the earlier focus on Metro-Urban Bank Branches (MUBRs). The new found shift of banks on the hinterland shall eventually be in a position to transform the performance of farm sector, trade, enterprise and productivity that can accelerate the contribution of the rural economy to the overall sustenance of the Indian economy.

**1. Change in the bank network :**

Impressed by the emerging scope for business opportunities and in a bid to convert financial inclusion efforts into commercial business proposition, many banks, more significantly the new generation private banks have been increasingly forming a beeline to open branches in rural areas and have begun to set up more of Automated Teller Machines (ATM) network. The pattern of the growth in the last five years provides a better insight into the shift.

**Table - I : Growth of Bank branches**

| Sr. No. | Classification of branches | 2008 -09 | 2009 -10 | 2010 -11 | 2011 -12 | 2012 -13 |
|---|---|---|---|---|---|---|
| 1. | RSUBRs | 50,935 (61.44) | 53,551 (60.71) | 57,167 (60.80) | 62,647 (61.19) | 68,130 (62.04) |
| 2. | MUBRs | 31,962 (38.56) | 34,652 (39.29) | 36,852 (39.20) | 39,730 (38.81) | 41,681 (37.96) |
| 3. | Total | 82,897 | 88,203 | 94,019 | 1,02,377 | 1,09,811 |

*(Source : Statistical Tables Relating to Banks in India - 2012-13, an RBI Publication) (Figures in brackets indicate percentage share)*

* General Manager, Strategic Management , Bank of Baroda.

The data indicates that the network of RSUBRs significantly increased from 50935 in March 2009 to 68130 in March 2013. When it is compared with the data of the previous period of five years from March 2005 (not in table), the RSURBs increased from 46115 to 50935 in March 2009, recording a modest growth. As against that, during the current span of five years, the incremental rise has been fourfold indicating greater thrust on rural banking. Let us now look at the trends in the incremental rise in the RSURBs.

**Table - II : Incremental Growth of Bank branches**

| Sr. No. | Classification of branches | 2008 -09 | 2009 -10 | 2010 -11 | 2011 -12 | 2012 -13 |
|---|---|---|---|---|---|---|
| 1. | RSUBRs | 1,981 (49.65) | 2,616 (49.30) | 3,616 (62.17) | 5,480 (65.57) | 5,483 (73.75) |
| 2. | MUBRs | 2,009 (50.35) | 2,690 (50.70) | 2,200 (37.83) | 2,878 (34.43) | 1,951 (26.25) |
| 3. | Total | 3,990 | 5,306 | 5,816 | 8,358 | 7,434 |

*(Source : Statistical Tables Relating to Banks in India- 2012-13, an RBI publication) (Figures in the brackets indicate percentage share of newly opened branches)*

The shift in the pattern discerns in the incremental rise in newly opened branches. The percentage share of RSUBRs gradually increased from 49.65 to 73.75 with corresponding fall in share in MUBRs from 50.35 to 26.25. Hence, both in terms of absolute number of newly opened branches and in percentage terms, the emphasis is clearly shifted to RSUBRs. The branch expansion policy of RBI has been completely liberalized except that banks need to open 25 per cent of their new branches in unbanked areas.

**2. Role of technology in going rural:**

In addition to the increased 'Brick and Mortar' branches, banks have been expanding technology led alternate delivery channels to supplement their rural reach. This is also necessitated for ensuring a seamless roll-out of the Direct Benefit Transfer (DBT) / Electronic Benefit Transfer (EBT) scheme of the Government of India to pass on the select subsidies to the beneficiaries. In the process banks have begun to front-load (prioritizing) the opening of branches in unbanked rural centers over a three-year cycle co-terminus with their Financial Inclusion Plan (FIP) during 2013-16.Even going beyond the FIP is the commercial call of individual banks to extend the presence. The pace at which the banks are moving rural indicates that banks are finding it more worthwhile to expand network in Rural India. In the process, Rural and Semiurban areas, once the forte of Public Sector Banks are getting inundated with presence of all sectors of banks increasing more completion.

Even the new ATM network has started moving towards the rural centers. Although currently ATM network in Urban and Metropolitan centers account for over 65 per cent of the total number of ATMs in the country due to their past policies and more due to historical reasons, there has been a rising trend in the share of ATMs getting located in rural and semi-urban centers. Out of the total number of ATMs of 114014 in March 2013 rising from a level of 95686 in March 2012, 39274 ATMs are located in Rural and Semi-urban centers and rest of the 74740 are in Metro and Urban areas. The most significant aspect is that the rate of growth of number of ATMs over previous year has been 56.10 per cent in Rural and Semi urban places indicating that the tilt of ATM presence is more conspicuous towards smaller centers in hinterland. In order to nurture a culture of electronic banking, the number of debit cards issued to customers has also increased significantly from 278 million to 331 in FY13. Using non-conventional energy sources such as solar energy, banks have begun to put up electronic lobbies even in small towns and villages with self service enabled cash dispensers, bunch not acceptors; pass book printers, internet kiosks etc., to popularize electronic banking. Similarly, speaking ATMs, biometric ATMs, display of regional languages on ATM screens, and linking of Aadhaar based savings accounts etc., will facilitate further penetration of technology in the hinterland. Banks are also enrolling rural clients to internet / mobile banking and impressing upon them to go electronic for more convenient round the clock service accessible across geographies.

