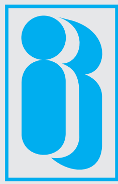

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HRM in Banks

एक छोटे निर्यातक होने के नाते
आप प्रभावित होते हैं कहीं ज्यादा.

हम जानते हैं कि छोटे निर्यातक बहुत कम मुनाफे पर काम करते हैं. इस लिए छोटी से छोटी घटना जैसे कि विदेश में स्थित ग्राहक द्वारा किसी ऑर्डर को रद्द किया जाना या भुगतान न करना आपके बिज़नेस पर भारी प्रभाव डाल सकता है. दूसरी तरफ जोखिमों पर निगरानी रखने, ग्राहकों के विश्लेषण करने तथा बीमा समझौते की रुपरेखा तैयार करने के लिए खर्चा भी अच्छा खासा होता है और जिसे वहन कर पाना मुश्किल लगता है. इसलिए ई सी जी सी का ऋण बीमा किसी एम एस एम ई के जोखिमों को संरक्षित करने तथा नकदीकरण की बाधाओं से बचाने के लिए एक सबसे अच्छा विकल्प है. अब आप मार्केट की उठा पटक के डर और भुगतान न होने की चिंताओं को भूल कर उत्पाद तथा प्रक्रिया नवीनताओं में बेहिचक निवेश कर सकते है. छोटे से छोटे जोखिम को भी चिंता का कारण मत बनने दीजिए. आज ही हमसे संपर्क कीजिए.

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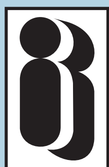

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ध्येय

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

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

We carry a variety of articles in this edition of Bank Quest, yet the main focus is on HR issues in banks.

The first article in this issue is on 'The Future of financial regulation - Some Reflections' by Dr. Rakesh Mohan who delivered the 4th R. K. Talwar Memorial Lecture at Mumbai. The speaker has deliberated at length on the fundamental reasons for the recent financial crisis which has affected all countries of the globe and pinpointed the real reasons for the same. He narrates in great detail the concern of the various regulators worldwide and also their thinking on the modalities to be applied to regulate the financial markets, in future to ensure that such a crisis does not get repeated. He discusses the need for dis-incentivising financial activities than considering caps on the remuneration packages for the players, advocated higher capital requirements, contra cyclical provisions for OTC activities. The author points out the importance of banking regulator and discusses the current topic on the need or otherwise of a centralised super regulator. He has cited the example of UK where the organisation which was given the responsibility of regulating the financial markets is being dismantled and the responsibility is being given back to the central bank. The emphatic conclusion that 'regulators must regulate and supervisors must supervise' clearly shows that the central banks will be more active in the supervisory front in future.

The second article in the issue is about 'Nationalization of banks - An anchor for financial inclusion' by Dr. K Srinivasa Rao. In this article, Dr. Rao has substantiated that the act of nationalization of banks way back in 1969 has contributed substantially towards achieving inclusive growth within the country. He uses data culled out mainly from the publications of RBI to underline the fact that banking developments after nationalization have paved the way for penetration of banking into rural and hitherto unbanked areas. The article goes on to add that, despite nationalization and massive branch expansion, the challenges of financial inclusion could not be fully met by the banking sector alone and there is need for identifying new and untried delivery channels to achieve full inclusive growth in the country.

The third article is on 'Managing work and the new work force - challenges for today's manager' by Job Xavier. In this article, the author has listed out the composition of the new generation employees in banks and other sectors and their expectations from their employers. The new generation, called 'Millennials' are having a mind-set which is markedly different from that of the older generation and special efforts are needed to tackle the talent management issues of such a generation. The possibilities expounded in the article are indeed challenging and will call for out of the box thinking from the thought leaders to meet the ever widening expectations. Managing the career and life aspirations of Millennials will be a daunting task but can be faced if sufficient effort is made to understand their thinking and aspirations.

Fourth, Fifth and Sixth articles are contributed by Accenture. In fact, the contents of those articles were elaborately discussed during the 10th H R Conference organised by the Institute in Mauritius about which a separate write up is given in this issue. The first article on 'Leveraging organization structure to drive predictive and productive growth' by Deepak Malkani and Sunil Kumar Tadepalli, deals with the important aspects of organizational designs to meet the growth strategies envisioned by different organizations. Considering the fact that changing a

well entrenched organization design is fraught with unforeseen complications and probably disruptions the authors caution that an objective assessment of the need for each organization is of utmost importance to achieve eventual success and they call for a holistic look at organizational design to translate organization visions and strategies into reality.

The next article by the team from Accenture is on 'Innovative talent sourcing - Strategies for the future'. India being one of the countries with youngest population in the world which is forecasted to be around 31 years by 2020, talent sourcing will emerge as one of the greatest challenges in the coming decade. Authors have tried to take a peep into the future scenario by asking some relevant questions on talent sourcing. The current strategy of poaching the talents available elsewhere may not be rewarding for the players involved if the trend all around is any indication. So the authors exhorts one and all by suggesting that it is an opportune time for organizations to get a deep insight into India's talent demographics and fundamentally re-think their talent sourcing strategies.

The third article from the Accenture group is on 'Using Crucible experiences to develop leadership potential' by Deepak Malkani, Jayesh Pandey, Shammak Banerjee. Organizations all over the world are beset with the problem of developing sustainable leadership in the respective organizations. Leadership development institutions are set up in various parts of the country to identify, nurture and groom leaders of the future. In this article, the authors have elaborated on six key elements of a leadership development process and have also outlined through a case study the impact of the ILDP (Individual Leadership Development Plan) developed by them. Accenture has been focusing on leadership development programmes and all the three articles covered here give crucial inputs in the areas of talent and knowledge management in the years to come.

The seventh article is on 'Marketing of Export credit insurance' by V. Viswanathan, which is in two parts. Part A explains the importance of Credit in international trade in the current times and how any exporter can increase his export business by offering larger credits and longer credits to its customers as well as distributors, penetrate hitherto untapped markets and also gain advantage of discounting in prices from his own suppliers domestically looking to the increased size of its purchases. It also explains as to how an exporter can protect himself against any commercial risk of non-payment by the overseas importer. In part B, the author has detailed about the organisation of ECGC and explains lucidly all the facilities they offer to various units engaged in foreign trade. He also covers the challenges involved in marketing these products to the actual exporters.

The eighth article in the journal is on 'Talent Management in PSU banks' written by the undersigned and published earlier in the IBPS magazine. This article aims to take a look into the talent management issues in public sector banks. While detailing the HR processes in PSU banks, the article also gives a comparative picture with that of private sector banks. While expounding the problems of talent management issues in detail, the article also suggest measures to overcome the challenges in this area. The article recommends unshackling some of the constraints in the HR function of the PSU banks. Given the current gap in talents and number of people with experience, the immediate task of the banks will be to train and nurture the existing talents.

As already indicated, the Institute had organised the Bank HR conference at Mauritius from 15th to 18th February, 2010. The proceedings of the conference is given in this Bank Quest. The group discussions by the participants throws light on the immediate priorities of banks.

This issue carries a book review on 'The Mckinsey Engagement - A Powerful Toolkit for More Efficient and Effective Team Problem Solving' and an article in Hindi dealing with the challenges before the micro finance institutions. Some important excerpts from the annual report of BIS are also included in the issue.

We are sure that the variety of inputs provided in this Bank Quest will give enough food for thought to our readers. We solicit your suggestions and feed back for improvement.

(R. Bhaskaran)

The Future of Financial Regulation : Some Reflections

Dr. Rakesh Mohan *

The world experienced the most severe financial and economic crisis in 2008-09 since the Great Depression. Although the crisis originated in the sub-prime mortgage market in the United States, it then spread to Europe and later to the rest of the world. The speed of the contagion that spread across the world was perhaps unprecedented. What started off as a relatively limited crisis in the US housing mortgage sector turned successively into a widespread banking crisis in the United States and Europe, the breakdown of both domestic and international financial markets, and then later into a full blown global economic crisis. Interestingly, however, although the emerging market economies (EMEs) in Asia and Latin America also suffered severe economic impacts from the crisis, their financial sectors exhibited relative stability. No important financial institutions in these economies were affected in any significant fashion. So this crisis should really be dubbed as the North Atlantic financial crisis rather than as a global financial crisis.

In any case the fall out of this financial crisis could be an epoch changing one for central banks and financial regulatory systems. The crisis occurred after an extended period dubbed as “The Great Moderation”: a period characterised by high global growth, huge financial sector expansion and low product price inflation, but accompanied by steep growth in monetary aggregates and asset prices, along with volatility in exchange rates. The prevailing monetary policy orthodoxy was inflation targeting or variants thereof, and light touch financial regulation. The price that the world has paid for the practice of such narrowly focused monetary policy, inadequate macroeconomic policy coordination, and neglect of financial regulation and supervision has been huge.

Dimensions of the Crisis

I focus first on the severity of the crisis. From an average annual growth rate of 4.1 percent between 2001 and 2008, world GDP growth fell to -0.6 percent in 2009. The unprecedented globally coordinated monetary and fiscal efforts launched after the Lehman episode have largely succeeded in averting the threat of an economic depression. Led by the rapid recovery of emerging market economies (EMEs), world GDP growth is now projected by the IMF (in its July 2010 World Economic Outlook Update) to recover to 4.6 percent in 2010. That the world was taken by surprise by the developments in 2008 and 2009 is shown by the fact that as late as July 2008 the IMF expected world GDP to grow by 3.9 percent in 2009. The reversal in expectations was so sudden that exactly a year later the forecast had been reversed to -1.4 percent for 2009. Similarly, the growth forecast for 2010 was as low as 1.9 percent in April 2009; the speed of the recovery now taking place in 2010 was also unexpected. The world economy has been beset with extreme uncertainty during the recent crisis period.

Global credit write downs were estimated by the IMF at US $2.8 trillion in the October 2009 Global Financial Stability Report (GFSR), but have now been revised to US $ 2.3 trillion in the latest GFSR update (IMF, 2010c). Despite the ongoing recovery the overall costs of the

* *Professor in the Practice of International Economics and Finance and Senior Fellow at the Jackson Institute of Global Affairs at Yale University, and non resident Senior Research Fellow at the Stanford Center for International Development, Stanford University.* *The preparation of this paper gained significantly from the many discussions held over the last few years with Y. V. Reddy, V. Leeladhar, Shyamala Gopinath and Usha Thorat, both before and during the crisis. I gratefully acknowledge the training I received from Anand Sinha, Prashant Saran, P. R. Ravi Mohan, T. Gopinath and Muneesh Kapur in the Reserve Bank. The paper has also benefited from the Group of Twenty Working Group 1 report on “Enhancing Sound Regulation and Strengthening Transparency”. The responsibility for views expressed is totally mine.*

crisis have still been massive. First, households have suffered a severe reduction in overall wealth due to the marked decline in property prices. Second, fiscal expansion of the G 20 countries, relative to their 2007 levels, is of the order of about 6 percent of their GDP in both 2009 and 2010; US fiscal expansion is much higher at just under 10 percent of its GDP. Third, in containing the emerging North Atlantic financial crash in 2008-2009, the total support given to the financial sector in advanced economies was of the order of US $7 trillion, including capital injections into financial institutions by governments, purchase of assets by treasuries, central bank liquidity injections and other upfront government financing, though some of these expenditures will of course be recovered (IMF, 2009b; IMF, 2010a).

Fourth, despite this massive effort, unemployment levels still continue to be in the region of 10 percent or higher across the developed world and are expected to remain at such high levels for an extended period of time. As assessed by the IMF, output levels in advanced countries will never go back to the pre crisis trends so there is a very large permanent output loss. Fifth, the average debt to GDP ratio for advanced economies is expected to increase to around 120 percent by 2015, implying very large long term debt servicing costs and crowding out of private activity (IMF, 2010a). Of course, this expected increase in debt cannot all be attributed to the financial crisis; some of it is certainly due to ageing and the associated health and pension costs that are expected.

Sixth, we are also witnessing extended volatility in the exchange rates of major currencies and fragility in leading capital markets, leading to extended economic uncertainty and possible volatility in capital flows, with implications for financial stability.

So the cost of this crisis has been massive for the global economy, and its fiscal effects will be felt for some time to come.

It is therefore very important that we identify the causes of the current crisis accurately so that we can think of and act on the longer term implications for monetary policy and financial regulatory mechanisms. Consequent to the financial crisis of 2008-2009, along with the coordinated fiscal and monetary policy actions that were taken to avert a major crash, a comprehensive re-examination of the financial regulatory and supervisory framework is underway around the world. While some degree of normality has returned to global financial markets in 2009-10, in view of the very heavy costs that the world has had to pay, it is essential that governments and regulatory authorities do not fall prey to the natural temptations of complacency that such return to normality could entail.

Against this backdrop, I first provide a brief interpretation of how the crisis arose in terms of shortcomings in the extant practice of monetary policy and financial regulation, and then attempt to analyse the emerging contours of regulation of financial institutions with an emphasis on the emerging challenges and dynamics.

What Went Wrong with Financial System?

Accommodative Monetary Policies

It is generally agreed that a variety of factors led to the crisis -- developments in the subprime sector, excessive leverage in the financial system as a whole in recent years, lax financial regulation and supervision, and global macro imbalances. What I have been particularly interested in is the role of lax monetary policy in the advanced economies, and particularly that in the United States. In examining the waves of capital flows to emerging market economies that have occurred over the last 30 years, it is noteworthy that almost each wave has been preceded by loosening of monetary policy in the advanced economies, usually led by the U.S., followed by tightening leading to the reversal of capital flows. In the period after the dotcom crash lax monetary policy led to excess liquidity and low interest rates worldwide. In previous episodes of such excess liquidity over the last 30 years it was emerging market economies that suffered from crises (CGFS, 2009).

But this time it rebounded on the North Atlantic economies. When there is an extended period of lax monetary policy and low interest rates, there is a natural search for yields leading to outward capital flows in search of higher yield. What happened during this recent

period of monetary expansion is that with monetary policies being accommodative for an extended period in the US and other advanced economies, in addition to capital flows going outward in search of yields, the volume of liquidity generated was such that there was also a burst in financial innovation within these countries, so that higher yields could be obtained within. This search for higher yields within led to many of the irregularities observed. The consequence is that it is the advanced countries of the North Atlantic which have suffered from this financial crisis.

The other issue of note is that, partly because of large expansion in the global supply of goods from China and other EMEs - in the last ten years really, not just the last five years -- the accommodative monetary policy and increased liquidity did not lead to higher inflation as measured by the Consumer Price Index (CPI), or even higher inflation expectations as conventionally measured. It did, of course, lead to huge increases in asset prices of different varieties, particularly housing and real estate, not just in the U.S and Europe but in other parts of the world as well.

Being particularly focused on CPI or on core inflation, central banks felt no pressure to tighten until very late because they were not observing increases in CPI, or in inflation expectations. Being against the prevailing orthodoxy, they avoided reacting to asset price growth, and even to supply induced commodity price increases. To my mind, this is a major issue for central banks, financial regulators and academics to discuss. In the presence of low CPI inflation central banks typically come under significant public and market pressure not to raise rates. In what circumstances should monetary policy take cognizance of variations in asset prices and in commodity prices and how? What should also be the role of coordinated action through prudential regulation? [1]

Shortcomings in Financial Regulation and Supervision

There is actually much greater discussion going on internationally on the existing regulatory practices and the future of financial regulation and supervision than on monetary policy. The intensity of discussion is reflected in the plethora of reports that have been issued by authoritative sources, both official and non official, in all the affected jurisdictions (CGD, 2010; CCMR, 2009; de Larosiere Report, 2009; Geneva Report, 2009; G-20, 2009; Group of Thirty, 2009; IIF, 2009; Turner Review, 2009; United Nations, 2009; United Kingdom, 2009; United States, 2009; Warwick Commission, 2009). What is common among all these dozen or so reports is the acknowledgement that regulation and supervision in the advanced economies was too lax in recent times; and that there needs to be considerable rethinking leading to much strengthened, and perhaps, intrusive regulation and supervision in the financial sector. Apart from the laxity in the supervision of banks there was a serious conceptual flaw in the approach to financial regulation. It was assumed that micro prudential regulation and supervision of individual financial institutions would also ensure systemic stability of the financial system. This approach ignored the possibility of the fallacy of composition. The increase in complexity of interaction of financial markets with even sound financial institutions could have negative systemic effects through cumulative negative externalities. Thus there is clear recognition now of the need for contra cyclical macro prudential regulation, and of the need to reduce moral hazard posed by systemically important financial institutions (SIFIs).

At the root of such re-thinking, though not always acknowledged as such, is really the questioning of the existing intellectual assumptions with respect to the functioning of markets, and the nature of financial risk. To quote the Turner Review (2009) :

"At the core of these assumptions has been the theory of efficient and rational markets. Five propositions with implications for regulatory approach have followed :

i) Market prices are good indicators of rationally evaluated economic value.

ii) The development of securitized credit, since based on the creation of new and more liquid markets, has improved both allocative efficiency and financial stability.

iii) The risk characteristics of financial markets can be inferred from mathematical analysis, delivering robust quantitative measures of trading risk.

1. *See Blanchard and others (2010) for an excellent comprehensive discussion on possible new frameworks for monetary policy.*

iv) Market discipline can be used as an effective tool in constraining harmful risk taking.

v) Financial innovation can be assumed to be beneficial since market competition would winnow out any innovations which did not deliver value.

Each of these assumptions is now subject to extensive challenge on both theoretical and empirical grounds, with potential implications for the appropriate design of regulation and for the role of regulatory authorities". (Turner Review, 2009, p.30)

What were the specific developments in the financial system that arose from these broadly accepted intellectual assumptions that led to the on going global financial crisis?

Recurring Financial Crises : Build up of Excessive Leverage

Financial and banking crises have a long history, which is as old as the existence of the financial sector itself (Kindleberger and Aliber, 2005; Reinhart and Rogoff, 2009). All liquid markets can be susceptible to swings in sentiment, which can produce significant divergence from rational equilibrium prices. However, boom and bust in equity prices have surprisingly small consequences relative to boom and bust in credit instruments, unless investment in equity instruments is itself from heavily leveraged borrowed resources. What is common among almost all crises is the buildup of excessive leverage in the system and the inevitable bursting of the financial bubble that results from such leverage. What is ironic about the current crisis is that this excess leverage occurred over a period when greater consensus had developed through the Basel process on the need for and level of adequate capital required in banking institutions across all major jurisdictions. Furthermore, sophisticated financial risk management capabilities were also believed to have been developed within large financial institutions during this period of unusually high rapid growth in both the magnitude and sophistication of the financial system. This had some perverse results.

First, because of the perceived increase in sophistication in the measurement of risk, high quality risk capital in large banks could be as low as 2 percent of assets, even while complying with the Basel capital adequacy requirements. Second, large financial institutions could maintain lower high quality capital because of the assumption that they had better risk management capacity than smaller less sophisticated institutions. The thinking now is moving in the opposite direction : to reduce moral hazard, and to reduce systemic risk, it is being argued that SIFIs should be subject to higher capital requirements and they should be discouraged from becoming too big to fail.

With financial deregulation in key jurisdictions like the United States and the U.K., along with most other countries, financial institutions also grew in complexity. Financial conglomerates began to include all financial functions under one roof : banking, insurance, asset management, proprietary trading, investment banking, broking, and the like. The consequence has been inadequate appreciation and assessment of the emerging risks, both within institutions and system wide. What were the factors that led to this emergence of excessive system wide and institutional risk?

Growth in Securitised Credit and Derivatives

Among the notable developments of the last decade has been the unprecedented explosive growth of securitized credit intermediation and associated derivatives (Yellen, 2009). The issuance, for example, of RMBS (Residential Mortgage Backed Securities) doubled from US $1.3 trillion to US $2.7 trillion between 2001 and 2003. The assumption underlying this development was that this constituted a mechanism that took risk off the balance sheets of banks, placing it with a diversified set of investors, and thereby serving to reduce banking system risks. As late as April 2006, the IMF's Global Financial Stability Report noted that this dispersion would help "mitigate and absorb shocks to the financial system" with the result that "improved resilience may be seen in fewer bank failures and more consistent credit provision" The opposite actually transpired.

Although simple forms of securitization have existed for a long time, this assumption has already proved to be erroneous. Among the key functions of banks is maturity

transformation : they intermediate shorter term liabilities to fund longer term assets in the non-financial sector. Banks are typically highly leveraged and hence trust and confidence is crucial to their functioning and stability. Traditionally, therefore, banks exercised sharp vigilance on the risk elements of their assets, which were typically illiquid, in order to ensure constant rollover of their shorter term funding liabilities. What securitization does is to turn illiquid assets into liquid ones, which in theory then disperses risks from the banks' balance sheets and also reduces their requirements of banking capital. The incentive to monitor credit risk in the underlying assets also disappears. With assets themselves seen as liquid short term instruments, they began to be funded by ultra-short term liabilities, including even overnight repos whose volume increased manifold in recent years. The majority of holdings of securitized credit ended up, however, in the books of highly leveraged banks and bank like institutions themselves, and hence risk got concentrated rather than being dispersed. Systemic risk increased because traded instruments are inherently more susceptible to price swings depending on changes in market sentiment, and much of this trading was in opaque OTC markets. Moreover, at low levels small changes in interest rates and yields result in greater volatility in prices. What emerged was a "complex chain of multiple relationships between multiple institutions" (Turner Review, 2009) and hence the higher risk of contagion within the financial sector. Furthermore, liquidity risks in such markets were also not understood adequately. It was assumed that these liquid markets would always exist, and hence securitized assets were assumed to be inherently less risky than illiquid long term credit assets.

Financial innovation arising from the search for yields compounded this problem as second order derivatives proliferated. For example, CDO (collateralized debt obligations) issuance tripled between the first quarters of 2005 and 2007, reaching its peak of US $179 billion in the second quarter of 2007, before collapsing to $5 billion by the fourth quarter of 2008. With the lack of transparency in OTC markets, their valuation became increasingly dependent on model valuation and credit ratings, rather than observable and transparent market valuation, and hence inherently more opaque. Thus, when problems arose in these markets and prices were not visible, valuation of the assets of banks and the shadow banking system became unobservable. Consequently, trust and confidence evaporated and markets froze.

Emergence of the Shadow Banking System

These problems got further compounded by the emergence of the largely unregulated shadow banking system that took off assets from the banks' balance sheets; thereby reducing the latter's capital requirements. Ironically, the increased attention to capital adequacy in banks itself led to a poorly capitalized financial system overall. The complexity and magnitude of intra-financial sector transactions exploded over this past decade. For example, issuance of global credit derivatives increased from near zero in 2001 to over US $60 trillion in 2007; OTC interest rate derivatives grew from around zero in 1987 to about US $ 50 trillion in 1997 and US $400 trillion by 2007; global issuance of asset backed securities (ABS) went up from about US $500 billion in 1997 to over US $2 trillion; forex trading activity rose tenfold from about US $100 billion to US $1 trillion in 20 years between 1987 and 2007, and doubling after 2002; and trading in oil futures increased from an equivalent of about 300 million barrels in 2005 to 1000 million barrels in 2007, more than 10 times the volume of oil produced (Turner, 2010)! Thus the financial sector was increasingly serving itself rather than any perceived needs of the real economy.

