

2nd R K TALWAR MEMORIAL LECTURE – 2008
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‘HUMAN RESOURCE AS A KEY DRIVER IN INDIAN BANKING’
- by Shri Vinod Rai (IAS), Comptroller & Auditor General of India -

Distinguished Ladies & Gentlemen,

I deem it a privilege to be amongst you this evening and to be able to deliver the lecture instituted after one of the greatest stalwarts on the Indian Banking scene. I am grateful to the Indian Institute of Banking and Finance for permitting me this honour.

2. Shri R.K. Talwar was a visionary. He stood far ahead of his times. He had the farsightedness to perceive that demographic transition in the Indian economy would induce dramatic changes in customer attitudes and behaviour patterns. He knew that the modern day consumer would be discerning and sophisticated in his demand for service. He felt that the youth would become the key driver of consumer patterns and since they were likely to grow more affluent, he stressed on the need to develop service and institutional capability. He realized that banks which were unable to match service levels would suffer severe attrition in their profitable clientele. He thus strived to make banking customer centric and pursued policies well ahead of his times. His report on customer service stands as a testimony of his insight into customer needs and aspirations. His leadership qualities, sincerity of purpose and the capacity to mould careers laid the foundation for the State Bank of India’s organizational structuring which till today has stood the test of market competition. Shri Talwar was a great banker. A great leader. A great reformer. Above all he was an excellent human being whose footprints on the sands of time will remain etched for ever. I feel singularly honoured to share with you my views in a talk dedicated to a true Goliath in Indian Banking history.

3. Before I place before you my thoughts on the subject chosen by me, I need to put in perspective the critical role of banking in India’s economic development over the next three to four decades. The Indian economy has truly come of age. An average GDP growth of about 9% consistently over the last three years is indicative of changes in the structural pattern and not of any mere cyclical phenomenon. The BRIC countries are perceived to be forging ahead at rates much faster than other developed countries. The total domestic credit of these emerging economies is predicted to overtake that of UK, Germany and Japan by around 2020. Nearer home, if the Indian economy has to grow at a double digit rate, Indian banks will have to play a facilitator and pro-active role. The turf will be highly competitive. Demands very aggressive. In short, any bank which fails to adopt the right strategy and maintain its competitive edge will face extinction. Additionally, in the Indian context, financial inclusion is intractable. The challenge of the day is to create innovative business models to encompass a vast segment of underserved customers into an opportunity for growth. Such models will have to be architected, provided regulatory support and incubated to facilitate robust delivery channels and

products. The challenge is daunting. The need critical. Our response has to match the challenge. I sincerely believe that if the customer has to come centre stage it is not mere technology but the human resource, operationalizing this technology in the Indian Banking firmament, which also has to undergo a paradigm shift. Hence, the focus today on HR being the key driver.

4. You will recall that during the period from early 1970s through mid-1990s, Indian banking witnessed unprecedented footprint expansion. It entered new areas penetrating the rural hinterland of the country. To facilitate such growth a large number of qualified people were recruited as clerks and officers from the market. Rural banking, agro financing, small industry & small business financing were the new areas bankers targeted. A breakthrough was achieved. Exclusion however continued to dominate. What is to be noted here is that all through this era of large scale vertical and horizontal expansion, most of the banking operations were carried out manually and banking technology was yet to arrive. Financial sector reforms, initiated on the recommendation of the two Narasimham Committee Reports, helped Indian banking vindicate itself in terms of its performance, productivity, profitability and customer-centricity. It has successfully met the challenges of prudential norms under BASEL-I and has contained the growth of contaminated assets. It has also considerably brought down the non-performing assets and improved asset quality. The Indian banking sector is also among few banking sectors in the developing countries to have absorbed and used modern Information Technology for its operations and for customer service. It has also admirably repositioned itself to the challenges of the competitive environment.