**3. Rural share of banking business :**

Backed by increased thrust on bank network in Rural and Semiurban areas, the flow of deposits and advances have shown considerable progress. Rural contribution can be more clearly evident from the progress made by banks under their earlier 3-year FIP (April 2010-March 2013) in key business parameters:

i) Banking outlets in villages have increased to nearly 2,68,000 from 67,694 outlets in March 2010 including Business Correspondents (BCs) and Business Facilitators.

ii) Out of the new branches opened by banks in FY13, about 7,400 rural branches have been opened during this 3-year period indicating the reinforced thrust on rural penetration.

iii) Nearly 109 million Basic Savings Bank Deposit Accounts (BSBDAs) have been added, taking the total number of BSBDA to 182 million during the period. Out of this, the percentage of ICT accounts to total BSBDAs increased from 25 per cent in March 2010 to 45 per cent in March 2013.

iv) With the addition of nearly 9.48 million farm sector beneficiaries during this period, 33.8 million households have been provided with small entrepreneurial credit as at the end of March 2013.

v) With the addition of nearly 2.24 million non-farm sector households during this period, 3.6 million households have been provided with small entrepreneurial credit as at the end of March 2013.

**4. Emerging Opportunities in hinterland :**

- Having recorded an average annual growth rate of 3.7 per cent in Eleventh Plan Period (2007-12) against its target of 4 per cent, Twelfth Plan (2012-17) envisages yet again a growth rate of 4 per cent opening up wide opportunities for banks to stretch their lending activities to farm sector.
- As National Rural Employment Guarantee Act (NREGA) deepens its reach providing 100 days of assured employment, the household income is set to rise. Similar socially beneficial schemes like Swarnjayanti Gram Swarozgar Yojana (SGSY), Indira Awas Yojana (IAY), National Social Assistance Program (NSAP) and Integrated Watershed Management Program (IWMP) and a host of other schemes are poised to improve the standard of living of rural sector. Banks can associate with channelizing the funds of such schemes to induce the savings habits.
- Moreover, the Internet connect is also set to become a big enabler for banks to provide virtual access to banking facilities. India's plans to connect all the 2.5 lakh Gram Panchayats over broadband network are fast gaining momentum with Bharat Broadband Network Ltd. (BBNL) readying rollout. So far 10,000 Gram Panchayats are covered and one lakh are to be covered by 2014 end. Rural internet users are currently estimated at 72 million are set to reach 85 million by June 2014.
- In the same way, as against a national mobile density of over 70 per cent, rural density currently is estimated at 40 per cent and is fast catching up new levels opening up better scope for mobile banking. The rural tele-density has been growing at an impressive rate to 15 per cent now. It was 1.9 per cent only in 2005. The growth has thus been stupendous supporting bank's technology initiatives.
- In order to make priority sector lending more viable for the banks, RBI has removed the interest rate ceiling on all types of loans including small loans by linking it to Base Rate of the banks with effect from April 1, 2010. Thus, there is no preferential rate of interest for priority sector loans except those having subsidy. Thus priority sector lending is competitive and commercially viable.
- Since millions of people are still outside banking system in hinterland, India's cash to economic output ratio is high at 11 per cent and 42 per cent of rural households keep cash savings at home. Despite upsurge in banking network, still hardly 57.1 per cent of the rural households use formal financial institutions while 29.6 per cent use services of money lenders. Thus banks, way forward have a great role to play to phase out role of money lenders who charge usurious interest rates.
- The gross domestic savings rate in India has increased to over 33 per cent in the recent period. Remittances from urban to rural areas are becoming more significant as migration increases. The need for banking facilities - savings, remittances and credit - has increased in rural areas.
- The proportion of rural households, described as low income by National Council for Applied Economic Research (NCAER), has gone down from two thirds in early 90s to 25 per cent currently and those with middle income have increased from one third to 70 per

cent. This represents increase of 50 million middle income households in rural areas which can be well served by banks.

- With the growing rural connectivity and tele-density, a host of non-farm activities are mushrooming in the rural sector. Currently, the rural market accounts for 53 per cent of the Fast Moving Consumption Goods (FMCG) and 59 per cent of the durable market in India. The rural consumers represent more than 50 per cent of the country's 'consuming classes'.

**5. Challenges in Rural Banking :**

- Banks will have to work out effective strategies and improve execution skills to meet the rising completion not only from the existing set of banks but from the New Banks to be provided with licenses in the new Year.
- Majority of 'no-frill' savings accounts opened by banks are dormant due to inactivity and insufficient funds. It will be a great challenge to make the rural consumers to use the banking system for their good. A massive financial literacy campaigns are undertaken in collaboration with Indian Banks' Association.
- As per 59th NSS Survey, households with 2 hectare or less land is accounted for 84% of all farmer households. The percentages of such small and marginal famers who have access to credit is only 46.3%. A large section of farmers is still dependent on moneylenders for their financial needs.
- The major challenge is to bring all farmers into the institutional credit framework. In order to further boost the credit to agriculture sector, apart from a host of initiatives, the Kisan Credit Card (KCC) can be widely used.
- Making customers holding electronic banking facilities such as ATMs, Debit Cards, Internet Banking and Mobile Banking to use them extensively so that manual transactions and eventually cost of operations comes down.
- Providing efficient after sale service to rural clients and ensuring regular maintenance of alternate delivery channels.
- Training the Business Correspondents (BCs) / Business Facilitators to handle the rising customer needs and operation of Point of Sale Terminals.
- Spreading the culture of using banking services in hinterland and making people to use a range of banking products / services for their own good.