Given such explosive increase in financial transactions unrelated to developments in the real economy, the financial sector exhibited high profits and growth, while doing relatively little for the non financial sectors of the economy, which the financial sector exists to serve in principle. Compensation levels in the financial sector also exploded correspondingly, and talent got sucked in from other sectors as well. The debt of financial companies increased to levels exceeding the GDP of leading economies; in the UK, for example, financial sector debt increased from 40 percent of GDP in 1987 to 200 percent in 2007; and in the US from a similar 40

percent in 1987 to over 100 percent in 2007 (FSA, 2009). Thus, in the process of taking risks off balance sheets through securitization, these risks returned to the extended banking system itself and the original rationale for securitization got belied. Rather than reducing systemic risk the system of complex securitization and associated derivatives only served to increase it. Moreover, it became increasingly difficult to trace where the risk ultimately lay.

Why is there High Compensation in the Financial Sector?

There needs to further questioning of the widespread discussion around compensation in the financial sector : is the compensation issue really a red herring? Is it not the excess profitability of financial institutions that has led to the very high compensation levels of their employees along with the high returns to shareholders? If a firm has such high returns, they have to go somewhere : they are either distributed to shareholders or to the employees or a combination of both, which is what has been happening. It is then difficult to restrict compensation levels as is being argued currently. Much of the discussion has veered off into the minutiae of compensation practices related to the various forms in which compensation is given. To my mind the real question relates to the high profitability observed in recent years in segments of the financial sector.

Therefore, the question really is, is there a lack of competition in the financial sector? And if so, why? Are there some regulatory provisions that restrain competition or are there some entry barriers inherent in the structure of the financial industry? If there isn't a lack of competition why do these profits not get competed down? And again, if the answer is indeed that there is a lack of competition, what can be done? What kind of competition policy measures would be relevant and applicable to the financial sector? Addressing these questions is probably more useful for dealing with the compensation issue rather than dealing directly with compensation patterns and levels.

The regulatory system was clearly behind the curve in taking account of these developments. Regulatory focus was on banks and not on the emerging shadow banking system, which the market was supposed to discipline. The procedures for calculating risk-based capital requirements under-estimated the risks inherent in traded securitized instruments, thereby adding to the incentive for banks to securitize assets into traded instruments, which bore lower risks weights. The trading of these instruments has largely been in OTC markets that exhibit little transparency. As a result of this overall process, banks became effectively undercapitalized, and the leverage ratios of the unregulated shadow banking system and investment banks reached unsustainable levels. There was a clear failure of supervision. A good deal of the ongoing discussion on change in regulation is focused on this issue through mandating of increased capital requirements for higher risk activities.

With the existence of low interest rates, mispriced low risk perceptions, and inherent incentives to originate lending and distribute securitized instruments, household indebtedness increased to unprecedented levels, particularly for housing. In both the United States and the UK, the household debt to GDP ratio increased from an average of around 60 percent between the mid 1980s and 1990s to over 100 percent in the following decade (Turner Review, 2009). Demand for housing assets rose and hence housing prices. Thus micro behavior led to increased systemic risk that was not adequately appreciated or understood, and hence not monitored by the authorities.

The Challenges Ahead

The agenda that is being developed for the strengthening of financial sector regulation and supervision is ambitious. Contentious issues are arising both at domestic / national regulatory levels and at the international levels on regulatory cooperation. Whereas the principles that have been outlined for this regulatory overhaul are being increasingly well accepted, many challenges are emerging on their modes of implementation, and on their practicality.

Regulatory Structure and Macro Prudential Regulation

First, a great deal of discussion is taking place in a number of jurisdictions on the changes needed in

regulatory structure so that the probability of such a financial crisis arising again is minimised. The regulatory regimes have to be more effective over the cycle. There is general agreement on the need for putting in place a regime of macro prudential regulation and financial stability oversight. The issue under discussion in different jurisdictions is : Who will do it? Would it be a council of regulators, the central bank or the treasury? The core concern behind such discussion relates to the location of responsibility for maintaining financial stability. Should central banks be made responsible, and also accountable, for maintaining financial stability? Macro prudential regulation is increasingly seen to be among the key means for maintaining financial stability. That requires the imposition of prudential regulations in the light of some macroeconomic or overall financial trends that need to be acted on. If the central bank is only a monetary authority and a separate agency, like the Financial Services Authority (FSA) of UK, and is responsible for financial regulation and supervision, how is coordination to be achieved so that such action can be implemented? The US has had a very fragmented regulatory structure, whereas the UK had placed all regulatory responsibilities for all segments of the financial sector in the unified FSA. In the rest of Europe monetary policy got centralised in the European Central Bank (ECB) but financial regulation has remained fragmented at national levels. The US Federal Reserve System has had significant regulatory responsibilities but regulatory failures were significant in all North Atlantic financial systems, with the exception of Canada.

The ongoing efforts to undertake significant regulatory reform in the United States, UK and in the Euro Zone illustrate the lack of consensus on what kind of regulatory structure constitutes best practice for promoting financial stability.

The UK is abandoning its experiment of completely separating financial regulation from the central bank and the FSA is now being folded back into the Bank of England. The Governor of the Bank of England will now be responsible for monetary policy, financial regulation and financial stability, an arrangement similar to that prevailing in India. Consequent to the crisis it is felt that the central bank can better exercise its responsibility for financial stability if financial regulation also comes within its purview.

The US Treasury had initially proposed that all banking regulation be unified in a single agency, while placing greater responsibility on the US Federal Reserve for maintaining financial stability. In the reform bill that has finally been passed systemic risk will be formally assessed by a new Financial Services Oversight Council which will be composed of the main regulators and chaired by the Treasury Secretary. It will focus specially on SIFIs in order to prevent institutions from getting too big to fail. Any emerging SIFIs, including non banks, will be put under the regulation of the Federal Reserve. Regulatory jurisdiction has been simplified and clarified, with the Fed handling systemic institutions; the Office of the Controller of the Currency (OCC), national banks; and Federal Deposit Insurance Corporation (FDIC), state banks. The only agency being eliminated is the Office of Thrift Supervision. It is yet to be seen how these new arrangements will function. What is clear, however, is that there is now much greater appreciation of the role of the central bank in maintaining financial stability and in regulating SIFIs of all varieties, not just banks.

Having worked in both the central bank and the treasury I really do not believe that effective macro prudential oversight or financial stability oversight can be done without the central bank being at the helm of this activity. Any kind of group can be set up depending on the country's overall regulatory set up : including the treasury and the heads of the other regulators. The central bank is the lender of last resort; it is also the only agency which has an overall view of the economy, along with exceptional stability in terms of staffing and continuity in thinking, relative to most treasuries. It also has its ear to the ground with respect to evolving developments in all financial markets if it does its job well as a monetary authority.

Our own experience is that the Reserve Bank of India, as both the monetary authority and the lead financial sector

regulator, has been able to supplement its monetary policy very effectively with prudential actions on a consistent basis. It regularly monitors credit aggregates, including movements in sectoral credit. Consequently it could take macro prudential action when it observed excess credit growth, both on an aggregate basis and in particular sectors like real estate and housing. So it increased the cash reserve ratio (CRR) to curb overall credit growth and imposed higher provisioning and risk weights for lending to the affected sectors. As part of its supervisory activities it also monitors the incremental credit deposit ratio carefully and cautions banks when such a ratio is found to exceed acceptable norms. It is also able to do forward looking countercyclical capital buffering through increases in loan loss provisioning when needed. Further, when it observed regulatory arbitrage being practised by the lightly regulated non bank finance companies (NBFCs) during 2005-2007 it took measures to tighten their regulation towards reducing their potential ability to do excess leverage. This experience is a valuable example for practicing the kind of proposals being put forward for implementing macro prudential polices as supplements to monetary policy as normally practised in a narrow fashion.

I do believe that given different countries with large variations in institutional legacies, traditions and systems, no one size can fit all. But at the same time, I think that the central bank does need to have a lead role as far as financial stability is concerned within any kind of arrangement that is deemed fit in a particular country. As a recent IMF paper notes : "If one accepts the notion that, together, monetary policy and regulation provide a large set of cyclical tools, this raises the issue of how coordination is achieved between the monetary and the regulatory authorities, or whether the central bank should be in charge of both. The increasing trend toward separation of the two may well have to be reversed. Central banks are obvious candidates as macro prudential regulators" (Blanchard, Dell'Ariccia, and Mauro, 2010).In any case there is a clear need for a comprehensive approach to regulatory risk in the financial sector, particularly as the perimeter of financial regulation is widened to encompass hitherto unregulated or lightly regulated entities such as hedge funds, credit rating agencies, and other non bank financial companies (CCMR, 2009).

Need for Higher Capital Adequacy

Second, the various proposals that are under discussion with respect to enhanced capital requirements will lead to increased levels of regulatory capital over the economic cycle and extension of such capital requirements on bank like institutions that are currently unregulated or lightly regulated. This will inevitably lead to lower profitability for equity investors.

In addition to the increases in basic capital adequacy that are being considered, other proposals under discussion include :

- Higher quality Tier-I capital to comprise of only common shares and reserves
- Higher quality liquidity standards
- Maintenance of countercyclical capital buffers
- Countercyclical provisioning
- Higher risk weights for trading and derivative activity
- Higher capital and liquidity requirements for systemically important financial institutions (e.g. institutions with assets above some threshold level)
- Prescription of a maximum leverage ratio

The bargaining power of banking institutions had become weak in the wake of the financial crisis : hence, there was little initial observable protest regarding such proposals. As the financial crisis has begun to be resolved, and some semblance of normalcy and profitability is returning to the financial sector, the financial industry is doing its utmost to resist the requirements for higher capital. Whatever the final result the phase in of these new requirements is certainly being delayed. It will be a challenge for regulators and governments to resist demands for further relaxation of the new capital requirements, both the enhanced minimum levels and the capital buffers proposed in good times. Just last week, the FDIC chief Sheila Bair was moved to complain that the lobbying efforts of the financial industry were in fact bearing fruit in the standard setters discussion in Basel.

Everyone seems to agree that there is need to have increased levels of regulatory capital. But there is need to analyse if that implies lower profitability in the financial sector, though that in itself may not be such a bad idea for the maintenance of financial stability. But there is still need for greater understanding of its implications for the financial sector as a whole. Would more stringent capital requirements imply a slower pace of credit intermediation and overall lower economic growth? Or does it just mean that there will be less intra financial sector activity with negligible implications for the real economy? There is clearly a great need for working out the overall economic effects of the current recommendations related to the proposed regulatory overhaul. I understand that such impact studies are now being conducted by the BCBS and FSB before the new capital standards are put in place. The influential private sector banking lobbying group, the Institute of International Finance, has, meanwhile, estimated that the combined loss in the US, Euro Zone and Japan will amount to about 3 percent of GDP over 5 years on full implementation of the Basel proposals. It is important that these calculations should be scrutinised very carefully : what may cause slower expansion of the financial sector may not necessarily have similar effects in the real sectors of the economy.

Contra Cyclical Capital Requirements

Third, the proposal for provision of contra-cyclical capital will face significant implementation issues. Regulators will need to do significant technical work in the understanding of business cycles so that turning points can be recognised. What would be the triggers for changes in these capital buffers in either direction? Would these changes kick-in in anticipation of business cycle turns or post facto? How formula or rule-based would these changes be so that regulated institutions know in advance themselves what they need to do? An additional issue in this sphere arises from the possibility of economic cycles occurring at different times in different jurisdictions. This would necessitate greater cross border cooperation between home and host regulators in terms of applicable capital requirements for different segments of the same international financial conglomerate. An additional problem for EMEs would be the lack of adequate data for business cycle identification.

Macro Prudential Regulation for Containing Systemic Risk

Fourth, there is general agreement on macro prudential regulations and the identification of systemic risks like the build up of asset bubbles. However, considerable technical work will need to be done at both national and international levels on identifying what such risks are, what is systemic and what is not, and what kind of regulatory actions would be effective. In the recent experience, for example, there was ample awareness of the build up of both global financial imbalances, and of the asset price bubble, but there was little agreement on what needed to be done. Even if adequate work is done on the identification of systemic risk, and on the regulatory measures necessary, what will be the enforcement methodology internationally? Within national regulatory systems, issues relating to inter-regulatory cooperation also arise, who will be in-charge of issuing early warning systems and who will listen to them?

Extending the Perimeter of Regulation

Fifth, there is general agreement on the extension of regulation on all systemically important institutions, markets and instruments. Here again there is an issue of implementation. How do we decide what is systemically important? Certainly, all financial institutions that have access to the central bank liquidity window or to whom the central bank can act as lender of last resort should be subject to capital regulation. Considerable debate has ranged around the regulation of hedge funds, which come in all sizes, shapes and forms. Some are large, but not leveraged, others can be both large and leveraged, and yet others can be small and leveraged or otherwise. Whereas it may be that individual hedge funds or other equity pools are not systemically important, they may be so collectively. Furthermore, they could be collectively not important systemically in good times, but become so in times of extensive leveraging. Similar is the story for markets and instruments. Thus the work of national and

international regulatory system is cut out in this regard. Excessive regulation could indeed snuff out entrepreneurship if not done carefully.

Securitisation and Derivatives

Sixth, as I have discussed, a great deal of debate has emerged around the issue of securitised credit and its offshoots. There is agreement on the need for attaching greater risk weights on securitised instruments and derivatives and on restricting the trading of standardised instruments on transparent trading platforms in order to reduce systemic risk. However, the broader issue of the utility of financial innovations remains to be addressed. Are many of these innovations largely unproductive and dysfunctional and do they need to be discouraged, or otherwise? That the explosion in the magnitude of such derivative instruments provided little benefit to the financial system or the economy as a whole is now clear. However, securitisation is a time honoured methodology that has done much to lubricate the financial system and helped funding real economy needs at competitive costs. So how these instruments are regulated and how "good" financial innovations will be winnowed from the "bad" will be a challenge.

Systemically Important Financial Institutions

Seventh, as the current global crisis has shown, whereas many of the large complex financial institutions are global in nature, their regulation is national. Considerable discussion is now ongoing on how international regulatory cooperation can be enhanced. There appears to be a good degree of consensus that is emerging in the standard setting bodies on the contours of enhanced regulation (BCBS, 2009a; FSB, 2009; G20). But implementation of their recommendations will rest with national authorities and their respective legislatures. The US reform is clearly placing responsibility of their regulation on the US Federal Reserve. The domestic debates taking place so far in national jurisdictions are much more fractious than in the international standard setters; and the financial industry has much greater lobbying power within national borders and their respective legislatures and governments than in the largely technocratic standard setters. Apart from the regulatory problems associated with ongoing institutions, even more difficult are the problems associated with cross border resolution of failing institutions. The discussion on these issues has just begun.

There is increasing debate on institutions being too big to fail (Scott and others, 2009). This reflected in the renewed debate in the US on whether there should be some retreat to Glass Steagall type restrictions on the activities that are allowed to banking institutions. Should banking be boring? Whereas there would appear to be little support for bringing back the full separation between commercial and investment banks, broker dealers and insurance companies, the emerging consensus that banks' activities in proprietary trading should be curbed (Volcker, 2009; Brady, 2009; Schultz, 2009) appears to have succeeded in the US financial reform. Banks have deposit insurance protection and also have access to lender of last resort facilities from the central bank. In times of liquidity stress they can receive liquidity from the central bank, whereas in times of insolvency it is deposit insurance that comes to their rescue. Thus, if banks' risk taking activities result in stress their losses are effectively socialised, and some curb on their excessive risk taking activities is justified.

Volatility in Capital Flows

Eighth, from the point of view of Emerging Market Economies (EMEs), at the macro level, the volatility in capital flows has led to severe problems in both macro management and financial regulation (CGFS, 2009). These capital flows have been influenced significantly by the extant monetary policy regimes in developed countries and hence their volatility is not necessarily related to economic conditions in the receiving economies. Excess flows, sudden stops and reversals have significant effects on EME financial sectors, the working of their capital markets, and asset prices, and hence their economies as a whole. Management of this volatility involves action in monetary policy, fiscal management, capital account management, and also financial market regulation.

This will remain a challenge since there is little international discussion on this issue. There is, however, increasing recognition that some degree of capital controls may be desirable in such circumstances (e.g. Commission on Growth and Development, 2010; Ostry and others, 2010).

In response to the crisis, monetary policy has been loosened substantially in major advanced economies since the second half of 2007. Policy rates have been cut to near zero levels, even lower than that in 2003-04, and the financial systems have been flooded with large liquidity. Abundant liquidity, is already getting reflected in return of capital flows to EMEs and this excess liquidity, if not withdrawn quickly, runs the risk of inducing the same excesses and imbalances that were witnessed during 2003-07. Excess liquidity could also take the form of large capital flows to the EMEs and their likely recycling back to the advanced economies. As the global economy starts recovery, a calibrated exit from this unprecedented accommodative monetary policy will have to be ensured to avoid the recurrence of the financial crisis being experienced now.

Key Lessons from the Crisis

Let me now summarise. The emergence of the global financial crisis has led to a new wave of thinking on all issues related to both monetary policy and financial regulation.

The first lesson from the crisis is that the practice of both monetary policy and financial regulation had tended to become too formula bound and hence too predictable. The prevailing monetary policy frameworks, essentially based on inflation targeting, have been found wanting. What should be the basis of new frameworks that also look at other issues related to the maintenance of financial stability? Furthermore, will the new frameworks necessitate less separation between monetary policy and financial regulation? The second lesson is that the intellectual basis of lighttouch regulation clearly does not hold. The financial world is highly susceptible to systemic risk, herd behaviour, and moral hazard, which require consistent regulatory intervention.

The third lesson is that within the new principles that are being debated, we should admit that in the face of unexpected developments that always arise in the financial sector, rules are not enough. There is an important role for the exercise of judgement by both monetary authorities and financial regulators.

The fourth lesson is that financial supervisors must supervise. Regulation by itself won't work. It must be enforced through active and intrusive supervision. Regulators must regulate and supervisors must supervise.

The final lesson is that the traditional virtues of prudent fiscal policy, stable monetary policy, along with the maintenance of sustainable external accounts, should not be lost sight of in the presence of highly flexible financial markets.

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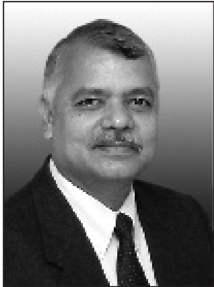

Nationalization of banks - An anchor for financial inclusion

Dr. K. Srinivasa Rao *

A sound financial system with a widely spread banking network is essential for a sustained growth of the economy. The Indian Banking system during its initial years of Independence was known to be having an urban bias without much orientation towards achieving social objectives. This led to intense debate and discussions to shape the banking industry into an effective financial conduit to bring about balanced economic growth. In order to have more aggressive associate banks in the economic transformation of the country, social control on banks was perceived as essential. But the efforts of the government in persuading banks to lend to masses did not bring the desired results. Before discussing the merits of nationalization of banks, a look at the historical perspectives will be important to establish the right link.

Historical perspectives of nationalization of banks :

India had a fairly well developed commercial banking system in existence at the time of independence in 1947. The Reserve Bank of India (RBI) was established in 1935. While the RBI became a state owned institution from January 1, 1949, the Banking Regulation Act was enacted in 1949 providing a framework for regulation and supervision of commercial banking activity. The first step towards the nationalization of commercial banks was the result of a report (under the aegis of RBI) by the Committee of Direction of All India Rural Credit Survey (1951) which till today is the *locus classicus* on the subject. The Committee recommended one strong integrated state partnered commercial banking institution to stimulate banking development in general and rural credit in particular. Thus, the Imperial Bank was taken over by the Government and renamed as the State Bank of India (SBI) on July 1, 1955 with the RBI acquiring overriding substantial holding of shares. A number of erstwhile banks owned by princely states were also made subsidiaries of SBI in 1959. Thus, the beginning of the Plan era also saw the emergence of public ownership of one of the most prominent of the commercial banks.

There was a feeling that though the Indian banking system had made considerable progress in the '50s and '60s, it established more closer links between commercial and industry houses, resulting in flow of more bank credit to flourishing few business segments to the exclusion of agriculture and small industries.

In order to meet these concerns, in 1967, the Government introduced the concept of social control in the banking industry. The scheme of social control was aimed at bringing some changes in the management and flow of distribution of credit to different sectors of the economy by commercial banks. The close link between big business houses and big banks was intended to be moderated by the reconstitution of the Board of Directors to the effect that 51 per cent of the directors were to have special knowledge or practical experience. Appointment of whole-time Chairman with special knowledge and practical experience of working of commercial banks or financial or economic or business administration was intended to professionalize the top management. Imposition of restrictions on loans to be granted to the directors' firms was another step towards restraining flow of credit to the units in which the directors were interested. The scheme also provided for take-over of banks under certain circumstances. The schematic move towards nationalization of banks was to ensure that savings of public are made to flow to agriculture and manufacturing sector so as to optimize use of banks for economic growth.

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Nationalization of banks :

It is at this point of time that after hectic deliberations, banks came to be recognized as catalysts of economic growth on 19th July 1969 when 14 largest commercial banks having deposit base of Rs.50 crores and above were nationalized under an ordinance issued by Government of India in the first phase. Within two weeks of issue of ordinance, the Parliament passed the Banking Companies (Acquisition and Transfer of Undertaking) Bill, which received the presidential approval on 9 August 1969. This was the genesis of the growth story of commercial banks in India. A second dose of nationalization of 6 more commercial banks having then a deposit base of Rs.200 crores and above was followed in 1980. With the second dose of nationalization, the government began to control around 91% of the banking business of India. Later on, in the year 1993, the government merged New Bank of India with Punjab National Bank. It was the only merger between nationalized banks and resulted in the reduction of the number of nationalized banks from 20 to 19. Though after entry of new generation private sector banks, the share of government controlled banks came down; bulk of banking spread is still under the control of the government.

When most of the banks were brought under control, the Indian banking system underwent major structural transformation speeding up the process of extending banking facilities to unbanked areas with the help of planned Branch Expansion and Introduction of Lead Bank Scheme.

Progress after nationalization of banks :

In the years following nationalization, its benefits proved to be of immense use to the common man, more particularly for the up-liftment of rural masses. Banks concentrating on high value business enterprises, commercial establishments and industrial units also began to focus on lending to diversified sectors of the rural economy. Further, the evolution of Lead Bank Scheme, formulation of District Credit Plans, introduction of village adoption schemes by banks, setting up of Regional Rural Banks (RRBs), increased coordination between Government and Banks and such other initiatives began to change the landscape of banking forging towards more intense integrated rural development. The enhanced flow of credit could stimulate growth of agriculture, small business and small scale industry. Certain key quantitative dimensions of progress of banks after nationalization will be able to demonstrate the splendid performance of banking sector in post nationalization era.

The data distinctly brings out the exponential growth of banks in the last over four decades. The number of banks increased from 73 to 293 in 2002 but dropped to 166 in 2009 due to rationalization of RRBs. The number of bank branches had gone up ten fold, rural density increased reducing population served by a bank branch from 64 to 14 and bank's business had gone up substantially. Granular analysis of bank's performance will be able to provide their contribution to different sectors of the economy.

Table - I : Progress of Indian Banking System At a Glance 1969 - 2009

Indicators	1969	1972	1982	1992	2002	2009
1. No of Scheduled Commercial Banks (SCB)	73	74	202	272	293	166
2. Number of Bank Offices in India	8187	13622	39177	60570	68195	82408
- Of which Rural / Semi - Urban	5175	9218	29210	46625	47465	50781
3. Population per Branch (Rs. in thousands)	64	41	18	14	15	14
4. Deposits in SCBs in India (Rs. in Crores)	4646	7610	46128	237566	1131188	3834110
5. Credit of SCBs in India (Rs. in Crores)	3599	5480	30180	131520	609053	2775549
6. Per Capita Deposits of SCBs (Rs.)	88	135	654	2738	11008	34372
7. Per Capita Credit of SCBs (Rs.)	68	97	428	1516	5927	24945
8. Credit Deposit Ratio (per cent)	77.5	72.0	65.4	55.4	53.8	73.9

Source : Report on Currency and Finance 2006-08 : Statistical Tables Relating to Banks in India - 2009, Publications of Reserve Bank of India : Mumbai.