5. The reforms process has been across sectors: diversified products, asset quality, prudential norms, technology, risk management, aggressive marketing of services and human resources. While far reaching reforms have been set in motion and largely implemented in areas like financials, asset quality, prudential norms & technology, the gap in skill sets, scale and scope of our human resources is substantial. If so, what are the critical HR issues confronting much of the Indian banking sector. Foreign and the new generation private sector banks have entered the market with certain distinct advantages like high technology, younger and talented staff with newer skills and competencies, a market related compensation structure, high marketing orientation, newer methods for acquiring and retaining customers, and a lean organization structure. The older banks – which together commanded over 75% of business- had to cope with the competition with a huge baggage of disadvantages. First generation technology, archaic systems and processes, unwieldy organization structure, older staff with poor marketing and technology skills and a highly regulated and centralized HR system continues to dominate. The newer banks could entice customers from the older banks largely due to their high technology and innovations in products and services. Older banks could also not contain the flight of talent to the newer banks on account of attractive compensation structure and better career progression opportunities offered by them.

6. The Narasimham Committee had very rightly emphasized on the imperative for far reaching reforms in the area of organization & methods, systems improvement and issues related to human resources. Its second report laid renewed emphasis on parallel

reforms in HR. No doubt, we have taken action on a few - like abolition of BSRBs, implementation of VRS, granting of managerial autonomy to Public Sector Banks etc. yet much remains to be done.

7. The question to be asked now is: If Indian banking is to go global and graduate to world class standards in the matter of customer service, use of technology, provision of financial solutions, operational efficiency, productivity and profitability, what should be our HR agenda over the next few years? Now that many Indian banks have deployed high technology over a large number of their branches and are well on their way to get optimum value out of their investments, what is it that will give Indian banking a competitive edge and ability to compete globally? Another paradigm shift one can see is that many banks are emerging as financial powerhouses, much beyond the traditional borders of banking. They are aggressively participating in the retail revolution, SME financing, infrastructure financing, M&A financing, cross-border financing and the like. Are our people being groomed for these high end areas of banking? Success in the future will possibly lie in service differentiation and front office efficiency of bank branches. Innovations in products and services, business models and delivery channels would also contribute to long term success of the organizations.

8. What is the role of HR in this changing landscape of Indian Banking? How do we optimize the use of technology on which we have spent huge sums of money. The recurring and replacement expenses will move northward. Are our people adequately skilled in the newer realms of banking? How do we recruit, reward and retain talent? How to retrain our people in the newer skills and how do we make our people “unlearn” many of the past skills? How do we train our people to achieve higher service delivery standards? Are our people well trained and groomed in soft skills, in order to deliver superior customer experience? How do we create a large band of enterprising managers? How do we improve risk taking abilities of our managers and officers? How do we cut delays, speed up the decision making process and improve our response time? Are our HR policies and systems in tune with the demands of the time? On the leadership for critical positions and different levels like operational, business and strategic, have we institutionalized a system to ensure uninterrupted supply? How do we ensure smooth succession for critical roles in our banks? What are the training and development initiatives that we need to take to continuously train, groom and provide leaders for new age banking? In essence, what reforms do we have to bring about in our HR Policy framework, which will help catapult Indian banking to world class level?

9. No doubt, Indian banking has come a long way in its modernization aspirations. Yet, it will be clear to a discerning observer that our banks are too small in size and scale, by global standards. We have also to catch up in service delivery standards, innovations in products and services, corporate governance issues, global best practices, structured financial solutions, M&A financing and such other high end provinces of banking. Another perspective I would like to share is that our efficiency, productivity and profitability ratios do not compare well even by Asian standards. Our Risk Management systems need to be strengthened to match global standards. We have to be geared to meet these challenges, which no doubt seem to be daunting.

10. I have tried to raise these questions in order that the banking community can collectively ponder over them and lay an agenda and a roadmap for ushering in far reaching reforms in the HR area, concomitant with improvements in related areas like organization, processes, technology use, etc.