**6. Conclusion :**

Competition in urban areas is squeezing bank margins. Competition from existing and potential players will increase. Even though agriculture contributes only 18 per cent of GDP, the rural population constitutes 70 per cent of Indian population and accounts for 60 per cent of consumer durable market. This implies that there is an untapped business potentiality for aggressive banking in the rural areas. The challenge lies in locating these areas and providing them with the financial services through appropriate delivery channels and products. Moreover, with better infrastructure and technological connectivity reaching hinterland, more scope for penetration of banking services has become a strategic option. The consistent growth in key banking parameters more than amply demonstrates the changing trend for good.

The innovations in farming techniques, better irrigation facilities, surge in small and micro enterprises, small business, development of solar and other non conventional sources of energy, better access to formal bank credit and better awareness about local governance has changed the landscape of rural economy. Banks have rightly recognized the emerging opportunities and aligned its delivery model to make the most out of it. With insurance and investment products getting aligned with the bank's distribution channels for better synergy, in the years ahead, banks will further improve its reach to make rural banking an equally high value proposition. Hence, strategically it makes a better business sense for banks to go rural to harness synergy using technology as an added enabler.

(*The author is General Manager - Strategic Management, Bank of Baroda, Corporate Office, Mumbai. The views are personal).

# Monetary Policy and Inequality

Dr. Rupa Rege Nitsure *

Inequality is a cause of concern for all societies that have accepted social cohesion as a moral principle. The question is whether monetary policy can make a difference to the degree of "inequality" and whether it should be mandated to do so.

In the Indian context, the basic functions of the RBI, as defined by the RBI Act (1934) are - "to regulate the issue of bank notes and the keeping of reserves with a view to securing monetary stability in India and generally to operate the currency and credit systems of the country to its advantage". Thus, the RBI's mandate for monetary policy flows from its monetary stability objective. The focus of the above defined function of the RBI is on monetary / income / wealth stabilization rather than on the allocation of economic resources or on redistribution.

In concise words, (as expressed by Tommaso Padoa Schioppa - a well known Italian banker and economist, who was Italy's Minister of Economy & Finance from May, 2006 to May, 2008) - "Monetary policy is focused on stability rather than on efficiency or equity". Empirically, this is the case in most of the countries and hence this should be the starting point of any discussion on the role of monetary policy in addressing inequalities.

At the same time, it may be noted that, this does not imply that inequalities are irrelevant for central bankers. Empirical studies show that there are many ways through which a nation's monetary policy can have distributive effects. The effects of monetary policy on "income inequality" depend on the relative importance of different channels. Because monetary policy is transmitted through many channels, direct and indirect - interest rates both current and expected, credit flows, asset prices, exchange rate, etc., and because households differ in many respects - with regard to socio-demographic factors like age, education; geographic location whether rural or urban as well as economic variables such as income, wealth, employment status, housing status, etc., monetary policy does not affect all households in the same way.

For instance, if expansionary monetary policy raises profits more than wages, then households with claims to ownership of capital, that is wealthier households- will tend to benefit more. Expansionary monetary policy that is sustained over long periods can also affect relative price of capital, which could raise the capital-labour ratio, reduce employment growth and redistribute income from labour to capital.

On the other hand, while higher inflation disproportionately hurts households that have limited access to financial markets and therefore hold more currency, a tighter monetary policy to control inflation can affect credit access of smaller firms that are faced with collateral constraints.

Moreover, many channels through which monetary policy affects individuals in different ways may be at work, and it is a daunting task to disentangle and quantify these channels empirically. While theoretical works have been useful in identifying the various channels through which monetary policy has redistributive effects, the sheer number of channels suggests that the "Net Redistributive Effect" is specific to each economy and even to the specific type of monetary policy action. Unfortunately, studies of these effects have so far focused almost exclusively on the U.S. and their findings may not be applicable to other countries and especially to India, which is characterized by underdeveloped financial markets and a larger extent of financial exclusion. These factors limit Indian households' ability to insure against idiosyncratic

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shocks and magnify the distributional effects of aggregate monetary fluctuations.

Besides, some empirical studies (again in the context of the U.S. economy) have given conflicting research findings. Careful studies (see M. Doepke and M. Schneider, 2006)based on US data demonstrate that inflation hits in particular richer and older households, which hold the bulk of the economy's wealth and whose asset holdings are typically imperfectly insured against surprise inflation. Can this evidence be interpreted as suggesting that higher inflation gives rise to lower income inequality?

It cannot be as we know inflation is particularly harmful to the poorest sections of the population who tend to hold a larger fraction of their financial wealth in cash, implying that both expected and unexpected increases in inflation would make them poorer. Also income from labour and the unemployment of less-skilled workers tend to be adversely affected to a disproportionate degree during business downturns. There is a rich empirical evidence to prove that - a higher inflation rate is accompanied by greater income inequality. For example, a paper by Stefania Albanesi 2007, “Inflation & Income Inequality” that had featured in the Journal of Monetary Economics provides evidence on this aspect for 47 advanced and developing countries.