The substantial rise in deposits and advances base provides the depth of penetration of banking system in India. Granular analysis of progress of banks would provide the big picture of nationalization that can highlight the penetration levels of banking services.

(i) Branch Network :

Nationalization of banks resulted in branch expansion to provide banking services at unbanked areas. Banking thus went from cities to towns, towns to villages, to fulfill social responsibilities. The data in Table-II, illustrates the trends of reach of bank branches in the hinterland.

Table - II : Spread of branch network 1969-2009

March	Rural	Semi-Urban	Urban	Metro-politan	Total	Population per Office (in thousands)
1	2	3	4	5	6	7
1969	1,443	3,337	1,911	1,496	8,187	65
1970	4,817	4,401	2,504	1,900	13,622	41
1975	6,807	5,598	3,489	2,836	18,730	32
1980	15,105	8,122	5,178	4,014	32,419	20
1985	30,185	9,816	6,578	4,806	51,385	14
1990	34,791	11,324	8,042	5,595	59,752	14
1995	33,004	13,341	8,868	7,154	62,367	15
2000	32,734	14,407	10,052	8,219	65,412	15
2005	32,082	15,403	11,500	9,370	68,355	16
2007	30,551	16,361	12,970	11,957	71,839	15
2009	31,699	19,082	16,614	15,019	82,408	14

Source : Report on Currency and Finance 2006-08, Publication of Reserve Bank of India: Mumbai.

Evidently, the expansion of rural and semi-urban branch network caught up more speed from 1980s reaching out to more in the hinterland.

(ii) Trends in Business Growth :

Branch expansion led to gradual pickup in the deposit growth as well. The rate of growth of deposits hovering around 9.5 percent prior to nationalization during 1952-69, substantially increased to 19.2 percent during the period 1970-84 and thereafter to 21.4 percent in 2007-08.The pace of growth went up with the increase in branch network.

The following table captures the trends of deposit growth.

Table - III : Rising trend in deposit growth - 1951-2008

(Per cent)

Period Averages	Demand	Time	Aggregate
1	2	3	4
1951-52 to 1968-69	7.1	13.1	9.5
1969-70 to 1983-84	13.3	22.7	19.2
1984-85 to 1994-95	19.5	18.2	18.4
1995-96 to 2004-05	12.6	16.4	15.7
2005-06 to 2007-08	22.5	21.3	21.4

Source : Report on Currency and Finance 2006-08, Publication of Reserve Bank of India : Mumbai.

Not only has the deposit growth gone up but the trend also reflects that bulk of it now comes from rural areas. It will be interesting to observe that in 1973, 45.1% ownership of savings and current accounts in banks were in the rural areas, and 54.9 per cent were from urban areas. Over a period of time, it tilted to 56.0 per cent in the rural areas, and 44.0 per cent in the urban areas. Similarly out of population of every 100, only 3.3 accounts were held by rural segment, 16.0 per cent of urban population held savings / current accounts in banks. An abysmally low financial inclusion of 5.8 per cent was recorded in 1973 which improved to 34.9 per cent by 2007.

The data in Table-IV clearly indicates the increased contribution of banks in the engagement of rural population in building bank deposit base.

Table - IV : Trends in deposit accretion / ownership - area breakup

End-March	Share in Total Accounts (Per cent)		No. of Accounts per 100 Persons		Total
	Rural	Urban	Rural	Urban	
1	2	3	4	5	6
Savings and Current Deposit Accounts					
1973	45.1	54.9	3.3	16.0	5.8
1981	57.1	42.9	11.4	28.1	15.3
1991	59.5	40.5	25.5	50.0	31.8
2001	59.3	40.7	23.8	42.3	28.9
2007	56.0	44.0	27.8	51.4	34.9

Source : Report on Currency and Finance 2006-08, Publication of Reserve Bank of India : Mumbai. (Rural and Semi-Urban data has been classified on 'Rural' and urban, metro into 'Urban')

The shift of patronage of banking towards rural segment is evident from the changing pattern of ownership of bank accounts. Thus more and more people came to be connected to the banking system in a move towards inclusive growth.

Table - V : Savings accounts with scheduled commercial banks

(End-March)

Year		1981	1991	2001	2007
Rural	No. of accounts (Million)	56.9	153.8	169.8	213.8
	Accounts per 100 Persons	10.9	24.5	22.9	26.2
	Accounts per 100 Adults	17.9	39.2	35.0	38.8
Urban	No. of accounts (Million)	40.9	99.2	110.2	159.7
	Accounts per 100 Persons	25.7	45.6	38.5	50.7
	Accounts per 100 Adults	42.3	73.1	58.9	75.2
Total	No. of accounts (Million)	97.8	253.0	280.0	373.5
	Accounts per 100 Persons	14.3	29.9	27.2	33.0
	Accounts per 100 Adults	22.9	46.8	41.5	48.9

Source : Basic Statistical Returns of SCBs in India.

The Savings Accounts of banks also have shown a rise in rural areas. As against 10.9 accounts per 100 of population in 1981 in rural areas, it increased to 26.2 accounts per 100 population by 2007. The numbers for urban have increased from 25.7 accounts to 75.2 accounts. On an average the savings accounts per 100 population in India have increased from 22.9 in 1981 to 48.9 in 2007 indicating that the financial exclusion is still substantial. On the whole the penetration levels have drifted towards rural areas but lot needs to be done in the area of financial inclusion. Lot of financial literacy campaigns have to be launched. But the nationalization could make a good beginning which can be taken forward.

Thus banking sector played an increasingly important role in financial intermediation process by mobilizing savings in the form of deposits. Moreover, the yearly aggregate deposit growth of banks, which remained volatile prior to nationalization, stabilized thereafter. The distribution of inflow of bank deposits from rural / urban further affirms that nationalization of banks could muster deposit resources from grass root levels of the economy.

(iii) Trends in Credit growth :

Credit dissemination is an important factor to stimulate growth. Spread of bank network logically facilitated better availability of bank finance in the economy. The massive expansion of bank branches improved presence in rural and semi-urban centers that facilitated credit delivery leading to economic well being in rural areas. Banks floated several intensive credit dissemination systems like adoption of villages under service area approach, began to link banks with self help groups, conducted savings awareness campaigns and imparted financial literacy. Wider bank presence added several direct / indirect developmental dimensions to the village economy. The expansion of banks met the broader objectives of bank nationalization.

Table - VI : Sector-wise growth rate of bank credit

(Per cent)

Period	1981-1990	1991-2000	2001-2007	2007-2008	2008-2009
Agriculture	18.1	10.6	26.0	19.5	23.0
Industry	17.4	15.4	19.5	24.3	21.6
Transport Operators	13.6	9.4	18.2	33.5	3.9
Professional Services	20.7	16.8	35.3	13.4	67.2
Personal Loans	25.3	22.7	35.5	13.0	12.7
Trade	11.8	17.3	16.2	16.0	16.7
Finance	29.2	25.6	28.1	61.5	25.1
SMEs	20.7	8.1	10.7	N.A.	26.9
Total Bank Credit	17.2	16.0	22.9	21.6	17.9

Source : Report on Currency and Finance 2006-08, Publication of Reserve Bank of India : Mumbai.

The sectoral growth rate of advances to agriculture, industry, trade, SME indicates a general rising trend though aberrations could be seen due to the base pace syndrome. As the base moves up, the rate of growth may seem to fall but effectively the sectoral quantum of financial assistance goes up. Table-I had already illustrated the quantum jump in total credit in absolute terms.

The trends of penetration of credit delivery in rural and urban areas could be evident from Table-VII.

Table - VII : Credit accounts with scheduled commercial banks					
					(End-March)
Year		1981	1991	2001	2007
Rural	No. of accounts (Million)	16.4	49.9	36.6	53.1
	Accounts per 100 Persons	3.1	7.9	4.9	6.5
	Accounts per 100 Adults	5.2	12.7	7.5	9.6
Urban	No. of accounts (Million)	4.4	12.1	15.8	41.3
	Accounts per 100 Persons	2.7	5.5	5.5	13.1
	Accounts per 100 Adults	4.5	8.9	8.4	19.5
Total	No. of accounts (Million)	20.7	61.9	52.4	94.4
	Accounts per 100 Persons	3.0	7.3	5.1	8.3
	Accounts per 100 Adults	5.0	11.7	7.9	12.4

Source : Basic Statistical Returns of SCBs in India.

In absolute terms, the number of loan accounts in rural areas, was 16.4 million in 1981, which increased to 53.1 million by 2007 showing the rising penetration of borrower accounts. The same numbers in urban areas have gone up from 4.4 million to 41.3 million during the same period. In the area of credit in rural areas, 3.1 loan accounts were against a population of 100 in 1981 which nominally improved to 6.5 by 2007. The numbers were 2.7 and 13.1 respectively for urban areas. But the inclusion levels still continue to be dismal rising from a mere 1.3 loan accounts per 100 population to 12.4 accounts during the period. Looking to the population of over a billion, 94.4 million borrower accounts in banks shows a low density of reach.

Improving the Rural Credit Delivery System :

Notwithstanding the impressive geographical spread, functional reach, improved credit flow to agriculture and consequent decline in the use of informal sources of credit, there was ample scope to improve productivity and efficiency; and profitability in the banking sector. The question of broad basing total credit structure needs lot of public education and pulling out the people from the shackles of indigenous village lenders is a daunting task. But it had engaged the attention of the authorities / committees, which were actively working on creating an appropriate credit delivery structure. It was, thus, imperative to devise a rural credit delivery system which did not require large subvention. In this context, it was felt that there was a need for better alignment of interest rates and mix of target and non-target lending. Creation of institutional framework of banks, RRBs, lead bank system, state level banker's committee are some of the enablers to enhance flow of credit to needy sectors.

Priority Sector Advances :

Table - VIII : Advances to the priority sectors by public sector banks					
					(Rs. in Crores)
Sector	Amount Outstanding				
	June 1969	March 2006	March 2007	March 2008	March 2009 @
Agriculture	162 (15.3)	1,55,220 (15.4)	2,02,614 (15.4)	2,49,397 (17.5)	2,98,211 (17.2)
Direct	1,12,126 (11.0)	1,44,372 (11.0)	1,44,372 (11.0)	1,77,259 (13.0)	2,15,643 (12.8)
Indirect	43,093 (4.2)	58,242 (4.4)	58,242 (4.4)	72,138 (5.3)	82,569 (4.9)
Small-scale Industries	257 (8.1)	82,434 (7.8)	1,02,550 (7.8)	1,51,137 (11.1)	1,91,307 (11.3)
Other priority sector advances	22	1,63,756	2,06,661	2,09,842	2,30,507
% of other PS advances to total PS	(0.7)	(16.1)	(15.7)	(15.38)	(13.61)
Total priority sector advances.	441 (14.6)	4,09,748 (40.3)	5,21,376 (39.7)	6,10,450 (44.7)	7,20,083 (42.5)
Net Bank Credit	3,016	10,17,656	13,13,840	13,64,268	16,93,437

Source : Report on Currency and Finance 2006-08, Publication of Reserve Bank of India : Mumbai. Statistical Tables relating to banks in India 2008-09, An RBI publication, Mumbai.

Banks have made rapid progress in disseminating credit to priority sector providing support to the rural economy. Banks are ahead of their mandatory need of 40 per cent lending to priority sector. After deregulation of interest rates, these sectoral advances too stand at par with other loans except for loans of below Rs.2 lacs where rate of interest was pegged at 10 per cent. After moving to base rate even that cap has been removed for loans of below Rs.2 lacs. In terms of risk adjusted returns, priority sector advances weigh better for banks in terms of pricing / return except that the transaction cost may work out to be more to service small size advances. On the whole, it is beneficial for banks to lend to this sector not only in the larger interest of the economy but also in the interest of quality of portfolio. Therefore, banks having

large network of branches harp on this sector for better profitability.

Lead Bank Scheme (LBS) Mainstay of Nationalization :

It was launched by Reserve Bank of India in 1969 with a view to mobilizing deposits on a massive scale to disseminate credit to every sector of the economy, more particularly to unbanked parts. All districts were allotted to different banks based on the existing regional orientation spread in clusters. Each bank was also allotted districts in more than one state. The allotment of districts had a major role in the spread of banking to unbanked centers. In about five years after nationalization of banks, the branch network expanded by 129 percent.

This was the beginning of rapid growth of banking reach. Though Bank's have actively participated in priority sector lending, attention has increasingly been drawn to the fact that large sections of population remain outside formal banking structure. While policies are in place to facilitate flow of credit to the more vulnerable sectors / sections of the society, there is a need to ensure greater dissemination and implementation of these policies at the grass root level. In order to undertake comprehensive review of LBS a Committee was set up by Reserve Bank of India (Chairperson : Smt. Usha Thorat).

Post Reform Phase :

Implementation of bank reforms provided further impetus to banks to grow with emphasis on quality, prudential norms asset classification, income recognition, provisioning and capital adequacy ratio formed a concrete base to develop quality of assets. Liberalization of branch expansion policy, allowing entry of private sector banks, more branches of foreign banks, freedom to banks to diversify their business lines to insurance, mutual funds, capital market management, custodial services, credit cards, bill payment services and so on have increased competition leading to overall quality of banking services. Similarly deregulation of interest rates, reduction of pre-emption of funds in the form of cut in CRR / SLR, autonomy in internal administration, widely opened up channels for increased flow of credit to different sectors of the economy. The fusion of technology further improved the quality of banking services adding multiple delivery channels akin to international banks. Indian banks could thus stand at par with their international peers in terms of operational efficiency.

Key Challenge ahead :

According to Dr. D. Subba Rao, Governor, RBI, banks have to tackle four big challenges. Financial inclusion, Financing infrastructure, Risk Management and Improving operational efficiency. They are all interconnected and mutually interdependent. But looking to the national priorities, financial inclusion is the dominant challenge to reach out to more number of people so as to stimulate economic growth. Banks have to extend services initially in every village with population of 2000 and above by March 2012. Out of around 6,00,000 villages, 1,09,000 villages have population of 2000 and above. Raghuram Rajan Committee Report (2008) had recommended to banks to engage Business Correspondents (BCs); Business Facilitators (BFs) as a part of their outreach program. Former bankers, post masters, even literate kirana shopowners could work as BCs / BFs.

Moreover, with the onset of technology and adoption of core banking solutions, several offsite touch points have been created by banks in the form of ATMs, mobile banking, smart cards, electronic purse, internet banking and point of sale terminals that enable customer interface for basic banking services. Access to an affordable banking system is the most important parameter for inclusive growth and stability as more than half of the country's population is not part of any formal banking system. This may need a different approach to evolve new regulations to facilitate financial inclusion without compromising on prudential and financial integrity. Conventional banking channels may not be adequate to fulfill this gigantic task where technological advancement can play a key role. The experience of pursuing inclusive growth in many countries have shown that the under privileged section of the society offers

ample business opportunity. The concept has been well propounded by late Prof. C. K. Prahalad in his famous book "The Bottom of the Pyramid", The challenge of financial inclusion if tackled skillfully can address many other inter dependent issues taking the banking system forward at a much faster pace.

Developments in financial inclusion :

Financial inclusion has assumed new significance as a building block to pursue inclusive growth of the economy. The governments, regulators, corporate sectors, world over have realized the importance of connecting more people with the growth agenda. It is more significant in developing economies like India where the deepening of growth is yet to take roots. Inclusive growth is possible only if financial sector penetrates and each individual is able to channelize their resources into the formal banking sector.

Accordingly, looking to the paucity of banking services, a committee on financial inclusion was constituted by Government of India (Chairman Dr. C. Rangarajan) on June 26th 2006 to prepare a strategy on financial inclusion. According to the report 51.4 per cent of farmer households are financially excluded from both formal / informal sources and 73 per cent of farmer households do not access credit from banks. While efforts are continuously made to expand the banking operations, banks are moving beyond the traditional forms of brick and mortar presence to technology driven delivery channels in a big way.

Realising the importance of financial inclusion, Governments / RBI came out with several policy incentives. Liberalizing branch licensing system, dispensing with prior approval for setting up of off-site ATMs, encouraging banks to engage business correspondents / business facilitators, allowing customers to draw up to Rs.1,000/- from Point of Sale (POS) terminals are some of the initiatives to prop up financial inclusion efforts. RBI has also launched several outreach programs for financial inclusion as part of its Diamond Jubilee Celebrations and supported banks in their efforts. Keeping in view the enormity of the task to reach out to more people in hinterland, banks have to address daunting challenges but can spot right opportunities for growth and development of banks.

In the last few years banks have embarked on the task to open new branches, have set up new ATMs, introduced mobile ATMs, interconnected several point of sale terminals and entered into new alliances and strategic tie up to reach out to more number of people at competitive cost. Financial literacy campaigns are launched to educate people to bank, Self help groups are linked to banks to facilitate funding of small projects in rural areas and entrepreneurs are trained to provide know-how to set up MSME units. The focus of banks is not only to set up banking outreach units but also to ensure that more and more people actually start using banking services for their growth and prosperity. The financial inclusion has a much wider perspective and bigger aspiration to eventually step up the standard of living of people and bring down the poverty level. Education and timely finance can improve the capability of people for better living. The expanded branch network of Public Sector Banks is contributing substantially in pursuing this vital financial inclusion agenda.

Impact of nationalization :

It can be inferred from the discussions that nationalization of banks could nurture a strong foundation for the growth and diversification of banking industry in the last four decades. The increase in number of branches, spurt in the volume of business, rise in the number of bank customers, volumes in transfer of funds, financing of trade, manufacturing, agriculture, service sector and ancillary activities are indicators of the surge in the shape and size of banks in India. The bank reforms had provided several new dimensions to its growth with autonomy and freedom framing a new set of rules where customer is assuming a central role in shaping products, services and pricing. Competition, expanding market, globalization of financial services has forged a better alliance between banks and its customers.

Technology too has come to contribute substantially in spreading banking services. Thus nationalization of

banks in India marked a paradigm shift in the focus of banking from class banking to mass banking. This had pushed up gross domestic savings of households to 22.6 per cent of Gross Domestic Products from just 9.5 per cent in 1970-71. Due to catalytic force created by the theme of nationalization, Banks are now well poised to join hands with the regulators to successfully achieve the mission of financial inclusion, thus bring the people living in the villages under the ambit of Banking System. Nationalization of banks can now work as a springboard to enable banks to catch up with the challenges of financial inclusion agenda on a much stronger footing.

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Beyond the rescue : exiting intensive care and finishing the reforms

The financial crisis has left policymakers with a daunting legacy, especially in industrial countries. In setting policies, they must adopt a medium- to long-term perspective while they cope with the still fragile and uneven recovery. Households have only just begun to reduce their indebtedness and therefore continue to curb spending. Extraordinary support measures helped to contain contagion across markets, preventing the worst. But some measures have delayed the needed adjustments in the real economy and financial sector, where the reduction of leverage and balance sheet repair are far from complete. All this continues to weigh on confidence. The combination of remaining vulnerabilities in the financial system and the side effects of ongoing intensive care threaten to send the patient into relapse and to undermine reform efforts.

Macroeconomic support has its limits. Recent market reactions demonstrate that the limits to fiscal stimulus have been reached in a number of countries. Immediate, front-loaded fiscal consolidation is required in several industrial countries. Such policies need to be accompanied by structural reforms to facilitate growth and ensure long-term fiscal sustainability. In monetary policy, despite the fragility of the macroeconomy and low core inflation in the major advanced economies, it is important to bear in mind that keeping interest rates near zero for too long, with abundant liquidity, leads to distortions and creates risks for financial and monetary stability.

Fundamental reform of the financial system must be completed to put it on a more stable foundation that would support high sustainable growth for the future. Above all, reform should produce more effective regulatory and supervisory policies as part of an integrated policy framework. A new global framework for financial stability should bring together contributions from regulatory, supervisory and macroeconomic policies. Supported by strong governance arrangements and international cooperation, such a framework would promote the combined goals of financial and macroeconomic stability.

(Source : BIS 80th Annual Report)

Managing Work and the new workforce - Challenges for today's Manager

J. Job Xavier *

Tradition has it that it takes about 10,000 hours of practice or 10 years to become an expert as evident with those who complete a Ph.D, MD or become an accomplished authority on any subject. As against this, present estimates state that knowledge doubles every 18 months, indicating a vast array of information and knowledge that is getting accumulated, the world over every single second. This is a challenge that organisations of the future have to face such as, how to manage knowledge and how to manage the workforce that will be influenced considerably by current methods of disseminating knowledge. We shall refer to the new workforce as Millennials or Gen. Y.

A look at the last 15 years since the arrival of the mobile phones will reveal an alarming state of change. The earliest application available and most frequently used by mobile users was to make and receive calls and save numbers which too had limits of 200-300, etc. The appetite for more and more applications have resulted in a large number of features being introduced by every subsequent mobile instrument and today the iPhone provides around 1,30,000 applications and it is predicted that with stiffer competition, the applications available for the next generation mobile phones could touch 5,00,000. Similar multiplying effects are seen in most other technical gadgets such as cameras, music players, etc. These developments again relate to multiplicity of choices available to an individual who may be young today but will make up the workforce of tomorrow.

As Millennials continue to enter the workforce, organizations have had to be more aware of their work styles, attitudes and perspectives on business.

"Millennial Inc," a 2010 study focusing on the U.S. and U.K., provides insights into Generation Y's approach to business based on a survey conducted by Mr. Youth, a social marketing agency, and Intrepid, a market research consultancy.

The study found that the average 26-year-old has had as many as seven different jobs.

While many members of older generations are highly skilled at a certain task or in a specialized field, Millennials seem to want to acquire an assortment of qualifications, explained Mr. Doug Akin, managing partner at Mr. Youth.

"They've grown up as multitaskers, and the multitasking is somewhat emblematic of the way they're going into jobs - they're trying to get a variety of different skill sets and experiences in a very short period of time," Mr. Akin said.

What's more, the study showed the top reason for Millennials changing jobs is they "just needed a change."

"[Look at] the people who worked 15 years in a job or an industry or a plant and had comfort and security," Mr. Akin said. "[In contrast,] Millennials are really just trying to find what's right for them, and they're less focused on a long term career. There are definitely bumps on the road, [but] they'll learn from something, and they'll move on to the next opportunity."

Mr. Akin offered a few basic principles talent managers can use to engage Millennials.

1. Place emphasis on ideas more than experience.

Millennials tend to leave companies where their bosses are afraid of or feel threatened by their new way of thinking.

* ***Executive Director, Trinity Academy***

"[Employers] need to embrace ideas from anywhere - from interns to associates to senior-level people - not to look at somebody and say they should have a larger voice in the generation of new ideas for the company based on seniority or experience. Sometimes the most novice people can ignite ideas and spark change," he said. That's where you see a lot of people getting frustrated - just because they're at a lower level, they're at the bottom of the barrel in terms of opportunity rather than [being given] a chance to shine and say, 'I have an idea that may sound crazy to you, but what if we did this?'

2. Increase collaboration.

The study showed more than 50 percent of Millennials prefer to make decisions as part of a team, pointing to a need to enable collaboration across the organization.

"It's peer comfort; it's peer trust," Akin said. "Like [in the case of] Face book, you have a bunch of kids that partnered up out of dorm rooms. They were hiring their friends to work, and they trust that comfort level.