AGENDA FOR HR REFORMS:

11. I now propose to set out before you an agenda for reforms in HR specifically targeting our inadequacies. I have had the privilege of being closely associated with the Financial Sector of the country at policy level, in the government for some years. I do not have the professional skills that all of you possess. I however have been a key observer of the working of the banking sector for the last few years and have felt that the vast potential of the human resources in the banks can be harnessed with imaginative and innovative new age HR policies and practices. The thoughts I am sharing with you here are a by-product of this experience and may be more relevant to public sector banks whilst applicable to Indian banking as a whole.

VALUE OF INTANGIBLES:

12. I would like to begin the discussion with the findings of a Brooker Study on the increasing relevance of “intangibles” for an organization’s performance. The world is shifting from an industrial to a knowledge economy in which the value of intangibles is increasing: the value of such intangibles in a typical institution increased to 68% in 1992 from a mere 38% in 1982. “Today, more particularly in the service sector, sales turnover is directly proportional to the level of customer confidence in the organization, which is further impacted by effective customer service and customer relationships. In order to have a cutting edge in this area, the right kind of technology is not sufficient – rather a proper organizational climate and the right PEOPLE COMPETENCIES BECOME MORE CRITICAL.” As we all know, banks, being service organizations, are impacted by many intangibles like trust, confidence, reputation, image and integrity. Increasingly, the “People” factor is becoming a key determinant of success.

ROLE OF BOARD AND CEO:

- ❖ Despite being burdened by the legacies of the past and with no immediate labour reform in the horizon, Indian banks have now to make HR the central theme of their organizational transformation exercise. This alone can bring differentiation and competitive edge in the race for global banking standards.
- ❖ This makes role of CEO and Board very crucial.

HR would need to be strategically aligned and connected with business. A study of financial analysts and portfolio managers cited by Ulrich D & Others in their book HR SCORECARD: LINKING PEOPLE, STRATEGY and PERFORMANCE” {Harvard Business School} indicates that 35 % of investment decisions are determined by non-financial information such as:

i] Execution of corporate strategy, ii] Management credibility, iii] Quality of corporate strategy, iv] Innovation.

Given the criticality of HR issues, they need to be debated at Board level. Boards of banks now need to spend quality time on formulation and deliberation of strategies involving leadership development, succession planning for critical levels and specialized areas, performance standards, compensation and rewards management, redesign of organization structure etc. They should design and put in place a written policy and a blueprint for HR Agenda for short term and long term. This would provide direction and focus in undertaking various interventions in an integrated manner. The CEO should place HRD as one of the key areas to engage his attention and this, I suggest, should be non-delegatable. It will then send right signals across the organization. I would also like to suggest that at a time when Public Sector banks continue to dominate Indian banking, technology-enabled transformation and M&As appear inevitable. The CEOs should spearhead the transformation journey, champion HR functions to reduce people's anxieties, and simultaneously seek higher levels of productivity and performance. I do acknowledge that such M&A activity has not been possible in the immediate past due to the prevailing political economy. Nevertheless, such major policy changes do need longer gestation periods for acceptability. The time seems to be ripe now and innovative approaches will certainly yield results.

PERFORMANCE APPRAISAL AND PERFORMANCE MANAGEMENT SYSTEM:

- The well known premise is that every employee is required to, and obliged to, contribute to the purpose and business objectives of the organization. The organization must provide an enabling environment and adequate resources towards this. For an organization to be successful in both good and turbulent times, every employee's contribution should be measurable and evaluated. We need to assess critically whether our current system is yielding the desired results and what improvements could be brought about, in tune with changing times.
- HR should focus on introduction and implementation of a Performance Management System, based on modern scientific models, with a view to improve transparency and accountability for performance. We have suffered far too long, from a truncated and outdated Appraisal system, with very limited objectivity and credibility. I recall seeing the dossiers of executives seeking promotion to very senior levels of a very large bank. Indeed the best performers had a rating of 99 on a scale of 1 to 100. Though rather liberal, one could live with it. But the rather intriguing phenomenon was that the average performers, who had plateaued in their leadership and competence skills, had been uniformly rated at 97! Such assessment standards need to be drastically overhauled and a grading

system reflecting performance, installed. For senior levels, a 360 degree appraisal is very important.