A large body of theoretical and applied academic literature and the experience of the past decades indicate that monetary policy's best contribution to economic stability is to maintain price stability. Central bankers have seen at first hand the pernicious cost of high and variable inflation of the 1970s and 1980s - the decades characterized by commodity price shocks. According to Lord Edward George, who was the Governor of Bank of England in the period 1993-2003, “during these high inflation episodes, companies and households were unable to budget and plan efficiently; resources were misallocated; long term contracts were avoided for fear that large swings in inflation would end up biting one party or the other. The value of people's hard earned savings was eroded”. Out of that pain and misery emerged a consensus - a hard one consensus - that low and stable inflation was a prerequisite for economic prosperity and stability. The available empirical evidence supports the view of a complementary relationship between price and economic stability at the aggregate level. Price stability appears to be conducive to economic growth, low unemployment and subdued income volatility. Recent developments in the main advanced economies in terms of volatility of inflation and GDP growth confirm this insight and show that there has been no trade-off between the two variables (see Stephen Fahr, et al, 2011).

After years of consensus that price stability is a major objective of monetary policy, the classic debate on growth versus inflation has reemerged in the aftermath of Global Financial Crisis (GFC) in several developed and developing countries including India. However, Indian case is unique in the sense that despite the growing output gap, its inflation has remained sticky and persistent. In fact, in recent years, inflation in India has been the highest within the G-20. As a result, real interest rates have remained negative for savers during most of the post global crisis years leading to a decline in domestic financial savings. Due to widening of inflation differential, India's external competitiveness in relation to its trading partners is getting eroded. Households' demand for gold has been surging as a hedge against inflation and this has exacerbated the decline in financial savings and contributed to a widening of the CAD, rendering the economy and its exchange rate vulnerable to external shocks. The depreciation bias in the currency has increased the balance sheet risks on FX borrowers, creating the potential for financial instability. Household inflation expectations have risen sharply and remained at elevated levels.

While globally the role of “expansionary monetary policy” has become important from the perspective of stabilisation of employment and growth in a business downturn, given the initial conditions facing India at the current juncture, the RBI's ECRSMPF has accorded primacy to bringing down inflation. Anchored inflationary expectations are then expected to provide the latitude to address other objectives without compromising on price stability.

Moreover, India's real problem, as we all know is the reemergence of fiscal dominance. Indian fiscal policy has remained expansionary ever since the breaking out of GFC in 2008-09. Since this year, the RBI has engaged in continuous and very large open market purchases of government debt in order to support fiscal expansion that has focused more on revenue spending rather than capital spending. Due to these actions, India, in fact, witnessed easy money conditions when its CPI-based inflation was in double digits and consolidated fiscal deficit around 10% of GDP.

Also, a large part of inflation in India is politically induced due to the politics of setting minimum support prices or the programmes like MGNREGA that provide a sustained upward push to nominal wages unrelated to productivity growth, huge subsidies for food, fuel, ad hoc adjustments in administered prices, etc. Hence, monetary policy in the absence of a "fiscal discipline" will not be much effective in controlling inflation.

The experiences of Asian economies post the East Asian Crisis of 1997-98 provide several valuable lessons to Indian policymakers. These economies (whether formally adopted the inflation targeting framework or otherwise) had a fairly good success in anchoring inflationary expectations and achieving their specific inflation targets because of improved autonomy of their central banks, higher fiscal discipline, better management of exchange rates and more transparency & openness.

Another relevant lesson for India's monetary authority from the cross-country experience is that significant and persistent overvaluation of the real exchange rate should be avoided at any cost. In a difficult situation, when a country's output growth is slowing and foreign exchange reserves are contracting, both monetary policy and exchange rate policies should be directed towards conserving and increasing foreign exchange reserves and maintaining adequate liquidity in the financial sector, rather than toward stimulating domestic consumption demand.

To fundamentally address India's multiple challenges like - to lower inflation, to bring Indian inflation in line with the inflation in its major trading partners, to reduce the demand for costly & unproductive imports, to raise domestic savings rate and protect foreign currency reserves - a tightening bias in monetary policy has to be maintained. At the same time to take the burden partially off monetary policy and to support real sector activity through exports, a depreciation bias could be created in exchange rate by purchasing foreign exchange at every violent bout of currency appreciation. It is the task of central monetary authority to re-establish an equilibrium competitive exchange rate and switch economic activity from domestic consumption to traded goods.

Given the growth-inflation dilemma for India, a combination of monetary and exchange rate policies could be a better solution given India's serious structural constraints. If excessive reliance is placed on "exchange rate policy" to address the CAD problem, India will face significantly higher inflation through costly imports. If tighter monetary policy alone is used to control persistent inflation, high CAD and capital outflows, etc. there could be inevitable real sector losses at least in the short run.

So a mix of expenditure-reduction and expenditure-switching policies could be appropriate, accompanied by appropriate structural reforms aimed at improving the competitiveness of manufacturing, in general and exporting & import-substituting industries, in particular. In combination, these policy responses might be expected to return the economy closer toward internal and external balance over the medium term.

To summarise, in order to answer the question of whether inequality can be affected by monetary policy, we require more evidence before we can produce robust stylized facts. For this, similar to the central banks of advanced countries, India's Reserve Bank should initiate household finance and consumption surveys to document the extent of wealth and income heterogeneity and the structure of household balance sheets across the various states and regions of India. This would help in understanding issues whether and how different households react to shocks in different ways.