"As the job market goes down, you're going to see a rise in young entrepreneurs, even more so in the coming years than today. And those entrepreneurs will be dorm room buddies; they'll be classroom peers; they'll be members of the same sports team; and they'll all have great ideas and work on them together. They're going to come to expect [and] to want to make decisions through group kind of thinking and discussion."

A quick search through the net asking questions as to what are the expectations of the younger generation from their management elicited, among others, the following responses :-

1) Why don't they allow us to take a nap after lunch?
2) Do they realize how much they lose out when they block all the social networks from employees like us?
3) As married ladies, we have equal priorities at home and will assure the management of adequate output if allowed to work from home.
4) When will management become modern and talk to us in a language that we understand?

Strange as this may seem, they reflect the concerns of the growing generation, who do not understand the continuous need to stick to a traditional office environment for getting the work done. Thus for them, a typical desk or a marketing job where so much work output has to be clocked or so many clients met before the day / week ends, becomes meaningless when an efficient networking by them can fetch the same response and results from over a 100 acquaintances in hours.

They can prove it because every evening at home they are in touch with a huge number of friends and acquaintances, multitasking, in Face book, Twitter and what have you. A sensible manager would then be one who facilitates better employee efficiency using the same tools that they use so effectively in their personal lives.

Managing Knowledge and Change

Organizations used to rely on the knowledge, experience and expertise of their leaders to provide a competitive advantage. In today's fast-paced business environment, however, leaders must possess the wherewithal to deal with more dynamic scenarios.

"The organization has to lead change, rapid change. The environment is changing - someone's inventing something before you expect it or something is collapsing in front of your eyes : How do you respond?" said Ms. Pontish Yeramyan, founder and CEO of Gap International, a global management consulting company.

"It's becoming much more important to deal with change and creativity and innovation and speed and nimbleness," she said. "Those are part of producing the results; you have to pay attention to those factors."

"Internally, organizations are a lot more complex, a lot more not just matrix, they're multi-matrix," she said. For instance, Ms. Yeramyan said recently she read how an individual was expected to report to

not one, but five bosses and found it challenging to align the objectives of all five.

Another quality required of the 21st century business leader is the ability to think more strategically and to be able to look at the big picture.

"A strategy that is designed [with the big picture in mind] must be holistic, touching every aspect of the organization, including employees, customers, [and] consumers, and integrate all internal and external stakeholders," Ms. Yeramyan said. "Viewing the strategy of the organization in a way that covers the entire enterprise gives richer and ultimately quicker decisions that impact the current performance of the business."

Leaders also need to be more authentic and to show their authenticity because this will enable them to more easily institutionalize organizational changes.

"The more real and vulnerable leaders are about what they see, the changes they want to make and the challenges they face, the more people will identify themselves with the leader and the more willing they will be to adopt change," she said.

Leaders also must foster a genuine commitment to develop others.

The American Standards for Training and Development, (ASTD) probably the world's most leading authority on training and learning, comes out with regular findings based on research with regard to learning. A few of their recent findings talk about a practice whereby current media games are made available for high end managerial activities. Thus, they have cited a regular application called Multiplayer - Online Role Playing games which has been identified by IBM as a major instrument (game) for developing leadership skills. While in India, we come across major leadership learnings circulated via the net, even from films like Lagaan and Chak De India, IBM seems to have gone a step beyond in making even senior managers play and develop leadership qualities.

In fact, a move is on in some organisations to develop a set of products and services about the organisation that will be put out like a game for prospective employees to play and understand even before they join the organisation. The assessment of the organisation, its culture as well as the subsequent job fit after such an exercise could only be very positive. The staid company presentations at campuses could undergo a complete change if only we think different.

Very soon the CV of an individual may not just talk about his qualifications and experience, but also his networking data so that the profile becomes much fuller with insights into his social networking skills. In fact there may come a time when instead of exchanging business cards, people may exchange their short titles or designations under which they are known within the network such as Face Book, Twitter, Linked-in, etc. Employee skills will not necessarily be related to those gathered from education, and a lot more importance will be given to actual learning from around the world available to everyone today through the net. Managing learning would thus become the most challenging task for organisations and managers. Training could thus become the owner of knowledge management though even as of today; knowledge management is still taking off as a separate vertical in a number of organisations. While an organisation itself may not be up-to-date on the knowledge front, its employees, especially the younger ones may be so far ahead of the older working managers that the seniors may actually feel hurt because they are not able to learn as fast or as much as the younger generation. The much talked about reverse mentoring will find a place soon in all our organisations.

Education will no longer end with an MBA or Ph.D. The brighter ones will be those who are constantly updating knowledge and the CEO and the Top Management team would be those who will be able to manage knowledge along with the working population. It won't be long before countries and organizations offer “life long education clubs” with membership at a premium where information and knowledge levels acquired will be judged periodically. The individual dossier on an employee will not only show how much he

has worked or performed but how much learning has been acquired and the potential for acquiring more knowledge. Here a mature and conscientious 50 year old may exhibit far more potential for knowledge than a younger person who may have got lost by not identifying the right type of knowledge to acquire.

Former IBM chief executive Thomas J. Watson once wrote, "I believe the real difference between success and failure in a corporation can be very often traced to the question of how well the organization brings out the great energies and talents of its people."

Affording employees the opportunity to interact creatively with other industry professionals develops and diversifies the skill sets and business perspectives of the workforce. Furthermore, the exercise encourages delegates to utilize their skills to pursue ambitious and inventive projects.

Globalization is constantly unlocking new markets, presenting companies with a veritable ocean of emerging business opportunities. Initiatives like innovation camps that synthesize talent development and business innovation goals can be the key to ensuring a company's sustainable growth in the sink-or-swim world of modern industry.

The workplace will have many more tricky situations to handle while the all common stress will affect many more. Those who learn how to cope with stress will again be the winner as organisations and society look for leadership from those who are more balanced than the general public. The workplace will shape up in ways far different from those current and many an organisation might resort to allowing employees to work from anywhere as against a fixed location. This could result in considerable saving both on real estate and office infrastructure as also due to increased efficiency and output from those who value a work life balance and seek more time to themselves.

The flipside would be considerable scope for harassment at work from a number of sources including anonymous ones that can play around using networks. Privacy as valued and prized by many will no longer be available as security concerns as well as technological advances would make it impossible for one to keep even one's thoughts private. This could lead to more stress and also to spreading frustration right through the net. Examples abound of young misguided people committing suicide on the network with visuals for all to access live.

Another major challenge would be for the older generation on how to conduct themselves while managing highly skilled professionals from the younger generation at the workplace. Managing emotions at work will be almost impossible as the way emotions are displayed by the younger generation could be very different from the traditional emotional baggage that organisations have dealt with. While sexual harassment and abuse at the workplace are rampant, there may come a time when such incidents may die a slow death because nothing will stop a disgruntled employee or her friends from airing the behavioural discrepancies from an abusive colleague at the workplace.

An organization bound together as a community of character sees itself as dynamic and in motion. It is defined not only by its codes of ethics or core value statements, but also by its actions - how it behaves toward employees, customers and other stakeholders.

A company's character is evident in every moment, especially in the manner in which those in power treat others in the organization. Courage, compassion, diligence, dedication, reliability, honesty - these virtues and many others are not simply learned about or codified in mission statements; they must be explicitly lived. Leadership training for companies of character focuses not only on how to rally disparate parts of the organization toward business ends but also on modeling the behaviors - words, attitudes and actions - the company expects its employees to demonstrate to themselves and especially to customers.

This is an attitude expressed well by Mr. John Lechleiter, chairman and CEO of pharmaceutical company Eli Lily. "My personal view," said Mr. Lechleiter, "but also one that has been shared by the Lily family since the very beginnings of the company in 1876, is that the way employees are treated has everything

to do with the success of the business and, ultimately, how employees treat customers and anyone else who is a stakeholder for Lily."

A company is built on a set of relationships with customers, employees and other stakeholders. Any leadership development program that does not focus explicitly on how specific relationships are to be acted upon cannot hope to positively influence performance.

The management as well as the HR functionaries will have to address these issues and provide solutions which are not the best but accepted by the workforce as the most reasonable and viable solution because the moment a solution is put out for any issue there would be enough net search being done to see if some other organisation offers a better solution for a similar problem. The manager will therefore have to be much better organized and informed on what is current and what is relevant and above all what would tick in the given culture of an organisation. Similarly, where any HR or Accounts or Marketing is concerned, the older generation will have to understand a lot more of newer information and application. Thus when a bright youngster asks in a general meeting as to why the company has not thought about "Cloud Computing", the manager and even the IT Head should be able to explain in detail what it is all about and when (and not never) the company will also resort to "Cloud Computing".

Managerial behavior if not conducive and appreciated by subordinates can become public knowledge almost instantaneously and senior functionaries who manage to keep office matters away from home may be confronted by a teenage son or daughter who is privy to information about his office behavior freely available on the net. These challenges are not imaginary but are very real, in fact as real as the next message flying around the net which could be talking about, say, President of U.S. slipping while getting out of a bathtub.

The sum and substance of these developments is that the present management will have to gear up to change not necessarily their working style or the way the products are positioned but definitely in relation to the way they manage the workforce. Modern solutions are available, consultants provide some, the net provides many but it is ultimately the enlightened manager who will decide what is right and how to make that right decision to take the organisation to optimum levels.

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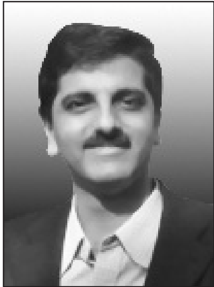
Fiscal sustainability in the industrial countries : risks and challenges

The level of public debt in many industrial countries is on an unsustainable path. Current budget deficits, partly cyclical but also swollen by policy responses to the crisis, are large in relation to GDP. And expenditures related to ageing populations are set to increase considerably over the next few decades. Recent events in Greece and other southern European countries have shown how quickly investors' doubts about the sustainability of public finances in one country can spill over to others. In addition, high levels of public debt may lower long-term economic growth and ultimately endanger monetary stability.

These risks underscore the urgent need for credible measures to reduce current fiscal deficits in several industrial countries. Tackling the long-term fiscal imbalances requires structural reforms aimed at boosting the growth of potential output and containing the future increase in age-related expenditures. Such measures may have adverse effects on output growth in the short term, but the alternative of having to cope with a sudden loss in market confidence would be much worse. A programme of fiscal consolidation - cutting deficits by several percentage points of GDP over a number of years - would offer significant benefits of low and stable long-term interest rates, a less fragile financial system and, ultimately, better prospects for investment and long-term growth.

(Source : BIS 80th Annual Report)



Leveraging Organisation Structure to Drive Predictive & Productive Growth

Deepak Malkani *

Sunil Kumar Tadepalli **

"How should the organisation be structured to enable :

a) Sustainable, scalable and cost-effective growth?

b) Stronger and more effective controls

c) How do we build a culture of accountability and performance orientation at each level?

d) What competencies do we need for each role in the new organisation structure?"

The global recession and the slowing of international demand led some companies to undertake significant restructuring, while others leveraged strong cash positions to capitalize on the opportunities for acquisitions and new alliances. In both these contexts, organization design stood out as a harbinger of organizational strength and will prove to be a determinant of future growth as the economy turns around. As the growth momentum is coming back, more and more senior executives in Indian organizations are asking themselves questions of the nature mentioned above. Post recession, there is a strong focus on optimizing talent investments - measuring return on talent investments.

An organizations' design, in its real sense is not just about 'boxes' and 'lines' - organization charts. Rarely are such charts reflective of the way work (really) gets done or how decisions are made. An organization's design evolves in fits and starts, often shaped more by politics than by policies. Although most executives know when their organization designs are not working well, few possess a practical and simple framework for making improvements.

At Accenture we believe an organization design should be undertaken along four dimensions :

a) *First dimension :* Fundamentally the design principles should be grounded in the Organization strategy

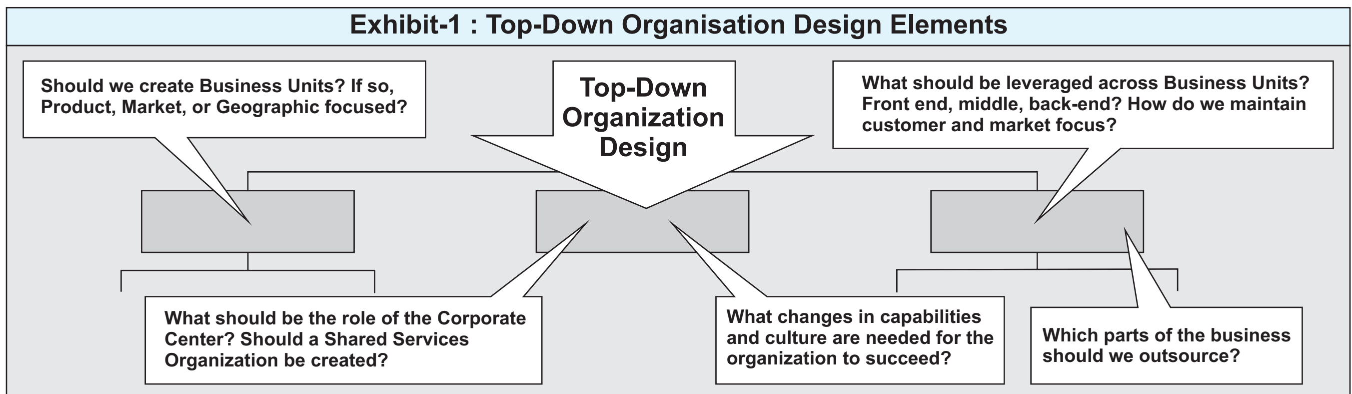
b) *Second dimension :* Design should be aligned with Business Workflows / Processes

c) *Third Dimension :* The design must factor in the desired culture and leadership capabilities

d) *Fourth dimension :* Enabling processes like performance management system, reward practices etc., should be calibrated to support implementation of the design.

Apart from the above dimensions, typically the following questions (as presented in Exhibit-1) come into consideration when organizations adopt a "top down approach" specifically aimed at driving growth.

Exhibit-1 : Top-Down Organisation Design Elements



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Many Indian organizations have grown significantly in the recent past and have created a pan-India presence and this growth has come at a cost, lack of harmonization of processes leading to cost overruns, compliance issues and more importantly an unengaged workforce. In the past, the prescription for organisation design was relatively straightforward : grow from a solid foundation of the core function and replicate well-established rules and processes across a larger geographic area, adapt to local conditions but resolve conflicts in favour of the home-office culture and reduce complexity by maintaining a relatively homogeneous leadership team.

More recently, however, the playing field has changed. Competition in many industries is now truly global with leading players emerging from all corners of hitherto developing countries. Consider IT service providers and automotive challengers from India, electronics giants from Korea and state-led natural resources behemoths from China, all of which make for a far more complex business landscape. An effective global operating model, the means by which executives coordinate a corporate center with geographic units as they pursue international growth is critical to successful growth in today's economic context. Sounds easy, yet companies from developed and developing economies alike, find it challenging to create the right combination of global coordination and local responsiveness.

Exhibit-2 : A Case Study

One of India's leading Microfinance Company reached out to Accenture for assisting in organisation design. The organisation was growing at an astonishing pace of >100% year-on-year (YOY). This kind of growth was putting significant pressure on the bandwidth of the existing senior management team. There were also issues around compliance and employee engagement due to the speed of growth. In the words of one of the senior executives of the organisation "… the situation is like we are still laying the tracks and the train is already coming fast at us, coming at more than 300 KMPH…!"

Engaging all the relevant stakeholders, including members from the board, and applying an in-depth analytics to the organisation context, Accenture arrived at Organisation Design themes. An interactive workshop was organized where all the themes were considered and prioritized. Elements of the design were discussed and all the stakeholders signed off on the concept.

Continued...

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Accenture facilitated the workshop by bringing together a) research on "Hall marks of delivering high performance in Indian rural markets"; b) thought leadership based on "Global Microfinance Operating Models" and; c) insights from the Indian Telecom Industry. This diverse knowledge base was applied to the client context to uncover unique opportunities that could be leveraged in the process of Organisation Design. Idea was to create an organisation design that very strongly aligns with the overall Organizational construct and one that is difficult to replicate.

Design process resulted in a "Hub & spoke" concept with an increased delegation at regional level. An enabling Organisation Structure was accordingly created. To support the structure, relevant processes, technology and people interventions were identified as well. Apart from these, Accenture worked very closely with the client organisation and identified productivity improvement initiatives as well.

Key client benefits delivered :

- The regional governance model will directly increase revenues and result in higher operating margins through increased business process efficiency and decision making speeds
- Reduced risk impact leading to higher profitability while providing management time for strategic & planning activities (as compared to time spent in fire-fighting)
- Productivity linked benefits :
  - Improve field force bandwidth and operating margins through reduced customer acquisition and service time
  - Improve employee morale and retention.

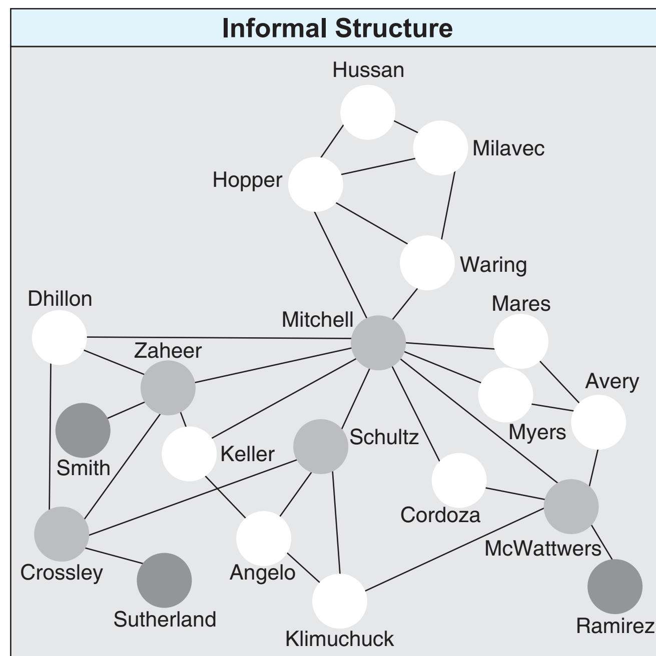
Another growing family run enterprise, significantly different in scale and complexity from the organization mentioned above, recently went through an organization design exercise so as to better enable them to achieve their aggressive growth targets, particularly in the face of shrinking demand. The expansive canvas of the exercise and a strong desire to undo past mistakes, resulted in creation of structures, processes and systems that were all aligned to each other as well as to a higher goal - the growth vision and a value discipline of operational excellence. The external focus enabled creation of a nimble, elegant organization structure that could accommodate geographic growth and yet allow for centralized control in high risk and critical areas. The organization aligned all its people systems as well as technology to this new design and truly benefited from the customer focus and innovation capability that the design augmented. Today, this organization is an apt example of an organization that

expanded the hitherto narrow confines of 'organization structuring' and reaped the benefits of an alligned, high performance organization.

An emerging view today is that hierarchical structures of reporting relationships offer only a partial view as to how an organization functions. Organizations are complex networks defined by a web of interconnecting relationships that affect reporting, influence, information flow and collaboration among people at all levels. Applying network theory techniques, one can map the informal structure and see how decisions actually get taken, how they are sometimes blocked, how improved collaboration can emerge and how sometimes very key "connecting" roles can be played by people lower down in the hierarchical structure.

Organization design interventions can effectively steer companies through crisis or inflection points. However more often than not, senior leaders use restructuring as a cure for all maladies. This should be cautioned against. While organization design can be used as a potent tool for unlocking value, the objectives for any organization design exercise should be clearly spelt out. Structural changes are time consuming and often disrupt organizational activities. Also new structures often create new organizational problems that are as troublesome as the ones they try to solve. Organizations also run the risk of losing a great deal of tacit knowledge in the process. Hence an objective assessment of the need for organizational design interventions is of utmost importance.

Informal Structure



In the final reckoning, a holistic look at organization design is one of the most potent tools to translate organization visions and strategies into reality.

Post-crisis policy challenges in emerging market

Emerging market economies (EMEs) are recovering strongly and inflation pressures there are rising. Given low policy rates in the major financial centres, many EMEs are concerned that their stronger growth prospects could attract destabilising capital inflows, leading to currency appreciation. Some continue to keep policy rates low and resist exchange rate appreciation by conducting large-scale intervention in foreign exchange markets. Such policies tend to be associated with a sizeable expansion in bank balance sheets, rapid credit growth and asset price overshooting. The risks of domestic overheating thus increase. To promote more balanced domestic and global growth, some EMEs could rely more on exchange rate flexibility and on monetary policy tightening. In addition, prudential tools have an important role to play in enhancing the resilience of the financial system to domestic and external financial shocks. In contrast, while capital controls may have a limited and temporary role, they are unlikely to be effective over the medium term.

(Source : BIS 80th Annual Report)

Innovative Talent Sourcing - Strategies for the Future

Deepak Malkani *

Sunil Kumar Tadepalli **

Post the economic downturn, business leaders are going to have to dig deep into their energy reserves to prepare their companies for growth in the years to come. While there are numerous viewpoints in terms of managing talent in the post recession scenario, one thing is clear more than any other function - HR's role in impacting Business Results will be a topic that will attract lot of attention; improving organization's ability to attract talent, efficiently & effectively, to drive Business results will be on every CEO's agenda!

It is often said that India is faced with a "talent paradox." While jobs are growing at a faster rate than the population, unemployment is also growing. The dual problem of unemployment and talent scarcity presents governments and employers with a significant paradox: tackling a talent shortage in the midst of plenty.

Much has been written about India's demographic dividend--a rise in the rate of economic growth due to a rising share of working-age people in a population. India has one of the youngest populations in the world - average age forecasted in 2020 will be 31 years, much lower than the US (38), China (39), Japan (48) and Germany (48). The working-age population has been growing by an average of about 15 million a year, over the last 8 years.

Yet, while demographics indicate a healthy supply of working age people in India, there exists a significant skill deficit. This talent shortage stems from education practices that are often focused on simply conferring qualifications on individuals while the ability to perform a job or contribute in the workplace is seldom taught. The quality of education is also a challenge with understaffed schools and high student-teacher ratios, especially in rural areas.

A number of emerging industries continue to spur demand for new skills. The Indian insurance industry for example, will need almost 4 million sales professionals (contract agents and sales supervisors on company rolls) over the next three to five years. An organized healthcare and retail are sectors simmering for take-off. In this context, the ability to identify the right sources of talent, and acquiring that talent cost-effectively can be a source of tremendous competitive advantage for businesses. Recent research and our experiences with Indian businesses point to several innovative strategies.

A forward-looking strategy is to develop talent in those Indian states that will supply a significant portion of the national workforce in the future. For example, a leading metals conglomerate determined that it will need significant captive-power capacities to support its exponential growth aspirations, but will face a severe shortage of qualified electrical engineers. It is investing in state-of-the-art power-training institutes in the vicinity of its plants in North and East India, to develop high-quality engineering talent, custom-trained and oriented to its needs. Such examples now are abound in corporate India.

Some companies are now looking for talent beyond the traditionally accepted workforce demographics and experimenting with new types of diversity in the workforce including gender and age. Gender diversity, sorely lacking in corporate India, particularly at senior levels, is finding greater advocacy. It is being recognized

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that providing women workforces with jobs having more flexible work-life balance, can contribute to a high level of commitment, engagement and retention. The "second career" model, an interesting internship program initiated by one of India's largest business groups, targets qualified women in their 30s who have taken a break in their career , typically for marriage and raising children, but who find themselves in a life-stage where a second shot at a professional career is an attractive value proposition.