LEADERSHIP DEVELOPMENT:

- We have discussed about the challenges of new age banking. The Indian banking sector- more particularly PSBs, is critically poised where many challenges have to be addressed. We need leaders for future banking- leaders who have a strong and wide vision; who are quick and effective thinkers: sound decision makers and have strong relationship skills. PSBs, in particular, need to institutionalize the process of leadership grooming as a continuous organizational process. A well architected and scientifically devised process, both at operational and strategic level, for Leadership development and creating a pipeline of leaders for various critical levels and specialized areas is an imperative. This can no longer be delayed. The Defence Services, for the kind of role their officers have to perform, have institutionalized such models. Modern scientific tools like Assessment Centres need to be used for evaluation, selection and development of senior cadres for leadership roles. Alliances with reputed management and leadership development institutes could be considered for formulating strategy and action plans. Motivation and reward mechanisms for star performers and innovators could be a valuable anchor in promoting superior organisationwide performance. Innovative variable pay schemes that are linked to business performance could be considered. It has often been argued that among PSB's there is very little flexibility to provide variable compensation packages. Nevertheless, it needs to be recognized that the Government has been uncharacteristically liberal in permitting boards of banks an autonomy package which inter-alia provides for performance linked incentives. This package does not profess to be comparable to the market. Yet it is a step forward. Within the overall envelope of a public sector pay structure, it leaves much to the innovative schemes that boards devise to incentivise the staff structure. Incentives do not come as monetary compensation alone. There could be a combination of schemes. Hopefully, once the beginning towards a performance linked structure has been endorsed, further liberalisation of the process can be anticipated. Banks have to continuously design schemes to motivate performers and CEOs must regularly address these with assessment of the strategies at the Board level.

HUMAN RESOURCES MANAGEMENT SYSTEM (HRMS) :

- There is also a need to develop transparency in HR administration. Implementation of a well designed and web based HRMS system could help improve transparency. A comprehensive data base on the employees, accessible on real time basis to the decision makers, could help in effective decision making at reduced cost. Age profile, skill profile,

competency profile, mobility profile, special talent/achievements etc could be part of this data base, besides the personal details.

- Besides providing a 360 degree view of people and their functions, the web-enabled system can help reduce costs of HR administration and improve transparency in HR governance. It can also provide employees self-service functionalities, leading to increased employee involvement and motivation. Various sub-systems of HR can be integrated seamlessly with the use of technology and thereby, reduce the scope for aberrations and deviations.

KNOWLEDGE MANAGEMENT AND LEARNING INFRASTRUCTURE:

- Installation of knowledge management system and e-learning system for continuous training and retraining of the people could help enhance skills and competencies. In this era, when one is required to imbibe new skills at the speed of thought, class room training will have to be supplemented by self-service learning tools. The role of HR is to create a learning climate and an enabling infrastructure, - through conventional and new age tools. A clamour for knowledge and information must be seen within an organization. An organization whose people have enormous appetite for learning will have greater chances of success in the current era and this precisely has to be on the agenda of HRD. The knowledge management platform, widely prevalent in software organizations, is perhaps a good example of how intellectual worth can be enhanced through better innovations, and greater knowledge enrichment.