Yet, it is quite clear that by ensuring price stability over the medium term, monetary policy also contributes to broader economic stability.

But during the episodes of severe economic downturns, if the fight against unemployment is carried out giving a free rein to fiscal deficits and relaxing the inflationary constraint, then this approach entails significant social cost. Moreover, elevated inflation will continue to depreciate public and private debt and create more pressures for additional freedom for the government to add to its debt (creating in turn a burden for future generations). India has definitely witnessed this since the breaking out of Global Financial Crisis of 2007-08.

A tighter monetary policy will give desired results to India, if and only if its Government commits to a re-invigoration of the medium term fiscal consolidation by improving the "quality" of expenditure (i.e., correcting the present mix of revenue & capital expenditures) and through tax and subsidy reforms to durably lower fiscal imbalances.

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### Forex Forward Trade Compression

Trade compression is a risk mitigating process carried out by reducing the notional amount of trades outstanding in the market by a process of termination / partial termination of economically redundant trades. By trade compression, members off-set between the trades, which causes significant reduction in their outstanding trades and associated risks.

Members who desire to participate in the portfolio compression exercise have to indicate to the service provider their willingness and acceptance of the defined parameters. The participants generally specify a threshold limit for Mark-To-Market (MTM) loss / gain caused due to the early termination of trades and the trades eligible for early termination based on these tolerances. This involves execution of a mathematical algorithm to arrive at the optimum solution. The compressions are executed as 'cycles'. Generally, the live cycle is preceded by a mandatory trial run and the entire exercise is spread over 4 to 5 business days.

The benefits arising from this new strategy include reduction of counterparty credit risks, operational risks, costs, risk weighted assets and balance sheet size of the financial institutions. Portfolio compression is recognised globally as an important risk mitigating tool. Periodic portfolio compression will eliminate the capital charge for risk weighted assets appearing on the balance sheets of banks / financial institutions.

CCIL, based on the approval of the Reserve Bank has been providing trade compression for Interest Rate Swaps (IRS) only.

CCIL has now been accorded approval for carrying out portfolio compression in USD-INR forex forward trades for members of the segment. CCIL will remain responsible) for settlement of all these trades whether through portfolio compression or at the time of settlement of those trades on maturity.

*Source : Annual Report 2013-14, Reserve Bank of India (RBI).*

# Report of the Asia-Pacific Association of Banking Institutes' International Conference

The APABI conference / executive meetings are organised by one of the APABI members chosen on a rotation basis. IIBF is the host nation for APABI events for the years 2014 & 2015. IIBF decided to organise the conference for the year on the theme of **"Talent Management in Banks"**.

The inaugural session began with an address by Dr. R. Bhaskaran CEO of the Institute who welcomed the participants and spoke briefly on the importance and criticality of Talent Management in the context of a globalised banking environment.

Mr. T. M. Bhasin, President IIBF and CMD Indian Bank, in his address mentioned that Talent Management is a mission critical process which ensures that organisations have the right quantity and quality of people in place to meet their current and future business priorities. Talent Management revolves around sourcing, integrating and aligning, developing, engaging and rewarding, and strategically positioning talent for achieving the goals of the organisation. While highlighting the relevance of the theme, he drew attention to the issues confronting Talent Management in the current scenario, *viz.,* employable skills and education; high wage demands by talented employees; weak employee engagement; high attrition rates; importance of work life balance etc.

Mr. Bhasin pointed out that one of the bigger challenges of the banking industry is financial inclusion. Banking in rural areas requires talented pools that have the aptitude to serve in the rural areas and among the rural masses. Motivating the younger generation to take up rural banking is a big challenge. In view of this, he said; that imbibing financial inclusion mission into the mainstream curriculum of banking education and during induction and motivating such employees at regular intervals is an important need of banking today. He expressed confidence that sharing of experiences and best practices in Talent Management would be a learning curve for the participants.

The Keynote address was delivered by Mr. H. R. Khan, Deputy Governor, Reserve Bank of India (Excerpts were given in the first article of this issue). Mr. Khan released the special issue of Bank Quest.

A key session of the conference was the panel discussion on "Talent Management in Banking and Finance Sector", chaired by Mr. Rajeev Rishi, CMD, Central Bank of India. The other members of the panel were Dr. J. N. Misra, Deputy Managing Director, SBI; Mr. K. Ramkumar, ED, ICICI Bank; Mr. John Wong, Group Head, Transaction Banking, MayBank, Malaysia and Mr. Vikram Tandon, Head - HR, HSBC. Dr. Bhaskaran also participated in the panel.


(Panel discussion on "Talent Management in Banking and Finance Sector" (From left to right) Dr. R. Bhaskaran, CEO, IIBF, Mr. K. Ramkumar, ED, ICICI Bank, Mr. John Wong, Group Head, Transaction Banking, Maybank, Malaysia, Mr. Rajeev Rishi, CMD, Central Bank of India, Dr. J. N. Misra, Dy. MD, SBI and Mr. Vikram Tandon, Head-HR, HSBC).