Another workforce segment that presents untapped potential are senior citizens who very often are physically fit for a continuing career but lack skills relevant to new sectors. A unique initiative by a leading national retailer deployed senior citizens rather than young college graduates as cashiers in its stores. This organization found the senior workforce to be far more cost-effective, more loyal, and demonstrating a higher quality work-ethic, all factors which eventually contributed positively to the bottom line. In fact, the world's largest home improvement specialty retailer, specializes in recruiting senior citizens or people older than 50 who are experienced plumbers, electricians, or general contractors.

Many traditional organizations have found that they need to change their old model of recruitment, which looked primarily at sourcing talent from competitors in the same industry. As the engineering industry loses talent to the IT sector and consumer goods and pharmaceuticals lose trained sales forces to emerging sectors like insurance and telecommunications, more organizations recognize that they must adjust their model for sourcing talent. Talent in fact operates in a borderless world. A hot-bed of potential innovation is the Insurance industry, where the war for talent is fierce. One private insurer has devised several innovative approaches from creating a "talent map" of potential supply pools across industries and cities, to targeting sources like online networking sites and existing social networks eg. kitty parties - which have a critical competency for success as an insurance salesperson, the "ability to connect and influence".

Exhibit-1 : A Case Study

One of India's top 5 Insurance companies reached out to Accenture for assistance in providing services for frontline sales force recruitment. The deal is of significance given the Industry context wherein ~85% AFYP contributed by agency channel, however a) there is a strong variability in performance of agents across geographies and high attrition of agents (inactivity and attrition is much higher at 55% than the global average of 25%); b) Changing market dynamics with increased competition and increased commoditization of products; c) Direct selling, as a channel is at its infancy

Given this context, this is first instance in India, where an insurance firm has joined hands with an external partner to manage a very critical activity i.e., recruitment of agency managers.

Accenture, using its expertise in management consulting and outsourcing, crafted an innovative, integrated solution to meet this critical business demand for the client. The key feature of this approach is a shift towards competency based interviewing and industrialization of the process by using a recruitment management system with enhanced data collection capabilities.

The following benefits are deemed to accrue to the client -

- Definition of the competency framework for selecting agency managers
- Development of the internet sourcing channel
- Management of the recruitment funnel
- Deployment of an analytics and reporting framework to track performance of the program.

This solution will help address the client's issues by helping recruit a consistent and better quality of frontline sales-force, which in turn will positively impact sales metrics.

Infusing new talent in an organization is about more than just "recruitment". It needs the understanding of mind-sets and motivations of different workforce segments. It is about developing an integrated talent strategy that increases productivity and enhances engagement and retention. As a quick reference organizations would do well to answer 5 critical questions (as detailed in Exhibit-2) in the context of talent acquisition

1. "What kind of talent will I need?"
2. "Where will I find them?"
3. "How will I make myself attractive to them?"
4. "How will I recruit them fast and efficiently?"
5. "Do I have a model to handle recruitment (effectiveness)?"

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Exhibit-2 : An Integrated Talent Acquisition Strategy

DEFINE | DISCOVER

TA Value Chain

Strategy | Diagnostics | Alignment

Organization Ambition and Strategy → Talent Acquisition Strategy → Workforce Planning → Talent Supply Mapping → Align Talent Acquisition To Best Practices → Talent Value Proposition

HR Function Support- Workforce planning

Who do I need?

Talent Supply Mapping

Where will I find them?

Talent Value Proposition

How will I make myself attractive to them?

Recruitment Process

How will I recruit them fast and efficiently?

Recruitment Model

Matrix

Do I have a model to handle Recruitment?

As organizations emerge from the downturn, the competition for talent will only get more severe. This is an opportune time for organizations to get a deep insight into India's talent demographics, and fundamentally rethink their talent sourcing strategies. This could make the crucial difference between average performers and the winners.

Macroprudential policy and addressing procyclicality

The stability of the financial system is undermined by distorted incentives and procyclical feedback effects. Macroprudential policy, which broadens the perspective of traditional prudential policy, can readily strengthen the resilience of the financial system to procyclicality by adapting conventional prudential tools. Countercyclical capital buffers, for example, can be built up when credit growth rises above trend during a boom, and released during the downturn. Other measures such as ceilings on loan-to-value (LTV) ratios for mortgage lending can act as automatic stabilisers because they will bind more during a boom when banks typically seek to expand property loans by accepting high LTV ratios. Such approaches could help to restrain credit and asset price excesses and thus mitigate the build-up of systemic financial vulnerabilities.

Addressing procyclicality is closely linked to traditional macroeconomic stabilisation policy. A more resilient financial system complements countercyclical monetary and fiscal policy, helping address threats to financial stability in the downturn. That said, monetary policy does need to lean more against the build-up of systemic financial vulnerabilities during the boom. That can be done by lengthening the policy horizon, thereby promoting long-term price stability more effectively.

(Source : BIS 80th Annual Report)

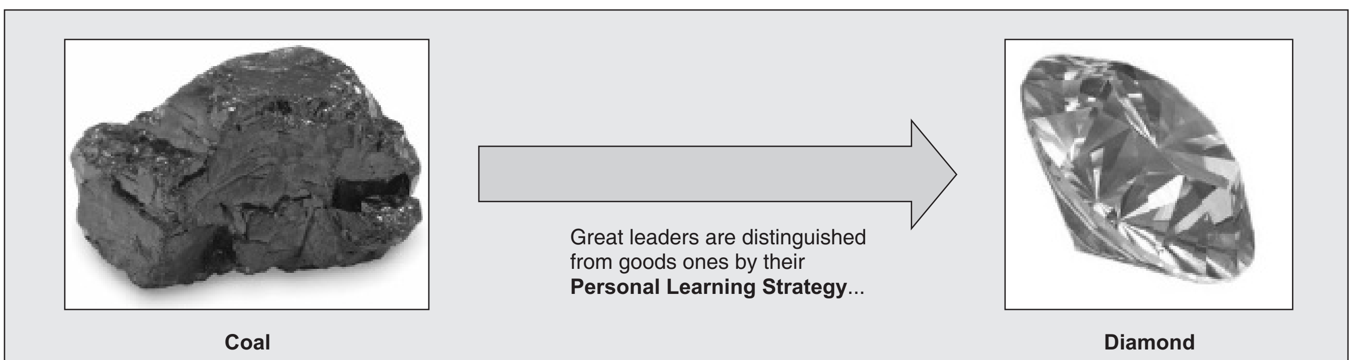
Using Crucible Experiences to Develop Leadership Potential

Jayesh Pandey * Deepak Malkani ** Shammak Banerjee ***

Discussions about leadership in business are often limited to the role of a charismatic CEO at the helm of the organization. However, in modern, complex, global organizations, leadership is more a capability than a position. In difficult economic times, companies need people at all levels to exhibit leadership behaviors not just the CEO. As Indian organizations scale up and globalize, their need increases for a pipeline of future leaders whose competencies are aligned with the strategic agenda of the business. Against this backdrop, leadership development can indeed be an instrument that unleashes the untapped potential energy of an organization.

There are certain pertinent questions that have challenged organizations for decades with regards to leadership; what makes a good Leader? What characteristics define a good leader? Why is it that some people naturally seem to inspire confidence, loyalty and hard work while others (who have just as much visions and smarts) stumble? Researchers in the area of leadership believe that it has something to do with how leaders deal with trying circumstances. Recent research concludes that one of the most reliable indicators and predictors of leadership is an individual's ability to find meaning in events and derive wisdom out of most trying circumstances.

Accenture's decade long study, interviewing successful leaders across the corporate world, sports, performing arts, non-profits and government, reveals that what matters most in leadership development is not just innate capabilities or a sterling resume but what one makes of experience. That is, when asked to describe the events or relationships through which they learned how to lead, none of the accomplished executives mentioned an MBA program or a formal leadership development workshop. Instead, they talked about the traumatic and unplanned events that challenged their identity and place in the world and their understanding of how people work. For these leaders, these experiences were a test, a point of deep self reflection that forced them to question their identity, hone their judgment and question their assumptions. Invariably they emerged out of these experiences stronger, more sure of themselves and changed in some fundamental way.



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The research termed these experiences "crucibles" after the vessel used by alchemists in ancient folklore to convert base metal to gold. Here a crucible by definition is a transformative experience through which an individual comes to a new or an altered sense of identity. Fortunately not all crucible experiences are traumatic. In fact they can involve a positive, if deeply challenging, experience. Importantly, crucibles can be found more often in personal experience in family life, athletic competition or personal loss than they can on the job. "The ability to find meaning and strength in adversity distinguishes leaders from non-leaders."

Most leaders have learned at work and in life, yet organizations rarely make most of that experience. Leveraging leadership crucibles to transform talent can be a powerful approach to sustainable leadership development.

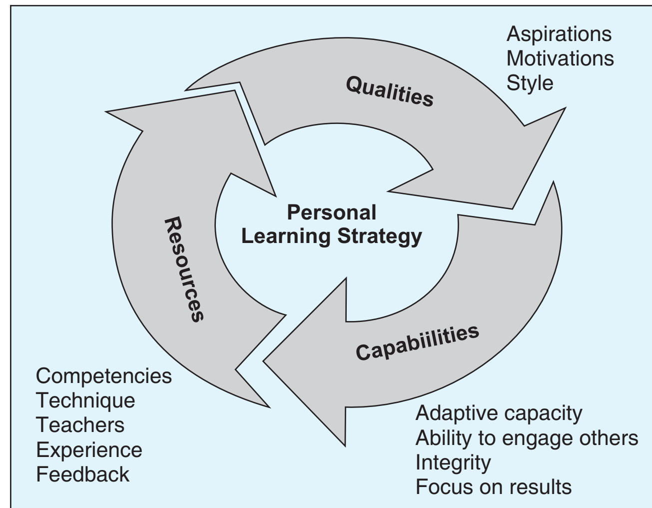
The Crucibles experiences teach us about two things. Lessons about Leading and Lessons about Learning and builds from three powerful, research-based insights :

1. Experience is the best teacher, but work is not the only experience that matters
2. Leadership is a performing art - it takes deliberate practice to improve your performance and
3. Great leaders are distinguished from good ones by their Personal Learning Strategy

Different events or a relationship through which you learned something important about leadership take many forms and can happen to anyone. Leveraging these experiences can make an individual more effective. If we look at the second insight, it states that leadership is a performing art, master sportsmen and performers hone their skills with practice, and this model applies to the workplace as well. Research on expert performance demonstrates that practice can trump talent. The five key elements through which performers achieve that status are :

Talent - Ambition - Grasp of method - Great teacher - Feedback

It is practice during performance (on-the-job learning) that lends greatest impetus to one's development as

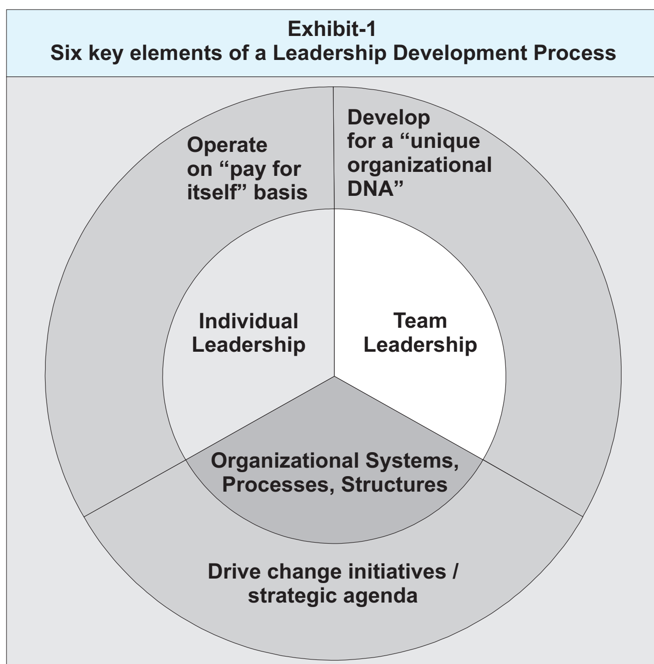


a leader. Conscious self-observation, experimentation, and adaptation in the midst of performance are the key ingredients to practice while performing.

To help leaders transform their crucible experiences into lessons that will make them more effective, it is needed to develop a Personal Learning Strategy, the third insight. This tool offers practical, step-by-step guidance complete with self assessments and exercises so that leaders can understand how they learn best and extract more insight from their daily work and life experiences.

Personal Learning Strategy is a style, combined with a vision, that an individual owns, that's driven by his or her ambition, tailored to how he or she learns best, and borrows deeply from personal sources of inspiration. This Personal Learning strategy is something anyone can devise and can be put within reach of any aspiring Leader.

Based upon research, as well as Accenture's experience with corporations, Exhibit-1 outlines critical themes that form the basis of a sustainable and effective leadership development process. Benefits of leadership development are best accomplished when the focus is on individual development, team leadership development and organizational systems and processes. The approach should also focus on unique organizational DNA, driving the strategic agenda and operate on pay for itself basis.



Case Study at a Leading Indian Public Sector Undertaking in the EPC sector

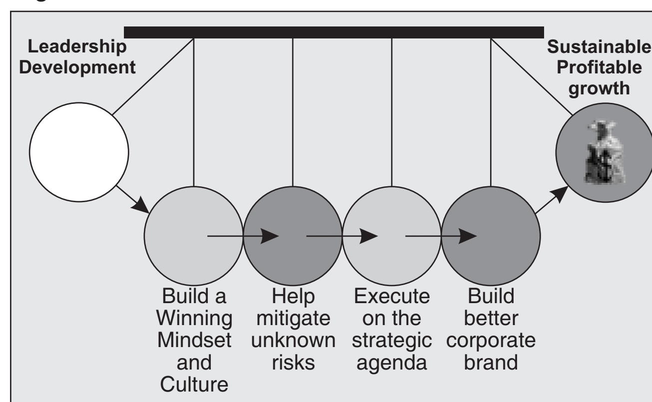
One of India's leading engineering design and EPC companies implemented Accenture's crucible based leadership development program, with an aim to build the internal leadership pipeline. The organization had been growing at an exponential pace; to meet the organization's growth strategy, it recognized the need to develop leaders internally that would be able to lead the company on its intended growth path. These leaders should be able to take up roles that demand visionary thinking, external focus, beliefs and passionate commitment to their organization's core values. The Client invested in this program to build critical leadership competencies & to align the full leadership team with the organization's growth agenda.

The program was divided into two phases of self-reflection and development. The first phase of the program focuses on participant selection and self reflection through development of one's Personal Learning Strategy (PLS). PLS is a practical, step-by-step guide comprising of self assessments (Personality & Leadership Profile, 360 Feedback) and other content driven exercises to understand how participants could extract insights from their daily work and transformation experiences. To ensure that these changes endured, there is an intensive focus on their Individual Leadership Development Plan (ILDPs) to address the development needs.

The second phase focused on participant development, primarily through Action Learning Projects (ALPs), and implementation of their ILDPs. The skills learned through such projects will provide a framework on how to solve future issues and sustain change. The ALPs & ILDP were supplemented with offsite programs / workshops where the groups got an opportunity to understand the project in detail, learn more about concepts like essentials of teamwork, self development, communication skills, leading change, etc. In addition, immersion sessions were conducted on a periodic basis, where Senior Management members shared their knowledge and experiences on topics of interest with the participants. Each participant is also assigned an individual coach to help them learn, grow and improve beyond their work sphere.

The leadership team emerged from this crucible with a distinctly different perspective and understanding of their role in the organization. The benefits of the program were felt by all participants with significant improvements in business performance, individual effectiveness and core leadership skills such as the ability to collaborate, communicate and think strategically & creatively.

With demand for Leaders growing in all quarters; be it the top or the front line managers - the demand is more specifically for skilled, adaptable and learning leaders. Companies spend billions annually on development, but miss critical insights and opportunities. It's not clear that conventional HR practices, which are being followed in organizations, will address the need for more leaders.



While organizations can neither teach people to lead nor compel them to aspire for greatness, they can provide an environment where leadership can develop and thrive. Leadership development challenges can be met by leveraging organizational history and turning crisis into opportunity thereby creating unique ways of creating powerful crucibles enabling conversion of talent into leadership gold.

A Crucible based Leadership Development program is an approach that :

- Leverages the way people actually learn to lead
- Addresses the challenges of growing more leaders, faster
- Complements technical training with experiential learning
- Makes individuals active participants in their own development
- Can be applied in a systematic way at all organizational levels

The leadership programs have shown benefits across different industries, both within India and globally :

- "As a result of this piece of work, the client realized benefits of $40-$55 million of additional revenue / year"
- "15% reduction in overhead costs in first year, resulting in benefits of $mn 5.1"
- "Productivity has climbed more than 20 percent since the program"
- "Sustainable improved capacity utilization, productivity, quality and cost control"
- "Better Teamwork, Relationship Building Skills, and ability to create Buy-in…"

Source : Accenture Leadership Program Credentials, Global

Fiscal prospects in emerging market economies

Emerging market economies (EMEs) are likely to face fiscal challenges in the years ahead. At first glance, their fiscal position overall seems manageable. Indeed, unlike in the industrial countries, the ratio of public debt to GDP for EMEs as a whole is projected to change very little from its pre-crisis level of around 35%. Also, the rapid growth enjoyed by many EMEs raises the hope that their public debt ratios will not rise as fast as those of the industrial economies. Moreover, the high return to public investment in the EMEs can help sustain higher debt provided the latter is not financing wasteful consumption.

However, the aggregate fiscal position of EMEs masks important cross-country differences. For instance, the ratio of public debt to GDP of some EMEs such as Hungary and India, at around 80% or more at the end of 2009, remains high. More generally, some of the factors that have made EMEs less capable of supporting levels of public debt similar to those of more advanced economies might continue to be relevant.

First, weaker inflation credibility in EMEs requires their governments to depend to a greater extent on foreign currency borrowing to finance their fiscal deficits, which exposes them to fluctuations in the external value of their currency and to sudden reversals of capital flows. For example, foreign currency debt accounted for 63%, 58% and 40% of total public debt in Indonesia, Hungary and Poland, respectively, in 2009. However, Brazil and India, which are among the EMEs with the highest debt, finance their deficits mostly from domestic sources.

Second, the tax base - and, hence, tax revenue relative to GDP - is generally smaller in EMEs and cannot be easily expanded, given their lower degree of urbanisation and development. For example, the revenue / GDP ratio is below 25% in several Asian EMEs, compared with an OECD average of about 38% in 2008. Third, EMEs tend to be more vulnerable to adverse shocks in international trade and financial markets. A great concern now is that a possible intensification of fiscal problems in advanced economies may spill over to EMEs through weaker demand for exports as well as through an increase in investors' risk aversion and a deterioration of credit conditions. Fourth, fiscal policy remains very expansionary in some EMEs, contributing to booms in asset prices that may prove unsustainable. For instance, large fiscal stimulus programmes in China have been associated with the recent rapid expansion of bank credit there, which has created major risks for the economy and the financial system.

In addition to traditional challenges, several EMEs also face a rapidly growing elderly population as well as an increasing demand for social welfare coverage. Expanding the social safety net is desirable not only on its own merits but also because of the need to reduce large national savings in some countries and, thereby, global current account imbalances. But any such expansion must not jeopardise the long-term viability of the fiscal system.

(Source : BIS 80th Annual Report)

Export credit insurance : An effective marketing and financing tool

V. Viswanathan *

A) Importance of Export Credit Insurance

International trade of goods and services thrives mainly on credit. An ideal way of doing export business is to insist on full value of the goods or services to be paid in advance. Or an exporter may insist on an irrevocable Letter of Credit from a reputed bank. However, cash in advance and letters of credit are no longer competitive terms in the international market place. Buyers in Western Europe and the Pacific Rim, accustomed to purchasing on open account credit terms from their other suppliers, may expect the same consideration from Indian exporters as well. Customers in the emerging markets of Asia, Latin America, Africa, and other regions may be facing scarce capital and high interest rates, making it difficult or impossible to order products without credit terms. When the export business of an Indian exporter requires him to extend credit overseas, he can protect his company's riskiest asset -- foreign receivables -- against nonpayment losses with an export credit insurance policy.

Export credit insurance is an effective marketing and financing tool that can help an Indian company close more sales, increase order quantities, negotiate larger contracts, and penetrate new markets. Export credit insurance also enhances the borrowing capacity by making it possible to include foreign receivables in the collateral base. While ostensibly designed to mitigate non payment and other foreign credit risks, the primary benefit of export credit insurance is that it enables an Indian exporter to use competitive credit terms to increase both his international sales and the Profitability derived from these revenues.

Export credit insurance will :

- Increase order quantities by enabling overseas customers to economically stock more of the products of an Indian exporter; transfer inventory carrying costs to the foreign distributors; make larger production runs which reduce the impact of manufacturing setup costs; and take advantage of quantity discounts when purchasing raw materials or finished goods from suppliers.
- Negotiate overseas distribution agreements with larger stocking requirements by offering terms to new distributors; motivate existing distributors to keep more of the products on the shelf for increased visibility and availability in their local markets.
- Open new markets which the Indian company might otherwise perceive as too risky for extending credit terms; and take advantage of the opportunities to penetrate and establish market share in the world's big emerging economies. In addition to supporting the expansion of the company's international sales, export credit insurance enables the company to obtain more favourable financing from commercial banks by including insured foreign receivables in the borrowing base. The exporter can assign the rights to any claim payments by naming the bank as the loss payee under his policy.

Comprehensive credit insurance protects against political and commercial risks which can cause non-payment of the receivables. Commercial risks are defined as buyer's insolvency, repudiation or protracted non-payment of the receivables. These problems could occur for many reasons, such as fluctuation in demand, natural disasters, or general economic conditions in the

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buyer's country. Political risks include war, civil strife, and revolution, as well as currency inconvertibility, expropriation, and changes in import or export regulations.

There are several ways of protecting an exporter's receivables. He can opt for his entire turnover covered under a open policy or insure select buyers or specific transactions. Generally speaking, the broader the spread of risks, the lower the cost of the insurance. Premiums are based on the credit terms extended, the countries to which the exporter may export goods and a company's previous experience under the earlier credit insurance policies. The cost is low, in most cases much lower than the fees charged to confirm letters of credit. Whether or not the exporter passes this incremental expense on to overseas customers, the price paid for insuring the receivables is insignificant compared to the value of penetrating new markets and holding onto market share.

Coverage of export sales for credit terms of up to one year, is considered short-term credit insurance. All types of exports -- including raw materials, spare parts, industrial machinery, consumer products, service contracts, etc. -- are eligible for short-term coverage. Under medium-term policies, supply contracts, construction projects, turnkey projects and services involving deferred payment terms extending beyond 1 year and upto 5 to 7 years and in some cases even upto 10 years can be insured. Preshipment insurance is available for custom-manufactured goods or items with long factory lead times both under short term as well as medium and long term export credit insurance. Consignment sales, shipments from a foreign warehouse, and distributor floor plans can also be insured under credit insurance polices. India has been a leading player in the international IT arena. Payments due under such software projects, IT enabled services like medical transcription, call centre services etc can also be insured.