MANAGEMENT OF DIVERSITIES:

13. Banks, and in particular public sector banks, have in course of time grown in rural, urban and metro areas having different culture and ethos. Within the organization there exist diverse groups of people. Issue of diversity management and creating a unified change spirit could be yet another agenda for HR function. Managing large number of women employees - now about 15% of the workforce-and giving them opportunities to contribute, even while ensuring proper work-life balance for them, itself could be a mammoth agenda. This group is highly talented and the issue is, what is the organization doing to harness its full potential? I also observe a very adverse gender bias in top echelons of PSBs. We can have special HR strategies for development and career progression of women employees. Similarly, we have a large number of socially disadvantaged category of employees. We can devise special development and grooming strategies for them. For high performers, we need to continuously innovate different models, fast-tracking their growth. Retaining talent and that too, high performers would itself pose a new type of challenge. HR would have to design appropriate retention strategy in respect of the star performers and new recruits. In essence, in a very discreet and tactful fashion, every organization may need to have a “fast track” mechanism for its

best performers with a well calibrated skill enhancement and career progression plan. Modern HR policies do cater to such schemes with distinctly assessable rewards.

FRONTLINE EXCELLENCE:

14. Frontline employees will always call the shots. It is well known that customers' personal experiences with the Bank far outweigh the Bank's own communication to the customers. The frontline employees are a brand for these customers. It is the attentive, empathetic and customer-focused employees at the frontline who bring the brand to life for customers during each service encounter. Given this reality, it is extremely important that the frontline is well trained in soft skills like communication, team-building, trust, empathizing etc. In PSBs most employees were recruited about 20 years ago. There is a colossal task before boards of such banks to hone up the soft skills of the frontline. That is for the sophisticated urban customer. In the Indian context the vast majority of rural, poor and disadvantaged financially excluded strata of society pose another challenge. This vast multitude do not possess the confidence to enter a modern bank branch. He feels intimidated by technology. His requirements are meager. He has to be provided the confidence and guided to approach a formal financial institution, apprise him of its advantage over the otherwise easily accessible informal channel and handhold his traversing this huge and daunting hiatus for enrolling in a bank.

15. With technology in place, much of the banking operations and processes at branch level are carried out through technology. This paradigm change itself brings about a question of proper man-machine mix and transition from banking processes to service delivery issues. Many staff would be rendered redundant and they would have to be reskilled and redeployed for alternate objectives. As a service organization, what would differentiate one from the other is the standard of service rendered on consistent basis. With technology at the branches, our people at front office would need to be groomed in skills to engage the customer in business conversation and advise him on financial matters. Banking skills alone are not sufficient for this. The training system of banks has a challenge to transform these employees, through training into sales and service agents. This is a huge agenda, as over 50% of PSB staff would have to be coerced in this programme. Banks may think of seeking collaboration of reputed marketing-training agencies for this.

THE ROLE OF MICRO FINANCE:

16. The experiment of micro finance in India has met with success. Self help groups and NGOs have expanded the reach of Banks. They provide credit at the doorstep to the rural poor though at rates higher than formal channels yet at rates far more competitive than the informal channel. Peer pressure being high, the rates of default in this sector is low. Whilst Nabard, RBI and the Government are engaged in providing a regulatory and development environment in this sector, its managers and foot soldiers need to be skilled appropriately. Credit linkage of such NGOs is taking place. However, the cornerstone of this movement is credibility. Its personnel have to possess compassion in their approach. They should have the capacity to leverage technology and more importantly, familiarize

the rural milieu with it. Having constraint of infrastructure, this sector will have to be provided training facilities possessed by large banks. Nabard may have to take the lead in drawing up skilling curricula, coordinating and developing available facilities among institutions and ensuring adequate training cover. The skill sets of practitioners in this sector are quite contra-distinct from formal banking and an appropriately architected policy needs to be put in place at the earliest.

PROFESSIONALISATION OF HR:

17. Professionalisation means long term commitment and use of specialized knowledge. On this parameter, we need to build, at each bank level, HR functions that contributes to business value. Banks being large and geographically dispersed organizations require highly decentralized HR function with centralized control.

18. Banks have to possibly distinguish and separate routine and maintenance functions such as: transfers, promotions, postings & placements from developmental functions like capability building for current and future banking, performance management system, potential development, succession planning, newer methodologies in training including e-training and also development of learning infrastructure, for different segments of staff. Since developmental function is a long term agenda quite often urgent maintenance functions drives it to the backburner. Such a tendency needs to be overcome. I am of the considered view that banks have to professionalize development functions, so that HR can contribute to business value.