The theme presentation for the panel discussion was made by Dr. R. Bhaskaran. This presentation was based on a survey organised by IIBF specially for the conference. He stated that while expectations of people joining an organisation have completely changed, one's understanding of what energizes and motivates them, have also changed. Today, a bank is not an organisation of first choice as an employer. It is therefore necessary to know how to engage with the employees. Dr. Bhaskaran elaborated, with data and analyzed the major issues impacting the banking sector. He quoted that in a survey conducted by an MNC firm among CEOs, for identifying issues for the banking sector, HR came at the 23rd rank whereas Risk, Compliance and possibility of changes in policies weighed heavy with the CEO. In fact, to manage these issues one needs good talent and as such HR should have been ranked much higher. It probably shows the disconnect in the top management when they do not consider HR as a vital part of Talent Management.

The panel analysed in detail issues like shortage of talent; the middle management gap; Gen Y being ill equipped to handle the rapid promotions and responsibilities, leadership pipeline issues, etc., and how talent could be attracted and retained in the banking sector. The panellists agreed that talent at different levels needs to be discussed differently. Shortage of talent at the top should be handled differently. At the entry level, the ability of the employee to do the task should be the main criteria.

They also added that the development of talent is largely driven by the top management and it is necessary that a good leadership team is ready to take over when one moves on.

The panellists underscored the fact that while both generalists and specialists are required in the banking industry, specialists may not be readily available in the market and hence, there is a need to groom specialist talent. It is important to have passion and the attitude to learn. There is no end to learning and knowledge renews itself. Till one has the hunger to learn and the willingness to learn, knowledge can be enhanced.

With banking becoming increasingly complex, specialists are the need of the hour. But it is possible to groom general bankers to the specialist role, if they have the ability, the desire to learn and the passion to excel. It is necessary to expose the new recruits to general banking for a few years, appropriately screen them at the middle management levels, then train them in niche areas for a few years when they will be ready to take on leadership responsibilities. After say 12-13 years, a recruit could be totally rounded and ready to assume higher responsibilities.

The panel agreed that there are several solutions to the issues raised and there is no one solution to any problem. Rather, one needs to take informed decisions based on emerging requirements.

The second panel discussion was on “Learning Initiatives”, chaired by Mr. B. Sambamurthy, Director, IDRBT. Mr. R. R. Jumani, Executive Vice-President, TIS, Mumbai; Mr. Nishant Dangle, Vice President, Talent Management & OD - Axis Bank and Ms. Carrie Leung, CEO, The Hong Kong Institute of Bankers, were the other members of the panel.


(Mr. Sambamurthy, Director, IDRBT speaking in the session on “Learning Initiatives”. Panel members are (from left to right) Mr. R. R. Jumani, Executive Vice-President, TIS, Mumbai; Ms. Carrie Leung, CEO, The Hong Kong Institute of Bankers and Mr. Nishant Dangle, Vice President, Talent Management & OD - Axis Bank.)

Mr. Sambamurthy addressed the issues of the changing landscape of the workforce and the workplace. He stated that with the banking business becoming riskier day by day, talent is needed to handle the volatility, uncertainty, complexity and ambiguity (VUCA) at the workplace. Speaking of molecularisation of HR as an alternative, he said that Talent Management lies in bringing the multi-disciplinary teams together at the strategic stage and making it into a solid state; assigning responsibilities and moving from there to the other stages. He added that technology has opened up a new field. The use of social media for recruitment and learning, mobility of the learning processes, analytics and cloud computing can change the way banking is being done.

Mr. Rajesh Jumani stressed that learning and development is one of the most highly ranked practices, followed by coaching, high performance development and on boarding new hires. According to Mr. Jumani, usage of technology will not only increase in all spheres of managing human capital but will soon encompass all aspects of talent management. He added that learning techniques have to continuously evolve through the years to meet new challenges and classroom training / text books may not be adequate to hold the attention of Gen Y to percolate knowledge. Simulation training which encourages active participation could be an alternative. Simulation is best suited for high potential employees, transition management and for developing senior leaders.

Mr. Nishant Dangle elaborated how banks can leverage technology and spread knowledge. He felt that having a talent profile was crucial in terms of having a robust employee data to devise strategies. Technology in the form of e-learning, online tests etc could be used within the organisation to assess employees. The focus of the management should be on an integrated approach instead of a segmented approach, talent analytics and right data if the strategies are to work.

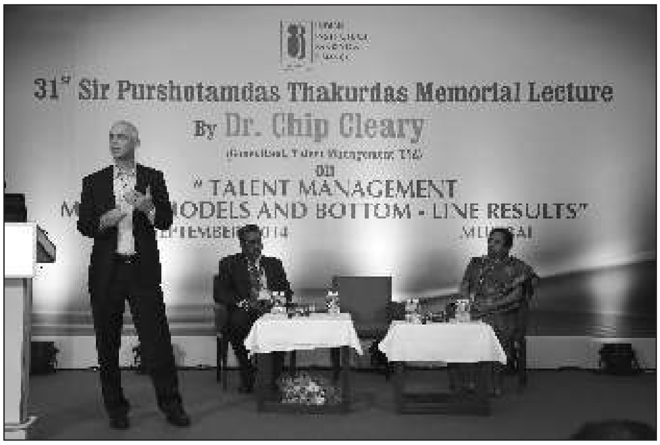
The third session was on “Leadership Issues in Banking”, chaired by Mr. M. V. Tanksale, Chief Executive, Indian Banks' Association. The speaker for this session was Mr. Indranil Roy, Managing Director, Asia Pacific, Korn & Ferry Leadership & Talent Consulting, Singapore. Mr. Tanksale highlighted the fact that leadership issues plague all organisations with a few recurrent issues. Since customer service takes place at the branch level, it is also the point where grooming of leadership should start. He listed out a few areas which need reflection and answers when devising talent management strategies, namely who creates the culture of the organisation? Who can create a vision? How does one create middle management leaders? How to promote employee engagement, ownership? How to ensure a proper connect from the top to the grass roots?