If an Indian company has a background in foreign credit sales, the credit insurance policy will enable it to extend terms to most foreign buyers based on the ledger history and its own internal credit analysis. The Policy provides for certain discretionary powers vested in exporters to protect themselves automatically withoutthe intervention of the insurer. While eligible for the same coverages, less-experienced exporters can apply for individual approval of each customer's credit limit prior to extending terms. Following the failure of a covered foreign buyer to pay its credit obligation to the company, for virtually any reason, the company can file an insurance claim and payment will be pursued through international channels. Properly documented claims will be paid within the period of time specified in the policy, even if the recovery effort is still in process. Normally, the waiting period for settlement of claims also known as the time period for ascertainment of loss will be 4 months from the due date / extended due date of payment of an invoice. If claims are on account of resale losses, the same becomes payable as soon as the loss is ascertained. In case of insolvency of buyers, the insurers stipulate a lower waiting period of 2 months. However, this shall be subject to the exporter filing his claim with the receiver of the insolvent estate of the buyer and obtaining an acknowledgement.

Export credit insurance policies are available from Government agencies and private sector insurance carriers. In India, Export Credit Guarantee Corporation of India Ltd., (ECGC) is the Governmental agency that provides credit insurance support to Indian exporters both under short term as well as medium and long term exports. There are half a dozen private players in the field of credit insurance in India but ECGC continues to have a lion's share of the Indian export credit insurance market. In addition to the standard forms of insurance policies, coverages can also be designed to meet the requirements of both experienced exporters and companies who are established and whose requirements of credit risks coverage may be different. One of the ways of seeking a customized solution for a company's credit insurance requirements is to sit with the insurer and explain the requirements so that the latter can examine it. Alternatively, a specialized credit insurance broker can custom-design the export credit insurance program and keep it up-to-date as the export business of the company grows. However, in India though a number of Insurance brokers are active in the credit insurance area, their

knowledge and understanding of the products is very limited and it calls for increased efforts on the part of the insurance companies to impart the professional knowledge and skills.

Used extensively by companies in most of the developed and developing countries, export credit insurance is an essential competitive vehicle for Indian exporters. When cash in advance and letters of credit aren't feasible or desirable, an Indian company can extend competitive credit terms overseas -- and be confident of payment -- with export credit insurance.

(B) Marketing Challenges

Today the risks have assumed large proportions due to the far-reaching political and economic changes that are sweeping the world. An outbreak of war or civil war may block or delay payment for goods exported. Economic difficulties or balance of payment problems may lead a country to impose restrictions on either import of certain goods or on transfer of payments for goods imported. In addition, the exporters have to face commercial risks of insolvency or protracted default of buyers. The commercial risks of a foreign buyer going bankrupt or losing his capacity to pay are aggravated due to the political and economic uncertainties in his own country. Export credit insurance is designed to protect exporters from the consequences of the payment risks, both political and commercial and to enable them to expand their overseas business without fear of loss.

Credit risk is being perceived as one of the largest causes of concern over the next 12 months followed by business continuity risk and contractual performance risk, with 66% of the respondents stating credit risk as the largest cause of concern, reveals a study conducted on credit insurance. The study has also brought to highlight some hidden risks that were never at the centre stage for companies such as Errors and Omissions (E&O) and Directors' and Officers' liability (D&O).

What are the Challenges faced in marketing export credit insurance?

From the Indian experience, the following are some of the challenges faced in marketing credit insurance covers for exports.

- Insensitivity of customers to credit risks.
- Years of experience with buyers and countries with no major losses and a continued perception that there will be none in future as well.
- Willingness of banks to finance export receivables without a credit insurance backing.
- Reduction in transaction cost and the first cut will be in cost of insurance covers that are not mandatorily required.
- Lack of awareness of the credit insurance products.
- Lack of credible information on buyers / banks and the complex legal systems in certain countries.
- The basket of business available for cover being very limited, as exports form a small portion of the entire economic activity in India.
- Competition due to opening of insurance sector for private players.
- Past unsatisfactory experience with the insurer in after sales service including claim settlements which spreads like a wild fire amongst the business community.
- Out dated principles still in place in the credit insurance business like, the Principle of Whole turnover which requires an insured to offer all his business for cover and insistence of covering Political risks automatically for any country etc.,
- Lack of variety of products to suit the customers' requirements.
- Alternate products like factoring, forfaiting available to exporters.
- Non availability of suitable reinsurance arrangements especially under the medium and long term exports.

How does an exporter obtain credit insurance cover from ECGC and how can he keep it in order?

The normal tenets of insurance are applicable to the credit insurance as well viz., utmost good faith and the existence of a genuine export transaction. Exporters shall, as a pre-requisite ensure that the exports proposed to be made by them conform to the purchase order placed with them

with regard to quality, quantity, price, delivery schedule and payment terms. An exporter can seek insurance for a single shipment, a series of shipments to a single buyer and all shipments to all buyers. Here again, in so far as credit insurance is concerned, exporter is expected to obtain insurance well in advance prior to shipment, in case of single shipments or in case of multiple shipments, he shall have to keep sufficient money in his account with the ECGC to meet the premium cost of the insurance cover. Apart from this, the exporter will have to ensure that the buyer to whom he is sending goods has been approved for cover by ECGC. Accordingly, buyer wise exposure limits have to be obtained and the exporter shall endeavour to keep the outstanding bills on the buyer within the exposure limits fixed. The shipments have to be declared to ECGC and if the payment is not received within 30 days from the due date, a report of overdues has to be filed. If the non payment persists for 4 months from the due date, the exporter is entitled to get a claim. The exporter shall also initiate recovery action against the buyer in consultation with ECGC.

What will be the future of credit risk insurance?

The future of credit insurance looks very promising. The recent global melt down and the closure of many leading buyers and banks have sent shock waves amongst exporters and financing banks. It is reported that the year 2009 alone saw more than 140 banks wound up in the US and the number of companies declaring bankrupt has increased manifold. In one of the articles that appeared in a leading newspaper, it was mentioned that the companies that figured in Fortune 500 list in the 80s no longer exist and the average corporate life of companies in Europe and Japan was a mere 13.5 years. The jolt faced by many leading exporters and MSME units has been severe that they are seeking credit insurance in larger numbers. Even software and ITES companies who hitherto were shying away from credit insurance have been approaching ECGC for insuring their receivables. ECGC had introduced special covers for these sectors and still the companies were not seeking the covers earlier as they did not feel the need. Non payments and bankruptcies in developed markets where these companies had large presence made them rethink. The MSME units have also been seeking covers as even a single nonpayment can throw the units out of existence. Financing banks have found greater comfort under the credit insurance schemes and invariably look for the insurance covers as a collateral support in their lending decisions. The Corporation on its part is gearing up to meet the challenges and the increased requirements through periodical review of schemes. The Corporation has also been customizing covers to exporters to meet their specific credit insurance needs. The future will open this field to many credit insurers with development of a well defined credit culture.

The future of the financial sector

The crisis revealed that some business models of financial firms were seriously flawed. For a long time, financial firms earned comparatively low returns on assets but used high leverage to meet targets for returns on equity. They also took full advantage of cheap short-term funding. This strategy made their profits more volatile, especially during periods of market stress. Since the crisis, investors have become more discriminating in their treatment of financial firms, rewarding those with more prudent and resilient models. The priority of policymakers now is to incorporate in the regulatory framework the stronger standards being imposed by the marketplace. Higher-quality capital, lower leverage and more stable funding should buttress the sector's future resilience. This need not undermine medium-term profitability, particularly if restructuring continues and excess capacity is progressively eliminated. In addition, more sound business models should restrain funding costs, thus contributing to strong, stable and sustainable performance in the sector.

(Source : BIS 80th Annual Report)

Talent Management in PSU Banks

✍ R. Bhaskaran *

Indian Banking

Indian banks have posted impressive growth in the recent years. In terms of over all business, number of branches, ATMs, and staff the public sector banks and RRBs lead the pack, whereas in terms of productivity the foreign banks and private sector banks have taken the lead. The following table will enable a comparison of productivity indicators among the various segments of Indian Banks.

Table - 1 : Staff related data on Indian Banking										
Bank Group-wise data / averages for 2007-08 & 2008-09 *										
Items	SBI & its Associates		Nationalised Banks		Private sector		Foreign Banks		All Banks	
	07-08	08-09	07-08	08-09	07-08	08-09	07-08	08-09	07-08	08-09
No. of banks	8	7	20	20	23	21	28	30	79	78
No of offices (00)	152	160	378	394	80	86	3	3	613	643
No. of employees (000)	249	269	466	466	167	174	331	303	915	939
Business per employee (in Rs. lakh)	549	650	618	778	715	744	1064	1252	633	751
Profit per employee (in Rs. lakh)	3.62	4.43	3.77	4.83	5.70	6.16	19.97	24.78	4.67	5.60
Wages as % to total expenses	15.89	15.06	14.05	13.14	10.34	10.79	19.68	19.45	13.99	13.52
* Source www.rbi.org.in										

Together, these banks employed about 940 thousand people and had recorded a business of Rs.70.47 lakh Crore as on March 2009. As per data available in RBI portal, the per employee business was Rs.1252.28 lakh in the case of foreign banks, Rs.650.28 lakh in SBI group, Rs.778.28 lakh in nationalised banks and Rs.744.27 lakh in Private Sector banks. The per employee profit was the highest with the foreign banks at Rs.24.78 lakh, followed by private sector banks at Rs.6.16 lakh, nationalised banks at Rs.4.83 lakh and SBI group at Rs.4.43 lakh. SBI group accounted for about 1/4th of the employees and branches in the country. In terms of number of employees and total business the SBI was far ahead of its nearest competitor ICICI bank by nearly three times. It is noteworthy that, of the 78 commercial banks nearly half the business was accounted for by only 9 banks namely 3 new private sector banks, 5 nationalised banks and SBI. Each of these banks had business volumes in excess of Rs.2 Lakh crore. It can be observed that SBI group and nationalised banks accounted for 78% of the employees, 76% of the business and 65% of the profit. It is noteworthy that the growth in PSU banks over the last three decades has been steady and impressive despite the fact that they did not recruit any staff between the years 1977 to 2007. It is apprehended that this gap may come to daunt them in due course of time.

Changing Face of PSU banks

In the recent years, the face of the public sector bank has changed. Almost all these banks have adopted core banking solutions for their operations, customers are weaned away from the branches to new delivery channels, and the quintessential counter that separated the customer space from that of the bank staff is getting replaced with customer friendly cushioned chairs. PCs adorn all work stations in the branch and offices. The queues in the cash counters are somewhat reduced as

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ATMs have sprung up in all sorts of places. Remittance system has improved and customers have a wider choice of remittance instruments including RTGS and NEFT. By offering newer delivery channels banks are taking steps to reduce the peak hour work such that staff remain productive through out. However unlike the private sector banks the PSU banks have not resorted to process out sourcing or use of agents for selling of bank products. Private and foreign banks have resorted to agents for recovery of retail loans. Considering that India is the outsourcing hub of the world the fact that PSU banks have not adopted cost efficient out sourcing could be only attributed to banks inability to negotiate the issue with unions. Cost reduction through outsourcing will shore up the capital which is very essential to manage the slowdown in the sector. Outsourcing will also help in the talent management issue and the likely gap in the availability of skilled Human Resources.

Selling the banking products has become the critical function. As against accepting deposits and issuing loans banks have started to aggressively sell liabilities and assets. This has brought about an attitudinal change in the approach to customer. Technology has invaded the banks and what was hitherto a department has become a vertical. Thanks to technology, some of the constraints of yester years faced by the staff internally, such as balancing of ledgers, filing of vouchers, preparing head office accounts, and undertaking massive reconciliation is no more an issue.

In line with the changes in the delivery channels, it must be said that, the service quality of PSU banks has, in the recent years shown some improvements. The traditional body language of treating the customer as a beneficiary is slowly getting replaced with 'customer is a business opportunity' type attitude. However, ageing work force and their inability to work in an IT driven environment constrains the service efficiency. The service quality is also constrained because the PSU banks / branches are hierarchy driven.

This month[1] is the anniversary of Lehman collapse and the consequential banking and financial sector crisis that the world has witnessed. Governments have bailed out the banks by infusing more capital, nationalisation, fiscal stimulus etc. Banks in India have, however not been affected very much due to calibrated regulation. More particularly the public sector banks have been financially more stable thanks to the Government Ownership and appropriate Regulatory regime. It is also fact that many of the public sector banks did not have significant volumes of international business or exposure to exotic risk management products.

It is now well established that Indian regulatory policies have been very effective. Can the same be said of HR policies? Is there a need for change in HR policies? What will be the trigger for change in HR policies?

The reasons for advocating changes in the HR policies are as follows :

- It was, earlier expected that, starting 2009 the Indian Banking system will be more open to foreign banks. However, due to the impact of the financial crisis this has not happened. The introduction of originate to distribute model of asset accumulation and risk management instruments have also been delayed. The version of CDS placed by RBI for discussion is less exotic and milder. As such the PSU banks are riding the crest. But even as the financial sector rebounds and green shoots are visible, it is evident that the above issues have been only deferred not cancelled. It is evident that PSU banks will face more competition.
- Though unions lobby against and Government is dithering on the issue of consolidation it is inevitable that consolidation in the PSU domain will take place. This is because there are some PSU banks who have not recorded sufficient volumes of business. The productivity levels of some of these banks are low. Though banks have not been apparently, affected by the financial crisis the demand for Government support to meet the 12% capital adequacy is increasing. There is a healthy debate, in the public domain, on whether or not the consolidation is essential. Yet it is apparent that

1. *This was written in September 2009. The crisis is still not over. The sovereign debt crisis, that followed the financial crisis of 2009, of European countries and the current approach of Basle Committee to add more tiers to the capital adequacy concept will make banking more complicated in future.*

in a not too distant future PSU banks will have to consolidate. Consolidation will call for changes in the HR policies.

- There is a need for improvements in the recruitment system. Currently it is a huge, on-going exercise which is costly to the candidates and the banks alike. The number of applicants for a given number of posts is very high. The eligibility criteria do not include knowledge of banking and therefore post recruitment training efforts are very large. Developing an entry point certification / banking qualification and reducing the number of applicants is important such that wasteful expenses are avoided.
- It is necessary to mainstream the clerical work force in the banks such that banks can compete effectively with private sector and foreign banks. This will call for fixing the job role and also looking into the transfer issue more dispassionately. Banks, being commercial organisations cannot follow HR policies similar to the Government. Transfers should be driven by the need in different geographies and not merely because a certain number of years have been spent in a place.
- Perhaps the most compelling reason for change would be the growing competition from private sector banks. Currently 3 new private sector banks are in top 10 of the Indian banks. This is because they have flexible HR policies and they hire and promote according to needs. These banks offer performance based incentives. Their HR models have operational flexibility. It must however be said that PSU banks are not comparable to private banks. The objectives and roles and expectations of each sector are different. It is not intended that PSU banks will become totally like private banks nor emulate them completely. Yet there are certain spaces where in the PSU banks need to have a new outlook as the market in which both operate and from where the talent is attracted is the same.
- It is also worth examining as to why the banks have not achieved financial inclusion despite such huge Government support. The main reason for financial exclusion, despite more than three decades of nationalisation is the apathy to work in rural areas and lack of accountability. Unless HR policies are renovated financial inclusion will remain a dream.

HR in PSU banks

PSU Bank HR began as Industrial Relations (IR) functions. It is observed that unions have a somewhat larger role place. PSU banks have adopted scale based salaries and compensations on par with Government offices. In view of this it can be said that HR of PSU banks is hierarchy centric. As against this what is being practiced by Private Sector banks and Foreign Banks is similar to what Ed Lawler has advocated as Human Capital Centric[2]. As a result the HR functions among the sectors show substantial variety and differences as could be seen in Annexure-1.

Generally the PSU bank job is considered safe and secure but not very demanding in terms of work output. It is difficult to fire an employee for non-performance. Despite large recruitment in the last two or three years PSU banks carry an ageing work force. As against this the private sector has a relatively younger work force, jobs are viewed as stressful and demanding. Private sector follows a flexible hire and fire policy. Needless to say that in terms of performance the private sector and foreign bank staff is considered more productive. This is because the compensation is closely linked to performance. There are, on account of current crisis certain question marks on the private sector compensation, more particularly Bonus. But these issues are relevant in the case of investment banks and hedge funds and not private commercial banks[3]. In order to compete with private and foreign banks the PSU workforce must become nimble and customer centric. For this HR policies must change. To arrive at what changes, if at all, are needed in PSU HR one must understand the functions that it currently carries out.

2. HC Centric - Talent. Edward E. Lawler

3. Internationally private banking concerns itself not with commercial banking but managing private funds

Current HR Processes of PSU banks

Composition of staff

Bank staff / ranks are divided broadly into officers (Group-A), clerks (Group-B) and sub-ordinate staff (Group-C). It is normally seen that whenever the bank management talks about HR they are focused on officers. This is because, to a large extent, clerks are expected to carry out transactions but are not held fully accountable for accuracy or timely completion of the same nor for quality in output. Officers in the first level have to act like a foreman in a shop floor and have to ensure adequate output, accuracy of transactions and authorise the same. Clerks account for $1/4^{th}$ of the work force and if they hold no accountability and merely function as data entry operators it will constrain the banks more. Evidently there is much scope to improve their output and therefore it is time the clerical job profile is redesigned and clerks are delegated powers to approve and complete the transactions such that redundancies are eliminated and service efficiency is improved. Non-transferability[4] is one of the important conditions for clerks. The junior executive concept adopted by Private Banks, IT companies and retail sector is worth emulating because such jobs are also not transferable but offer scope to define job roles.

Pay scales

Staff / Officers in PSU are fitted into scales akin to the Government officers. It is apparent that pay scales of bank staff is kept a wee bit lower that of civil servants. The pay scales are periodically revised as and when the revision in Government salaries takes place. The revision process is an industry wise exercise full of drama and tension and carried out once in four years. The revision is over and above the annual increment and periodical rise in the Dearness Allowance[5]. This process makes the employees feel that they are Government servants and are therefore not inclined to be productive. Further, given the differences in the over all business mix, number of branches and locations, adopting uniform pay scales accentuates security and reduces productivity. This kind of explains the differences in the performance among the PSU banks in terms of business per employee and profit per employee as performance does not drive the compensation. The job profile does not decide the salary and thus we have the situation where the dispatch function and treasury function pays the same level of salary for the given level of post.

Incentive is a recent phenomenon in PSU banks. The over all incentive amount expendable in a year is pegged at 1% of profit. This can be taken as a beginning of a trend. As of now payment of variable salary is not practiced. Possibly instead of offering incentives, banks could consider variable pay for systemically important and specialist jobs.

Performance Appraisal

As PSU banks follow uniform pay scales across the sector with fixed annual increments the performance management / appraisal is never pursued with serious intent. Moreover, in most banks performance appraisal of clerical staff is perfunctory. Performance appraisal plays a role in the promotions. In this milieu, HR function revolves around recruitment and annual promotion exercise. Transfer is another important function of HR Departments.

Recruitment

Recruitment is, barring a small percentage which takes place in the campus of management institutions, a long drawn centralised on-going exercise. Posts are widely advertised resulting in a large number of candidates taking an IQ oriented test from among which a small number is called for the interview and still smaller number get selected. Having knowledge of banking and / or computer literacy is not a pre condition. It is indeed a large wastage of funds as the odds are such that only one in a hundred or thereabout can get selected - not necessarily the most competent. It is noteworthy that banks adopt the same recruitment process for both clerks and officers with differing eligibility criteria.

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4. In theory transfers are allowed up to 100 kms.

5. In the case of Private sector the increase is annual and all inclusive.

Training

After selection clerks undergo brief induction training. Officers are put through a process of year long training cum work application learning known as probation.

During the service officers get a number of training. Banks have established a number of training institutions. However not much of co-ordination exists between line functions and training in as much as training units often complain that the full capacity is not utilised. Line departments do not undertake human capital inventory and are not sure of the training and skills needed to enhance the performance of their employees. That the banks do not have well defined job roles or KPA or an on-going TNA for each of its business segment constrains the training function. Senior management people are seldom trained as office exigencies, what ever it may mean, do not allow them time.

Promotion and Posting

It should be observed that the number of posts at higher levels (senior management) is fixed by GOI taking into account business volumes and not based on job requirements. Promotion is decided by seniority, performance merit and interview. Between seniority and merit the former gets more weight. Promotion up to middle level management is decided on the basis of a test and selection interview; senior management by interviews.

A large number of people compete for the vacancies. As banks follow seniority cum merit people get promoted to a higher scale and get posted wherever vacancy exists. In view of this, though HR department takes into consideration the skill set and suitability for the post it cannot be, with certainty, said that it is able to promote the right person for the right job. It should be noted that the promotion process is for a given number of posts in a given scale. For example a bank may interview a set of DGMs to be promoted as GMs. All the DGMs may have performed well in the operations desk and recorded good in business growth. The vacancies for GM however (on account of superannuation or creation of a new vertical) may happen in IT department and none of the DGMs may have any exposure to IT. Still the promotion will take place. Thus one often comes across the situation that an IT person gets posted to HR and vice versa. One of the advantages of this is that the senior executives of the banks have experience in all the areas but given the current emphasis on specialisation or expertise the all round experience may be of little importance. As against this in the private sector it is the suitability for the post that could be the primary reason for being considered for the post.

The candidates for the posts of ED and CEO are selected from among the GMs and EDs of the PSU banks. Since the retirement age is 60, and the time taken to reach the post of GM longer, this gives them a short span to lead the banks effectively. Government also transfers the ED and CEO from one bank to another despite the fact that they have held a post for very short periods. Though there appears to be a stipulation that remaining service of three years is necessary for being considered for the post of ED the efficacy of this approach and a very short duration for which the CEOs are available needs a larger debate.

Engagement with Union

In respect of the major issue of pay scales and performance the HR department of individual bank has very little say. In other residual aspects, it is seen that trade unions and banks engage in regular dialogue. It is observed that invariably the unions have taken a some what confronting attitude when it comes to issues such as transfer, productivity, merger, outsourcing etc.

Despite the obvious shortcomings PSU banks have performed well on account of well entrenched systems and the safety tag attached. The Government ownership of 51% or more helps.

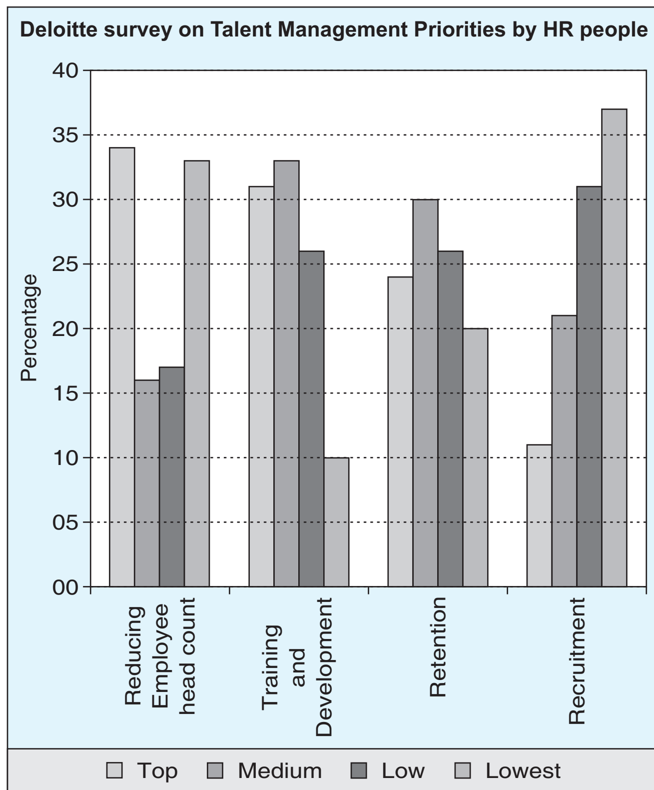
Talent Management : the need of the hour for PSU banks

Banking is a systemically important function in an economy. Banking is like any other business and the bank staff have to carry out multifarious activities. Some of these activities are specialist in nature.