19. The manufacturing and services industries in the country and large corporates in India have highly qualified HR professionals who are driving transformation including mergers & acquisitions. They are facilitating these through modern HR policies. Many of these companies have professionally qualified HR executives from reputed institutions like IIMs, XLRI, Tata Institute of Social Sciences, to mention a few. These young men and women bring specialized knowledge to undertake in-house research, HR climate survey and initiate methodologies for potential development, assessment centres, performance management and learning infrastructure. They can also keep track of the best practices in HR and suitably adopt them. With their knowledge and exposure in behavioral sciences, they are better equipped to organize employee engagement programmes and will also be able to liaise with professionals in the field.

20. I would now like to deal briefly with the “Quality” issue. No doubt, Indian banking has performed well in recent times by quantitative parameters. In the matter of Quality, we have yet to travel a long distance to catch up with global standards. By Quality, I mean quality of customers, of assets, of people, of financials, of service, of governance, and the like. Worldwide studies have shown that it is the “Quality” which is the source of all profits in the long run on a sustainable basis. Creating high quality consciousness, pursuing six sigma, upgrading customer experience, would all have to be engineered by HR function through appropriate interventions backed by an HR Policy.

21. It is a well known fact that a happy and content staff team attract and retain customers. Many customers' complaints received in bank branches revolve around indifference, apathy, rude behaviour, unhelpful attitude and mishandling of the customer. Quite often, many such complaints are against officers. This in itself is sufficient ground for a huge training agenda for attitudinal reorientation of staff towards customers. This has to be a continuing phenomenon and remain uppermost in the minds of frontline staff.

22. HR could also mount a HR Climate survey, and identify restrictive practices which are still prevalent and come in the way of good customer service and management so as to devise a firm policy on this aspect.

ROAD AHEAD:

23. We all know that for today's and tomorrow's banking, yesterday's methods, structures, policies, technologies and most importantly, yesterday's mindsets will be most inappropriate. Technology is also compelling us to reinvent ourselves, our methods and our way of doing business.

24. Our collective aspiration is to emerge as world class banking organizations. At the national level, we are all aspiring to see that at least two to three Indian banks acquire global size and scale and find a place in the top 100 banks of the world. To become global in character, it is necessary that we have global level technology, global HR policies besides financials and global best practices.

25. The agenda for HR Reforms is of a tall order. The next phase of challenge for Indian banks is clearly "People Challenges". Indian banking will be doubly blessed in its journey towards global banking, when it takes up People Challenges with a sense of urgency and enthusiasm.

26. With India emerging as a Knowledge Power, Indian banking and Indian bankers are bound to receive world attention and recognition for their banking acumen and best practices. Some of the best bankers globally are today from India.

27. To conclude, I would like to stress that the "People" factor will surely come centre stage and play a critical role in this evolution. We can procure best technology, in terms of hardware and software, but it is the man behind the machine who makes the difference. These are the men that we need to target. We need to reengineer their skill sets, ignite their minds towards customer and product priorities and convert our human capital into high value factors of production. The material is available. It has either to be reskilled or exposed to a global curricula. Time is of essence. To compete with the world we have to run faster than the fastest. India today is poised at the threshold of an economic superpower status. To make it cross the threshold and sustain its continued supremacy in the Financial Sector, there is no better human resource endowment than the galaxy of professionals gathered here today. You can help make the difference. You can carry forward the India story. You are the thought leaders of this sector. The leadership

you have provided has been impeccable. All that is required is a renewed impetus in a direction which will help exploit the vast human potential of this sector.

I thus deem it a privilege to place my humble views on an issue so critical, to an assembly so august, to further an agenda so fundamental and, whose time has come.

I thank you for your indulgence.

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