(Mr. M. V. Tanksale, Chief Executive, Indian Banks' Association speaking in the session on “Leadership Issues in Banking”. Mr. Indranil Roy, Managing Director, Asia Pacific, Korn & Ferry Leadership & Talent Consulting, Singapore was a member in the panel discussion.)

Mr. Indranil Roy underlined the fact that quality of leadership has not necessarily improved over the years, in spite of the increasing number of leadership development programmes. An organisation ends up implementing a whole host of initiatives / programmes, spending on intelligence management etc; but without the desired results. He stressed that before embarking on devising any strategy for talent management, the people concerned should tackle some questions concerning mindset and if there is a need for leaders across the organisation. He elaborated on the three mindsets prevalent today - Productive, Adaptive and Generative. Most of the competencies related to productive mindset are centred on results and action orientation. The leadership is at the top. He added that in the adaptive (strategic) mindset, focus shifts to customer; they develop, collaborate, adapt to the situation, are nimble and learn quickly. In the case of an adaptive mindset, leadership is seen, to some extent, across the board. In the generative mindset, it is about business insight and not about getting a bigger share in the market. It is about how a new calibre can be created. Mr. Roy added that it is better if one changes before the environment forces the change.

The conference was well attended with active participation by the audience in all the panel discussions. The participants had several takeaways from the conference.

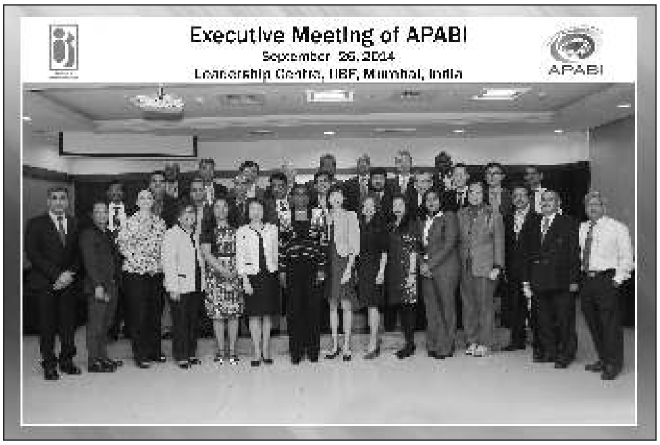
As a part of the APABI Conference, the Institute held the 31st edition of its prestigious annual Sir Purushotamdas Thakurdas Memorial Lecture on the topic "Talent Management - Mental Models and Bottom - Line Results". The lecture was chaired by Mrs. V. R. Iyer, CMD, Bank of India. Dr. Chip Cleary, Consultant - Talent Management, USA delivered the lecture. Dr. Chip Cleary's lecture features as a separate article in this Bank Quest issue.




(Dr. Chip Cleary, Consultant - Talent Management, USA delivering the 31st Sir Purushotamdas Thakurdas Memorial Lecture. Mrs. V. R. Iyer, CMD, Bank of India chaired the session)

**Executive Meeting of APABI**

The conference was followed by an Executive Meeting of APABI on 26th September 2014 at the Leadership Centre, IIBF, Mumbai. The Executive Meeting was attended by 34 delegates from 20 countries. Out of 18 APABI countries, 13 APABI member institutes (represented by 25 delegates) were present in the meeting. Among others, the meeting discussed important issues such as expansion of APABI membership, mutual recognition of qualifications, global education standards board and banking summer school etc.




(Delegates who attended the Executive Meeting of APABI)

**Guidelines for Strengthening the BC Model**

With the objective of ensuring greater financial inclusion and increasing the outreach of the banking sector, the Reserve Bank permitted banks to utilise the services of intermediaries in providing financial and banking services through the use of Business Correspondents (BCs).

As reported by the banks under their financial inclusion plans nearly 2,48,000 BC agents had been deployed by banks as on March 31, 2014 which are providing services through more than 3,33,000 BC outlets. Nearly 117 million Basic Saving Bank Deposit Accounts (BSBDAs) opened through BCs remained outstanding as on March 31, 2014. Though the number of BC-ICT transactions showed considerable increase, it was observed that the increase in the volume of transactions was not commensurate with the increase in the number of BCs engaged and the accounts opened through them. A review of the BC model highlighted that the cash management system followed by the banks for BC operations was one of the major impediments in the scaling up of the BC model.

In order to facilitate the scaling up of the BC model, the Reserve Bank recently issued the guidelines asking bank boards to : (i) review the operations of BCs at least once every six months with a view to ensuring that the requirement of pre-funding of corporate BCs and BC agents should progressively taper down; and (ii) review the remunerations of BCs and lay down a system of monitoring by the top management of the bank. It also directed that the cash handled by BCs be treated as the bank's cash and the responsibility for insuring this cash should rest with the bank.