At the same time some of the activities are no way related to banking competencies and could be easily outsourced. Functions such as Customer acceptance, customer relationship and customer handling which were hitherto considered routine and not much attention were paid to details and setting standards of service have in fact become most critical to the success of the enterprise. This function calls for soft skills. Customer delight and deepening of business with existing customers will ultimately decide business volumes and market share.

Thanks to conservative regulation Indian Banks are standing tall today. But the crisis has impacted the banks and it is expected that the competition will increase as banks rebound from the crisis. It is worth noting that HR survey by Deloitte[6] (Graph-1) has indicated that talent management will be the key to moving forward in the troubled times.

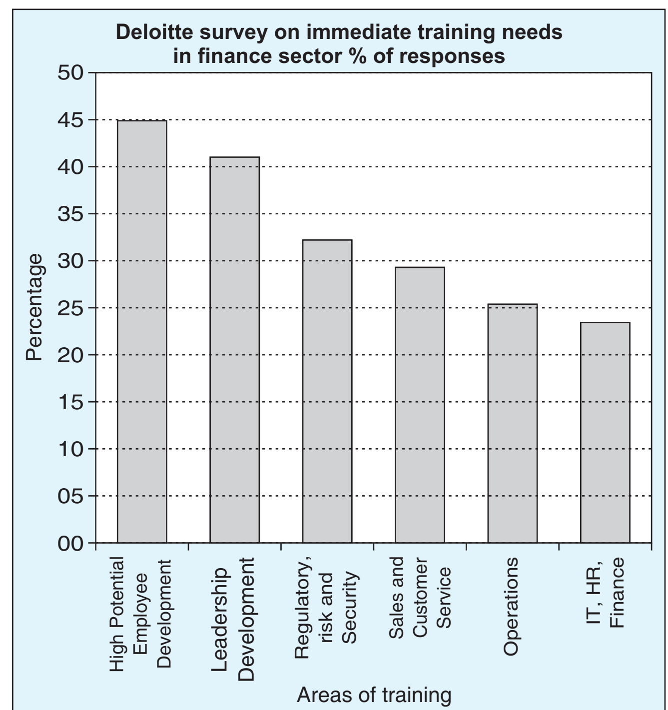
Graph - 1 : Talent Management : Priorities by HR People - Survey by Deloitte May 2009



HR persons responding to the survey have indicated that post crisis Talent Priorities will shift toward retention, training and development. The survey by the Economist has also thrown up similar results.

In times of crisis and for sustained growth it is the 'talent within' that helps. This is because the recruitment process is time consuming. In order that organisation and staff react properly to the crisis management and customer handling, HR people have said that the training strategy should be revisited. The Deloitte survey of training needs in financial sector has identified high potential employee development, leadership development, customer handling, IT and Finance skills as priority areas.

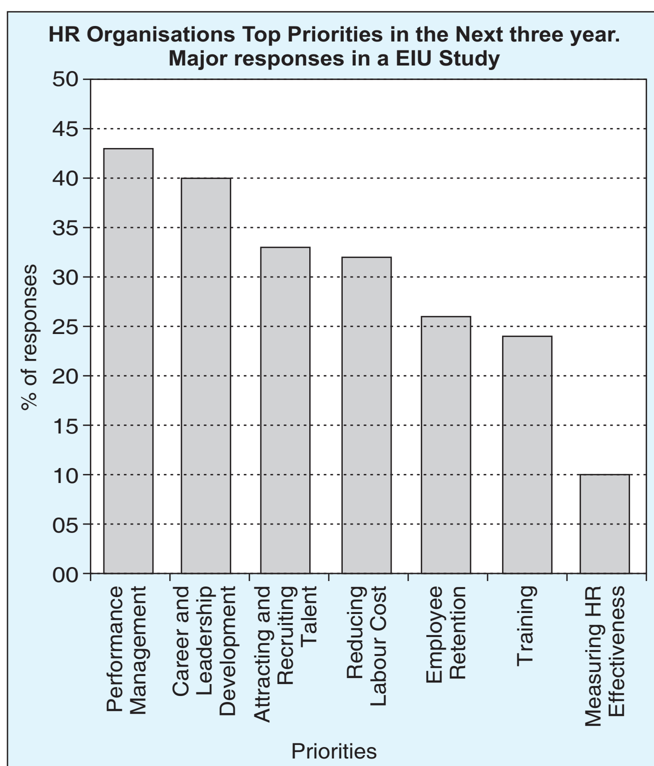
Graph - 2 : Training needs - post Crisis graphical representation of survey findings



In a study by the Economist magazine issues such as performance management, career and leadership development, attracting and recruiting talent etc., (see Graph-3) were highlighted when HR people were asked to list any three of their top priorities. The major issues that were listed are depicted below.

6. *Deloitte : Managing talent in a turbulent economy and clearing the hurdles to Recovery. July 2009.*

Graph - 3 : HR priorities : The Economist[7] HR study



Given the above and the reports of green shoots happening in the troubled financial sector it is apprehended that the PSU banks will find the going tough and difficult to perform well in a competitive environment because of

- Archaic Compensation structure[8]
- Lack of meritrocratic (through performance) structure
- Inability to outsource or hire agents to do non core business. (dispatch, office maintenance, physical security, escort services etc)
- Rather lengthy recruitment process and time taken to fill up vacancies
- Limited performance incentives
- Inability to pursue specialist' career in the absence of well defined career opportunities. This is particularly important on account of the recent emphasis on compliance and risk management skills.

PSU banks should no more continue to be hampered by the constraining HR policies which are currently practiced but move on to proactive Talent Management driven by the needs of individual banks. The banks need greater empowerment to do so[9].

Talent management can be defined as following appropriate strategy for recruitment, placement, and performance management and developing leadership for enhancing business growth and achieving corporate goals. Since the staff performance is closely linked to business goals talent management is closely aligned with business results and objectives.

Talent management also revolves around appropriate compensation and reward system. PSUs have to hire to grow. The envisaged growth and new product lines cannot be sustained unless they hire and retain the best personnel and groom them to take leadership roles: leadership not only in top management but also in branches and SBU level positions.

Performance management is possibly the most critical aspect of talent management. Post recruitment the steps in performance management include, training for the job, appropriate job description, arriving at mutually agreed annual KPAs, performance review and mentoring. Performance Management system requires frequent interface between the function head and the concerned staff such that the required performance is achieved. Such KPA based performance is needed because market will become more competitive. Though, as of now, it appears that the competition from foreign banks may not increase in the immediate future it is evident that opening of the banking sector to foreign banks cannot be postponed for ever. Similarly some of the risk management instruments that have not been allowed in the Indian market will also be permitted in future. The current protective environment may not continue for ever. As a financial intermediary PSU banks cannot avoid risk taking but must learn to manage it efficiently. Capital Adequacy norms, KYC norms, Using IT for banking operations also warrant more skills.

7. *Role of HR in uncertain times. EIU - The Economist April 2009*
8. *Banking on Talent : BCG Report*
9. *There exists a circular from Government of India giving more powers to the banks in HR function. Yet the circular is more a statement of intent than of any practical relevance*

Performance Management is the cornerstone for talent management and surviving in competitive environment or surviving crisis.

An important aspect of performance management is the feed back (360 degree and the like) and counselling which help the retention of the talent. This is because, other than the compensation factor there could be a number of issues which affect performance. Engaging in dialogue and mentoring is useful in sorting such matters.

Another reason for adopting talent management strategies which is human capital centric is the entry of Generation Y[10] employees in the PSU banks[11]. PSU Banks have selected nearly a lakh people in the last two / three years and have also made campus recruitments. BCG has estimated that banking sector will have to recruit nearly half a million more people in another 5 years. The Bancon 2009 has also indicated a similar number. Five years down the line, Gen Y will nearly be half the staff strength of PSU banks. The Generation Y are IT savvy and do not fancy job security but would like to be paid handsomely.

As the bank gets more young people HR also should change. Talent management will be effective only when employer and employee expectations are well met. Talented employees if handled correctly will contribute in achieving the organisational goals.

Banks have many specialist functions. Risk, delivery channel management, treasury, trade finance and HR are some examples of such specialist functions. PS U Banks need to think *de novo* to look at alternative ways of provide career tracks to myriad specialists whose work is critical.

On account of rapid changes in technology, market and the way they will have to do business in future (outsourcing, franchising) PSU banks need to make some institutional changes to adapt to market. For this reason there is a need for fresh, 360 degree based thinking in terms of pay, incentives and career paths. In addition issues such as work life balance, work ambience and being a preferred employer will also arise. HR need not ask if there is a precedent. Instead ask whether and why can't it be done differently?

Another critical issue is the need to develop leaders. HR in PSU banks is currently not fully focused on leadership development. Developing leaders is important. It is concerned with spotting bright talents early and grooming them for leadership at various levels.

All this will not be possible unless HR itself is changed with specialist persons manning the function. HR should practice Human capital assessment, understanding special skills, nurturing leadership etc. Of late posts such as CEO, COO and CFO have been created. It is time to think in terms of an equal level position for CHRO.

One of the strongest arguments for talent management is that banking industry is heavily into customer service and talent management could be the differentiator when it comes to being a preferred bank. Towards this the HR function should be involved in bank specific

1) Leadership development : Leadership across various levels, functions and geographies.
2) Succession planning : Both for operational team leaders and specialists.
3) Career planning
4) Performance management with flexible job oriented compensation system.
5) High potential employee development
6) Learning and training
7) Competency management
8) Retention
9) Professional development.

10. Today's people can be broadly classified into 4 generations. Veterans or Traditionalists (above 60 years of age), baby boomers (45-60), Generation X (30-45) and Generation Y (18- to 30)

11. A story is told of a Toronto based bank which offered all new employees a parking space in the office as a part of salary package. Youngsters asked the bank to revisit the issue as they did not feel like driving a car but would use the public transport given the environmental considerations.

As the customer expectation rise and competition increase and as Generation Y employees increase Talent Management will call for

- Predictive workforce monitoring and strategic talent decision making
- Flexible and anticipatory talent sourcing
- Customised and personalised rewards and communications
- Distributed and influential leadership
- Unified and compassionate culture

It is clear that if the above are implemented there will be freedom for individual PSU banks to determine its HR policies including the compensation package. Even among the PSU banking will become competitive and the real beneficiary of this will be the customer. This is a highly desirable goal. Based on Narasimham committee report the business processes and decisions of the banks were reformed and deregulated. HR is one of the key business drivers of the banking business. It is necessary that this aspect of banking should also be deregulated. The question is not if this is appropriate HR for PSU banks. The question is how soon this will happen.

Annexure - 1 : HR functions and practices in Public and Private Sector banks in India - Comparison[12]

Sr. No.	Particulars	Public Sector Banks	New Private / Foreign banks
1.	**Job Specification**		
	Customer contact	Clerks	Junior Executives
	Role specifications	Vague	Specific
	Performance Measurement	General. Basic performance parameters not laid down	Specific KPA and bench marks
2.	**Compensation**		
	Pay	Scale Based - Follows Central Government norms	Job / CV specific- could vary from person to person doing similar job
	Variable Pay	Not in Vogue	Job / Performance Based
	Incentive / Bonus	1% of over all profit not every one get it. No transparent guidelines.	Performance Based
	Salary Levels - Entry point	Medium	High
	Salary level - top management	Low	Very high
3.	**Recruitment**		
	Clerks : Minimum Entry Qualification	SSLC	Graduates
	Method of selection	Test and Interview	Campus
	Officers - General Minimum Qualification	12th Pass	Post Graduate, Management Qualification
	Method of Selection	Once in a year or two. Huge costly process of advertisement, tests, interview etc. IQ oriented	As and when wanted Campus Recruitment Head Hunters
	Officers Specialist	Advertisement, tests, interview etc. IQ oriented	As and when wanted Campus Recruitment. Specialist CV based
	Recruitment specialists / officers	Campus Recruitment about 10% of requirements	Campus recruitment Head hunters, placement agencies
	Lateral Entry	Rare. IT and Risk.	As and when wanted
	Recruitment Clerks	Huge process	Generally not done
	Peons	Employment Exchanges	Out sourced

12. Based on author's inferences

4.	**Promotions**		
	Clerks to officers	Vacancies as per agreement with the Union. Promotion on merit cum seniority. Not based on suitability for the intended posts. Many clerks do not take up promotion to avoid transfer	Suitability.
	Officers to higher scales / posts	Vacancies are declared scale wise. Business growth and superannuation based. People get promoted on seniority-cum - Merit basis. Seniority important Past performance more important than suitability for the new job. Prior experience in the vertical not important. Suitability incidental	As and when required. Requirements are indicated by the concerned line department. Often vacancy arises on account of attrition. Merit - on the basis of performance and suitability for the job for which being considered. Prior experience in the vertical important.
	When ?	Annual - scale based vacancies. At least two three times the vacancies people are called.	Number of eligible candidates on the basis of suitability. Often persons get selected without any formal process on the basis of suitability
	How ? Who decides?	Internal Test. Interview etc. HR	Interview HR and concerned business head / team leader
5.	**Transfers**		
	Transfers - Clerks	Almost NIL	
	Transfers - Officers[13]	As per policy - frequent - routine. Not based on skill - competency requirements in the given geography.	No transfers unless the officer agrees - or skill specific.
6.	**Training**		
	Training : Probation :	Induction training Training. Training on CBS application. Subsequent training happens but not in a planned manner. Qualifications encouraged.	Focused on the job - no general training. New Qualifications encouraged.
	Training Job Specific	Training colleges decide and announce and the department. Certification by IIBF encouraged not mandated.	Job and person specific. All officers have been mandated to clear some common e-learning and job specific e-learning. Monitored by HR dept and function head. Certification by IIBF encouraged.
7.	**Performance**		
	Per employee business	Medium - (PSU banks have not made much recruitment between 1977 and 2007.)	High
	Per employee Profitability	Low	High (Highest in Foreign banks)
	Average age Profile	About 45	About 35
	New Entrants	Generation Y	Generation Y
8.	**CEO**	From other PSU	From Outside
9.	**Top Management**	From other PSU	From Outside / Internal

13. This is inherited from Government policies where in an IAS officer is expected to be transferred to many places. This is not suitable to banks as it affects customer service and continuity. Language, work life balance and other constraints result in poor performance.

10th Bank HR Conference : Summary

Session-I : Inaugural and Keynote Address

Speakers : Aisha Timol (Chief Executive, Mauritian Bankers' Association) and Y. K. Bhushan (Member, Governing Council, IIBF).

Aisha Timol gave an overview of the banking industry in Mauritius and the role of Mauritian Bankers' Association in the industry. She informed the audience that there are 18 banks that operate in Mauritius, the banks there are well capitalized with an average capital adequacy ratio of 16%, there is less reliance on sophisticated products and the liquidity management is quite good. The NPA is 2.3% of the total assets.

Prof. Y. K. Bhushan spoke about the necessity of developing the science of HR based on logic, analysis, measurement and processes (LAMP). He said that banks must measure how strategic success is achieved by organizations through talent management. He mentioned the Reserve Bank of India's survey that found that public sector banks ranked rather low as compared to private sector in maturity because of factors like bureaucracy, lack of performance management system, etc. While good organizations need good talent he said that good talent also needs good organizations. It is also imperative to measure how strategic success is achieved by organizations through talent management. There is a need to balance internal and external pressures of banking, he said.

Session-II : Talent Management : Panel Discussion

Speakers :

M. Balachandran, Director, IBPS, (Chairman)

R. Bhaskaran, CEO, IIBF

Deodatta Kurane, President, Human Capital Management of the Yes Bank

A. P. Shukla, General Manager, HRD, Central Bank of India

Vishwanee Lingachetti, Head of Human Resources, State Bank of Mauritius

Mr. Balachandran pointed out that between 2001 and 2007, the banking business grew by 17% calling for augmentation in manpower across the banking sector viz., old private sector banks (12%), foreign banks (20%), new private banks (28%) and public sector banks (15%). He mentioned the various dimensions of talent management viz., acquisition & retention, recognition, reward & upgradation and talent management. He said that the productivity of private and public sector banks is converging calling for diverse manpower requirements such as :

- Generalists but technosavvy
- Specialists with banking orientation
- New hires-totally new to employment
- Talent enhancement

He spoke of the need to make an integrated effort to raise the HR level and bring a development focus in human resources management.

Mr. Bhaskaran, in his presentation, challenged certain existing myths about talent and talent management in banks. For example, he questioned the myth that talent management is only about managing Generation Y by pointing out that in fact, banks have people spanning across all generations and that the older generation is catching up fast with the new generation. Older generation is as equally comfortable with Facebook and internet as Y generation. He also challenged the notion that HR personnel can follow a 'one size fits all' kind of policy with respect to

talent management. On the contrary HR needs to follow a customized policy to suit each individual. He also questioned the myth that banking is a routine white collared job, especially given the current context of modern banking, where customers are far more demanding and the channels of servicing the customers have also undergone a sea-change. He had a word of caution for the employees, saying that no longer can employees, especially those in public sector banks expect a time-bound promotion. Merely being content with a college degree is not going to suffice and they have to continuously work to upgrade their skills. He gave an overview of the banking system and how it has changed over the years to show the new skills that will be needed among bankers in the days to come.

Mr. Kurane raised the issue of identifying at what point an employee turns into talent since not all employees count as talent. He also outlined some of the practices adopted by his bank to convert employees into talent. Yes Bank, has concentrated on brand building as an attractive employment destination. They have also started the University and School Relations Management (USRM) with various universities and business schools to enhance the bank's visibility among students. They also address the question as to why a person should become a banker when they go to campuses to recruit students. To encourage job applicants to know more about the bank before they join it, 25% of the questions during interviews is based on Yes Bank.

Mr. A. P. Shukla, General Manager of Central Bank of India spoke about the need to search for talent both within the organization as well as outside. He also spoke about grooming the talent once identified. He then emphasized on retention of such talent through proper recorded system.

Ms. Vishwanee Lingachetti of State Bank of Marutius said that it is important to break human resource development into chunks and then integrating the chunks into the whole. She spoke about the importance of early engagement of employees through universities. She drew attention to the complex assessment system that is needed to identify the best talent and create a talent pool. The organization has to also manage the career of such employees on a planned basis through collaborative efforts across the industry.

Session-III : Developing and Measuring Leadership : Workshop by Accenture

Speakers :

Sanjay Tugnait, Senior Partner, Accenture, India

Deepak Malkani, Partner, Accenture, India

Dr. Robert Thomas, Director, Accenture Institute for High Performance

Mr. Sanjay Tugnait started the workshop by saying that the next generation of high performing banks will exhibit three core attributes i.e. differentiation on the outside (market place), simplification on the inside (operating model) and execution mastery (change capability plus operational excellence). The key differentiator, he said, is the whole customer experience. Surveys have shown that the main reason for choosing a customer service provider by the customer is the customer service / experience. Poor quality service is often quoted as the main reason for customers switching their service providers. He mentioned a survey of Indian banks undertaken in 2009 which found that the old methods of delivering bank services still hold the same charm for customers. In order to focus on the customers he suggested that banks outsource some HR functions like measuring competence. He also said that leadership is a capability and not a role and effective leadership is a collective effort. He gave examples of SBI, which is setting up a research cell on public sector leadership at Indian School of Business and Bank of Baroda which is also setting up a world class leadership centre, to drive home the point that banks in India are giving importance to leadership.

Robert Thomas gave an overview of leadership research and said that people have to be encouraged to display leadership qualities regardless of the positions they occupy. Day to day situations, whether planned or unplanned, demand leadership skills. Both young and old have gone through 'testing times and have drawn from these experience. He calls these experiences 'crucibles'. The 'crucibles' have taught the leaders to learn and benefit from the experiences. For example, a new territory is a crucible through which

leaders learnt about 'sense-making' in the midst of confusion. During times of reversal they learnt endurance and also strengthened their imagination. Periods of suspension such as sabbatical or a foreign posting gave them clarity in values as well as a purpose in life. In all these he underlined the need for a mentor for leadership growth.

In his presentation Mr. Deepak Malkani spoke about applying experience based learning to leadership and touched on two themes namely, leadership pipeline and leadership capability. He discussed tools for assessing leadership and explained the tools developed by Accenture in assessing leadership. This tool takes into account the personality and leadership profile of the person viz., interpersonal skills, intellectual and behavioural skills. The 360° multi-rater feedback and position analysis are other tools to assess leadership skills that rate the assessee in the backdrop of world's best leaders.

Mr. Bhaskaran made a presentation on 360° feedback in which he spoke about the differences in the traditional and contemporary appraisal system. He also explained in length how the 360° appraisal system works with the help of a case study. He also gave examples of important organizations worldwide which use the 360° appraisal technique and spelt out the advantages of using this technique. He cautioned against the misuse of this technique and recommended that this technique should focus only on talent and the traditional KPA method should be used for reviewing performance and employee development.

In the afternoon session of day 2, group discussions were held by dividing the participants into 4 groups and each of the groups was given 4 different topics pertaining to different aspects of talent management and contemporary HR practices. The first group spoke on Talent Management namely, on the aspects of retention challenges, attrition challenges and compensation. The salient points that emerged from this group discussion are :

- Proper recognition and career paths are a must for specialists and high performers.
- There is a need to integrate lateral recruits to the organisation's culture and ensure inter-cadre parity.
- The expectation gap problem of new recruits needs to be addressed properly to reduce attrition.
- Banks also need to pay attention to branding as preferred employers if they wish to attract and retain talent.
- The group felt that autonomy needs to be given to public sector banks to decide on incentives and there should be an integration of monetary and non-monetary incentives.

The second group discussed about HR practices - the needs and the current realities. Within this, the group discussed the preparedness of the banks in dealing with today's reality, the performance management systems in place, leadership development and succession planning. Some of the major points that this group discussed were :

- There is no dearth of talent but proper and objective talent inventory management is the need of the hour.
- There is also the problem of low performers and non-performers. There has to be a system for managing these as well.
- Objective performance management systems needs to be put in place in all banks as the current systems are not implemented very objectively.
- Training should be segment based and customized to needs of homogenous groups after having identified their training needs.

The third group discussed in detail the training challenges especially for high potential employees and also the challenges in designing training needs of various verticals and delivery units. The group questioned the relevance of the current training given to employees in the banks and discussed what could be done to remedy the situation. Some of the suggestions that emerged from the discussions were :

- There should be greater emphasis on behavioural training (soft skills). Training also should to be provided in newer areas of specialization like risk management or even third party products like insurance and mutual funds.

- Training should be subject to assessment, to ascertain if training actually upgrades skills.
- For high potential employees banks should put good competency mapping systems in place and exposure to different areas of banking should be provided right at the grassroots level.
- Training programmes should be designed for various verticals such as NPA management, sales, etc. Delivery should be in-house as well as outside.
- There is a need for developing talent in senior and middle management to take on leadership mantle later.
- The group also felt that outsourcing has its limitations and therefore, sufficient attention should be paid to grooming people within.

The final group discussed the use of psychometric tools for testing and selection and made the following observations :

- Psychometric tools are very valuable as demonstrated by private banks and can effectively supplement the existing system.
- Regarding testing for selection they discussed whether the current system of selection should continue and if not, how to deal with the large numbers.
- The group drew attention to the importance of 'antecedent check' especially when hiring from other banks.
- The group pitched for e-learning as an essential tool of learning. Banks could tie up with training institutes to provide such e-learning based training to their employees.