*Source : Annual Report 2013-14, Reserve Bank of India (RBI).*

BOOK REVIEW

**Name of the Book : Gramin Banks - Revisited**

**Author : Dr. N. K. Thingalaya**

**Publisher : NITTE Institute of Banking and Finance, NITTE University**

**Pages : 216**

**Price : Not mentioned**

**Reviewed by : P. N. Joshi,**

The book under review is a painstaking study of the 58 amalgamated Gramin Banks (Regional Rural Banks - RRBs) by Dr. Thingalaya, the former Chairman and Managing Director of Syndicate Bank, which was the leader in establishing the first Gramin Bank on 2nd October, 1975 (Gandhi Jayanti Day) at Moradabad in Uttar Pradesh. It was rightly named "Prathama Bank" which continues to survive and thrive, while many of the 196 RRBs were eliminated, euphemistically called consolidated. Dr. Thingalaya is emotionally and intellectually committed to the cause of rural banking. He is second to none in the banking industry as regards the in-depth knowledge and nuances of rural banking operations, which are indeed unique.

The present publication is based on Dr. Thingalaya's careful study of the 58 Gramin Banks' annual reports for 2012-13. He has delved into the minute details of balance sheets of these banks and has drawn inferences. He has concluded that mergers have helped Gramin Banks to emerge as commercially viable institutions. 57 of the 58 Gramin Banks were in profit in 2012-13.

The author has studied different aspects of operations of the Gramin Banks and presented his findings and observations in the six chapters in the Book. Starting with the emergence of Gramin Banks and their unorganized, and in some States hurried, spread during the twelve years spanning 1975 to 1987, the 196 Gramin Banks made their presence felt in rural India.

Core Banking Solutions (CBS), the buzz word in banking, penetrated Gramin Banks as well and the author notes, "By now all the Gramin Banks have migrated to the CBS platform, making 17856 of their branches IT-savvy" (Page-26). During the phase of consolidation which commenced in 2005, Gramin Banks opted for sophistication, technological upgradation, ATMs, electronic fund transfers etc. Profitability became an important indicator of efficiency. The author happily observes, "After the first phase of mergers, the financial results of many Gramin Banks have almost silenced the soothsayers who have been predicting the dismal failures of these grass-root level credit agencies" (Page-4).

BOOK REVIEW

The remarkable felicity with which Dr. Thingalaya deals with banking statistics is interesting. He has probed the gender composition of the customer base of Gramin Banks. Out of the 9.76 crore deposit accounts of Gramin Banks, 3.54 crore or 30.4 percent are of female customers. Amount wise, 15.8 percent of deposits are owned by women.

The unique features of functioning of individual Gramin Banks are captured by the author and presented in the publication. The attempts of some banks for inclusive banking are fascinating. For instance, Uttar Bihar Gramin Bank reports, "We have opened Sunahara Sapna Ultra Small Branches in 2543 villages…Through the ultra small branches, it is planning to spread 'golden dreams' among the villagers. And appropriately, the logo of this bank is 'Going Beyond Banking" as displayed on the cover page of its annual report (Page-171).

The chapter on "Harnessing Human Resources" (Chapter-5) is thought provoking. The NIT Award in 1990 brought wage parity, equating Gramin Banks' staff emoluments with those of commercial banks. This put heavy burden on Gramin Banks. The Committee on Banking Sector Reforms headed by M. Narasimhan strongly urged that "there should be no further dilution of the basic feature of RRBs as low cost credit delivery institutions". The author differs with this view and points out "…many microfinance institutions (MFIs) have cropped up, charging exorbitant rates of interest, without hindrance or objections from any regulatory agency" (Page-177). The author's suggestions to improve quality of staff are illuminating. He strongly advocates that Gramin Banks have to be treated as "mature" rural credit agencies. They should continue their journey into rural India in every state, reaching out to the distant villages. 57 out of the 58 Gramin Banks are in profit. Accumulated losses are fast declining. The consolidation has certainly helped (Page-192).

While these observations are unexceptionable, the fact remains that the amalgamated Gramin Banks are shifting their head offices to State Capital / Metro centers and somewhere down the line, the original thinking of "Local Feel" and "Rural Touch" - the rural ethos - is being sacrificed. The Gramin Banks have certainly become commercially viable. But, one is ruefully reminded of that cryptic adage, "Operation successful, patient died."

Dr. N. K. Thingalaya's publication should set all the policy makers, thinkers, scholars and powers that be, to ponder over the points raised, which would help evolve a National Banking Policy. Students of banking will find in this work a fund of knowledge and ideas for further research.

| Books Added to the IIBF Corporate Library | | | |
|---|---|---|---|
| **No.** | **Title** | **Author** | **Publisher & Year of Publication** |
| 1. | Architecture of Innovation : The Economics of Creative Organizations | Josh Lerner | Harvard Publishing School, 2012 |
| 2. | Bankers' Manual : Bank & Commerce Related Statutes in 2 Volumes | Taxmann | Taxmann Publications, 2013 |
| 3. | Banking Strategy, Credit Appraisal & Lending Decisions : A Risk - Return Framework, $2^{nd}$ edition | Hrishikes Bhattachrya | O.U.P. (India), 2011 |
| 4. | Business Law including Company Law, $16^{th}$ edition | S. S. Gulshan & G. K. Kapoor | New Age International, 2013 |
| 5. | Data Warehousing : Fundamentals for IT Professionals, $2^{nd}$ edition | Paulraj Ponniah | Wiley (India), 2010 |
| 6. | HBR Guide to Better Business Writing | Bryan A. Garner | Harvard Business School, 2012 |
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