Mr. Gautam Vir, Chief Executive Officer of State Bank of Mauritius gave the valedictory address. He began by saying that there are two skills that everybody in a senior position must have : people management and selling skills. He said that leaders must concentrate on employees who will then take care of the customers who in turn will take care of shareholders. Everything, he said, depends on leaders. He advocated implementing training for all members and line managers with special emphasis on soft skills, to help the frontline staff deal with customers. Empowerment of employees, he said, is necessary. He was of the opinion that there should be zero tolerance for certain issues in order to create discipline. He recalled the five qualities of a leader as enumerated by Jack Welch namely, Energy, Energizing others, Innovativeness, Execution abilities and the ability to empathise.

From the emergency room to intensive care : the year in retrospect

While some emerging market economies are in danger of overheating, GDP in most advanced economies is still well below pre-crisis levels despite strong monetary and fiscal stimulus. The rapid increase of government debt raises urgent questions about the sustainability of public finances.

Banks nave increased their capital buffers, and profits have been boosted by a number of temporary factors. But banks still remain vulnerable to further loan losses. As recent disruptions in funding markets have shown, banks can face significant refinancing pressures when sentiment turns adverse. Although banks in the crisis countries have made some progress in repairing their balance sheets, this process is far from complete. Efforts to restructure and strengthen the financial system should continue.

(Source : BIS 80th Annual Report)

लघु वित्त संस्थाओं (माइक्रो फाइनेन्स इन्स्टीटयूशन्स)के समक्ष कठिन चुनौतियां

राजेन्द्र सिंह *

भारत में नब्बे के दशक में 35,000 ग्रामीण शाखाएं थीं जो कुल शाखाओं का 57 प्रतिशत थीं। 2009 में इन शाखाओं की संख्या घटकर 20,058 हो गई और इस तरह ग्रामीण शाखाओं का कुल शाखाओं में हिस्सा मात्र 31 प्रतिशत ही रह गया। इसी तरह आधे से अधिक खेतिहर परिवार औपचारिक या अनौपचारिक वित्तीय सुविधाओं से कटे हुए हैं। गैर-खेतिहर परिवारों में से 80 प्रतिशत को किसी प्रकार की ऋण सुविधा उपलब्ध नहीं हैं जिसकी सहायता से वे अपने स्वरोजगार को बढ़ाकर आमदनी का जरिया बना सकें।

जहाँ तक ग्रामीण जनसंख्या के साक्षरता का प्रश्न हैं वह लगभग 25 प्रतिशत के आस-पास हैं। इस वर्ग के एक बड़े हिस्से को बैंकिंग सुविधाओं के बारे में कोई जानकारी नहीं हैं। यही कारण हैं कि यह वर्ग साहूकारों के चंगुल में अब भी फंसा हुआ है। भारत में लगभग सात लाख गाँव हैं और आधे से अधिक गावों की आबादी 500 से भी कम है। ऐसे गांवों में शाखाएं खोलना बैंकों के लिए आर्थिक रूप से व्यवहार्य नहीं है। बैंकों का परिचालन व्यय बढ़ता जा रहा हैं और लाभ प्रदता पर दबाव भी बढ़ता जा रहा है। इसी लिए वित्तीय समावेशन शुरू किया गया है जिसका उद्देश्य समावेशी विकास है। अतएव इस कार्य में संस्थागत स्रोतों के साथ 90 के दशक में लघु वित्त संस्थाओं को भी जोड़ा गया।

आज लघु वित्त संस्थाएं वित्तीय समावेश में जुटी हुई हैं। ये ग्रामीणों को छोटी राशि के रूप में ऋण प्रदान करती हैं, अतएव उत्पादनशील कार्य-कलापों के लिए परामर्श भी देती हैं। साथ ही बचत के माध्यम से कर्ज चुकाने के रास्ते भी बताती है। लघु वित्त संस्थाओं में कुछ 'स्वयं सेवी संगठनों', कुछ सहकारी और कुछ गैर बैंकिंग वित्तीय कंपनियों के रूप में कार्य कर रही हैं। ऐसे लघु वित्तीय संस्थाओं की संख्या लगभग 4000 है। जहां तक इनके भौगोलिक वितरण का प्रश्न हैं, यह संतुलित नहीं हैं। क्योंकि अधिकतर इन संस्थाओं का प्रसार दक्षिणी भारत में है। यहां एक महत्वपूर्ण बिन्दु यह भी है कि दक्षिणी भारत में पहले से ही ग्रामीण शाखाओं का अच्छा नेटवर्क है।

पिछले वित्तीय वर्ष में इन संस्थाओं ने लगभग 30 लाख नए ऋणियों को ऋण वितरित किए हैं। इस तरह अब कुल लाभार्थियों की संख्या लगभग एक करोड़ से अधिक हो गई हैं जिसमें महिलाओं की संख्या अधिक है।

इन संस्थाओं द्वारा गरीबों को ऋण उपलब्ध कराने के लिए प्रतिभूति नहीं ली जाती। यद्यपि इन संस्थाओं की उपयोगिता को अन्तर्राष्ट्रीय स्तर पर स्वीकार कर लिया गया है परन्तु इनकी कार्य पद्धति को लेकर कुछ सवाल भी खड़े हो रहे है।

सबसे महत्वपूर्ण प्रश्न यह हैं कि बहु बैंकिंग प्रवृत्ति को बढ़ावा मिल रहा है। इस प्रवृत्ति से लाभार्थी एक संस्था से ऋण लेकर दूसरी संस्था में चुकौती कर देता है। इसी तरह कहीं व्यावसायिक बैंकों, क्षेत्रीय ग्रामीण बैंकों से कर्ज लेकर इन संस्थाओं में जमा कर देते है। इस प्रवृत्ति के कारण महिलाएं ऋण के मकड़जाल में फंसती जा रही है। लघु वित्त संस्थाएं अन्य लघु वित्त संस्थाओं, व्यावसायिक बैंकों, क्षेत्रीय ग्रामीण बैंकों के ग्राहकों को लुभाकर उन्हें तोड़ लेती है। पिछले वर्ष कुछ समुदायों के संगठित प्रयास से कर्नाटक, उत्तर प्रदेश और उड़ीसा के कुछ क्षेत्रों में ऋण वसूली प्रभावित हुई है। इसी तरह नागपुर, वारंगल और करीम नगर जैसी जगहों पर लघुवित्त संस्थाओं को अपने श्रमिकों का असंतोष भी झेलना पड़ा है। स्थिति को काबू में रखने के लिए ए.बी.एन. एम्रो जैसे बैंक जिन्होनें लघु वित्त संस्थाओं को ऋण प्रदान किए है, सचेत हो गए हैं और इस क्षेत्र में अपना बोझ कम कर रहे है।

* मुख्य प्रबंधक (निवृत्त), इंडियन ओवरसीज बैंक

लघु वित्त संस्थाओं के संकट के बारे में लोगों का विचार बंटा हुआ है। अब यह संकट यदि मात्र छिट-पुट घटनायें हैं तो मामला गंभीर नहीं है और यह अपने आप हल हो जाएगा। हाँ यदि वास्तव में यह एक संकट है तो समावेशित विकास के लिए यह एक खतरे की घंटी हो सकती है।

नाबार्ड के पूर्व मुख्य महा प्रबन्धक के.एन. श्रीनिवासन ने अपनी एक रिपोर्ट में कहा है कि कोलार में 25 प्रतिशत लाभार्थियों के पास पांच से अधिक ऋण बकाया थे जबकि सभी लाभार्थियों के पास औसत तीन ऋण बकाया थे। यही कारण हैं कि कर्नाटक और आन्ध्र प्रदेश में लघुवित्त ऋण संस्थाओं के ग्राहकों की कुल संख्या गरीब परिवारों के प्रतिशत के रूप में सबसे ज्यादा है जो क्रमशः 263 प्रतिशत और 823 प्रतिशत हो गया है।

बहु बैंकिंग ऋण प्रवृत्ति के कारणों का उल्लेख करते हुए 'स्पन्दन' लघु वित्त संस्था के एक पूर्व कार्यकर्ता ने आन्ध्र प्रदेश के अपने अनुभव को बताते हुए कहा कि महिलाओं में ऋण लेने की प्रवृत्ति बढ़ी है और यही कारण हैं कि उन्हें अधिक ऋण उपलब्ध कराया जा रहा है।

जहाँ तक आन्ध्र प्रदेश में ग्रामीण ऋणों का प्रश्न है वह पिछले दस वर्षों में काफ़ी बढ़ा है। आन्ध्र प्रदेश के 'महिला अभिवृद्धि समिति' के अनुसंधान अधिकारी के. राज रेड्डी के अनुसार पहले ग्रामीण ऋण के स्रोतों - व्यावसायिक बैंक, क्षेत्रीय ग्रामीण बैंक, सहकारी संस्थायें एवं साहूकार थे अब इनमें लघु वित्त संस्थायें भी जुड़ गई है।

पावला वड्डी योजना के अन्तर्गत बैंक स्वयं सहायता समूहों को 3 प्रतिशत वार्षिक की दर से ऋण देते हैं जबकि प्रत्यक्ष रूप से 8-9 प्रतिशत ब्याज दर लेते है। इसी के साथ ग्रामीण संगठन भी अपने सदस्यों का रू.10,000/- तक पूरक ऋण भी उपलब्ध करा रहे हैं जिस पर मात्र 12 प्रतिशत ब्याज दर वसूल रहे है। जबकि पारम्परिक रूप से साहूकार 36-40 प्रतिशत का ब्याज लेते हैं वहीं लघु वित्त संस्थायें 29 प्रतिशत पर ऋण मुहैया करा रही हैं।

जहाँ तक व्यावसायिक बैंकों का प्रश्न है, वे ब्याज तो कम लेते हैं परन्तु परिवार की पूरी जरूरतों के मुताबिक ऋण प्रदान नहीं करते क्योंकि उन्हें गैर निष्पादक आस्तियों का डर सताता रहता है। साथ ही ऋण देने के तौर-तरीके थोड़े सख्त होने के कारण गरीब महिलाओं के लिए औपचारिकताएं पूरा करने में काफ़ी समय लग जाता है। वहीं स्वयं सहायता समूहों के गठन के छः माह बाद ही वे ऋण के लिए पात्र हो जाते है। यही कारण है कि लोग व्यावसायिक बैंकों / क्षेत्रीय ग्रामीण बैंकों से कृषि और अन्य व्यवसाय हेतु सस्ते ब्याज दरों पर ऋण ले लेते हैं जबकि अन्य जरूरतों के लिए लघु वित्त संस्थाओं का सहारा लेते हैं। ऐसे में बहुबैंकिंग ऋण प्रवृत्ति को अपने आप बढ़ावा मिल रहा है।

सही मायनों में आज लघु वित्त संस्थायें ऋण वसूली के लिए ग्रामीण परिवारों से वही व्यवहार कर रहे हैं जो शहरी परिवारों के साथ किया जाता हैं। सभी को मालूम हैं कि गांवो में वसूली का सबसे अच्छा समय फसलों की कटाई के बाद ही है, जबकि लघुवित्त संस्थाओं ने अब साप्ताहिक अवधि पर वसूली शुरू कर दी हैं जो ग्रामीण इलाकों के लिए पूरी तरह अव्यावहारिक है।

यहाँ लघुवित्त संस्थाओं की अपनी कमजोरी है कि उन्होनें एक भारतीय परिवार के ऋण की आवश्यकताओं के बारे में कोई नियोजित प्रयास नहीं किया। ग्रामीण इलाकों में फसलों की कटाई के बाद ही पैसा पहुंचता है। दूसरा तथ्य यह है कि ग्रामीणों ने अपने उपभोग आवश्यकताओं के लिए सदैव ऋण लिया है। अब इस वास्तविकता को अनदेखी कर यदि साप्ताहिक वसूली पर जोर दिया जाता हैं तो वह अव्यावहारिक ही है।

बहु बैंकिंग ऋण प्रवृत्ति का अपना जोखिम तो होता ही है क्योंकि गांवों में आवश्यकता से अधिक पैसा आने से इसका उपयोग उत्पादनशील कार्यों में न होकर अन्य स्रोतों से लिए गए ऋणों की चुकौती में किया जाता है।

ए.बी.एन. एम्रो के वाइस प्रेसीडेंट मोमिता सेन शर्मा का कहना है कि उन्होनें बहुबैंकिंग प्रवृत्ति की समस्या 2008 में ही पहचान ली थी। अब जब गांवों में वहाँ की अर्थव्यवस्था में उपयोग क्षमता से अधिक ऋण दिया जा रहा है और साप्ताहिक वसूली पर जोर दिया जाता है तो स्वाभाविक है कि महिलाएं पुराने ऋणों की चुकौती के लिए नए ऋणों को लेगी।

दस वर्ष पहले लघुवित्त उद्योग मात्र लोक हितैषी आधारित मोडल पर चलकर लम्बी अवधि के सुलभ ऋणों पर आधारित था। वर्ष 2001 से लघु वित्त संस्थाओं को बैंकों एवं अन्य वित्तीय संस्थाओं जैसे भारतीय लघु

उद्योग विकास बैंक एवं औद्योगिक वित्तीय निगम से भी ऋण प्राप्त होने लगे। वर्ष 2000 के मध्य में निजी ईक्विटी फर्म्स एवं लघु वित्त निवेश माध्यम भी शामिल हो गए।

आज लघु वित्त संस्थाओं के व्यवसाय का आकार इतना बढ़ रहा हैं कि अब इनकी भारतीय रिज़र्व बैंक द्वारा निर्धारित पूँजी पर्याप्तता अनुपात के अनुपालन के लिए निजी ईक्विटी पूँजी पर्याप्त नहीं है। इसके लिए अब इन्हें प्रारम्भिक सार्वजनिक प्रस्ताव (आई.पी.ओ.) से पूँजी जुटाने की अनुमति भी हैं। हैदराबाद स्थित एस.के. माइक्रो फाइनेन्स जैसी लघुवित्त आई.पी.ओ. द्वारा रू.1000 करोड़ जुटाने जा रही हैं।

दूसरी तरफ जिस तेजी से इनका व्यवसाय बढ़ रहा हैं उससे गैर निष्पादक आस्तियों के बढ़ने का खतरा भी पैदा हो गया है। माइक्रो फाइनेन्स डाट काम के लेखक डैनियल रोजास का मानना है कि आन्ध्र प्रदेश में लघु वित्त (माइक्रो वित्त) वैश्विक स्तर पर अपनी जगह बना चुका हैं और बांग्लादेश के बराबर खड़ा हो गया है। आन्ध्र प्रदेश में पिछले वर्ष ही माइक्रो वित्त का कवरेज उपलब्ध क्षमता से 6 प्रतिशत आगे निकल चुका था। ऐसी स्थिति में बहु बैंकिंग ऋण प्रवृत्ति एक चुनौती बनकर खड़ी हुई हैं।

एक तरफ ऋण से संतृप्त क्षेत्रों में ऋण वितरण जारी हैं तो दूसरी तरफ ऋणों का आकार भी बढ़ता जा रहा है। इन सबके अलावा पुराने ऋणों को बन्द करने के लिए नए ऋण भी दिए जा रहे है। लघु वित्त संस्थायें अब पूरक ऋण भी वितरित कर रहे है। साथ ही वर्तमान ग्राहकों को शादी एवं शिक्षा जैसे प्रयोजनों के लिए भी ऋण दिए जा रहे है।

ऐसा भी देखा गया है कि एक कार्यक्षेत्र में जहाँ एक लघु वित्त संस्था कार्य कर रही हैं वहीं दूसरी संस्था भी अतिक्रमण कर रही है। इसमें लघु वित्त संस्थाओं की दलील हैं कि उन्हें लाभार्थियों को प्रशिक्षित करने का समय बच जाता है। इससे भी बहुबैंकिंग ऋण प्रवृत्ति को बढ़ावा मिल रहा है।

आज जो सबसे अहम मुद्दा हैं- वह है ऋणों का सदुपयोग। यदि ऋण उत्पादनशील कार्यों में लग रहा है और आय भी बढ़ रही है और साथ ही ऋणों की चुकौती भी हो रही हैं तो समस्या नहीं है। असली समस्या तब है जब ऋणों का दुरूपयोग किया जाता है अर्थात् इसका उपयोग या तो अनावश्यक उपभोग में कर दिया जाता हैं या पुराने ऋणों की चुकौती में किया जाता है। हाँ, ऋण लेते समय ऋणियों द्वारा प्रयोजन उत्पादनशील कार्यों को ही दिखाया जाता है। यह खेद की बात हैं कि लघु वित्त संस्थाएं ऋणों के सदुपयोग या दुरूपयोग संबंधी विवरण नहीं रखती। यही कारण हैं कि ऋण का सदुपयोग करने वाले और ऋण का दुरूपयोग करने वाले दोनों से वसूली की समान नीति अपनाई जा रही है।

इन ऋणों में उच्च ब्याज दरों की भी समस्या हैं जहाँ महिलाओं को 29-30 प्रतिशत ब्याज दर का बोझ उठाना पड़ रहा हैं। गैर निष्पादक आस्तियों के बढ़ने का यह भी एक कारण है।

लघु वित्त संस्थाओं को ऋण का निर्णय करते समय ऋणियों की पात्रता, उनकी चुकौती की क्षमता, उनकी मार्केट रिपोर्ट और उनकी ऋण ग्रस्तता के बारे में गहन जाँच-पड़ताल करने की आवश्यकता है। वहीं ऋण देने के पश्चात् परिसम्पत्तियों / कारोबार की नियमित देख-रेख, अनुश्रवण एवं अनुवर्ती कार्रवाई की भी आवश्यकता है।

भारतीय रिज़र्व बैंक की उपगर्वनर ऊषा थोरात ने इस बात पर बल दिया है कि चुकौती की क्षमता जाने बिना ऋणों की स्वीकृति नहीं की जानी चाहिए। ऐसा न करने पर आगे चलकर अनुत्पादक आस्तियों में वृद्धि होगी और लम्बी अवधि में वे बैंकों / वित्तीय संस्थाओं को दिए गए अपने वचन को भी पूरा नहीं कर सकेंगी।

लघु वित्त संस्थाओं पर इससे पहले भी आन्ध्र प्रदेश में 2004 में एक संकट खड़ा हुआ था। भारतीय रिज़र्व बैंक ने वस्तु स्थिति का अध्ययन कराया था जिसमें इस बात की पुष्टि हुई थी कि लघु वित्त संस्थाएं बैंकों के कार्यक्षेत्र में अतिक्रमण कर रही हैं, जहाँ बैंकों के शाखाओं का जाल पहले ही फैला हुआ हैं। यही नहीं दोनों संस्थाएं एक ही टारगेट समूह के लाभार्थियों को वित्त पोषित कर रही हैं। इस प्रवृत्ति से एक तरफ तो बहुबैंकिंग को बढ़ावा मिल रहा हैं तो दूसरी ओर परिवारों के ऊपर कर्जे का बोझ बढ़ता जा रहा है।

भारतीय रिज़र्व बैंक के अध्ययन में दूसरा कारण स्वयं सहायता समूहों की क्षमता सृजन का ध्यान दिए बिना ऋण देने की बात कही गई है। अतएव लघु वित्त संस्थाओं को आत्म विश्लेषण कर अपनी कमजोरियों को पहचानना होगा और उनमें तुरन्त सुधार करना होगा।

जहाँ तक ज्यादा ब्याज दरों का प्रश्न हैं, चूंकि इन संस्थाओं का प्रशासनिक व्यय बहुत ज्यादा हैं और इन्हें छोटे-छोटे ऋणों को एक विस्तृत क्षेत्र में वितरित करना पड़ता है, देख-भाल करनी पड़ती है और वसूली भी करनी पड़ती हैं इसलिए इनका ब्याज दर 30 प्रतिशत के आस-पास है। फिर भी इसके विकल्प के रूप में साहूकारों द्वारा दिए कर्ज और भी महंगे होते है। उदाहरण के लिए जब एक गरीब किसी साहूकार से रू.90/- का ऋण सुबह लेता हैं तो उसे शाम तक रू.100/- चुकाना पड़ता है जो लघु वित्त संस्थाओं से 135 गुना ज्यादा बैठता है।

अतएव यह कहना कि लघु वित्त संस्थाओं का ऋण महंगा है एक कोरी कल्पना है। दूसरी बात गरीब परिवारों की उपभोग आवश्यकताओं की पूर्ति करना उत्पादक है या अनुत्पादक वह भी एक अहम मुद्दा है। यहाँ यह बात स्पष्ट कर देनी होगी कि गरीब उधारकर्ताओं को जीवित रहने के लिए उपभोग की आवश्यकता तो होगी ही तभी वह उत्पादन कर सकते हैं और ऋणों की चुकौती भी कर सकते हैं। अतएव गरीब परिवारों को उपभोग के लिए ऋण तब तक सही है जब तक यह असली आवश्यकताओं पर आधारित है, हाँ अनावश्यक उपभोग करने पर ऋण के मकड़ जाल में फंसने की संभावनायें बढ़ जाती हैं।

यहाँ यह बात स्पष्ट करना आवश्यक हैं कि लघु वित्त से गरीबी दूर नहीं की जा सकती। इसके लिए मूलभूत सुविधाओं में निवेश, उपयुक्त संस्थाओं का विकास, क्रियाशील बाज़ारों का विकास, बाज़ार लिंकेज, जागरूकता आदि की आवश्यकता है।

जहाँ तक लघु वित्त संस्थाओं के विनिमयन का प्रश्न है, गैर बैंकिंग वित्तीय कंपनियों का विनियमन भारतीय रिज़र्व बैंक द्वारा किया जा रहा हैं। आज आवश्यकता हैं स्वयं विनियमन की। इसके लिए आचार संहिता बनाने की आवश्यकता हैं जिसमें ब्याज दरों में पारदर्शिता, वसूली में जोर-जबरदस्ती बन्द करना, ऋण की आवश्यकता का निर्धारण, ऋण के साथ वित्तीय साक्षरता का लिंकेज और सामाजिक लेखा-परीक्षा भी शामिल है।

स-धन जैसी लघु वित्त संस्था जिसने राष्ट्रीय स्तर पर एक संघ बनाया है ऐसे आचार संहिता पर कार्य कर रही है। अब समय आ गया हैं कि लघु वित्त संस्थाएं अपने कार्य का मूल्यांकन करें जिसमें गरीब परिवारों पर ऋण के प्रभाव का अध्ययन किया जाए, आर्थिक स्थिति को सुधारने में आगे की रणनीति, परिसम्पत्तियों के सृजन में उठाए गए कदम आदि को शामिल किया जाना चाहिए। लघुवित्त संस्थाओं ने अब निर्णय लिया है कि अब वे अनैतिक प्रतिस्पर्धा से बचेंगे और अन्य बैंकों / वित्तीय संस्थाओं के लाभार्थियों में रूचि नहीं दिखाएगें। लघु वित्त संस्थाओं में निवेशकों और वित्त पोषण करने वाले बैकों / वित्तीय संस्थाओं को ऋण देने से पहले इन सब बिन्दुओं को एक पूर्व-शर्त के रूप में लेना चाहिए।

Low interest rates : do the risks outweigh the rewards?

Central banks cut policy rates sharply during the crisis in order to stabilise the financial system and the real economy. Those essential cuts, reinforced by unconventional policy measures to address financial market malfunctioning, helped to forestall an economic meltdown. But there are limits to how long monetary policy can remain expansionary. Low interest rates can distort investment decisions. The financial stability risks that could arise from a prolonged period of extremely low policy rates also need to be very carefully weighed. An extended period of such low policy rates can encourage borrowers to shorten the duration of their debts, facilitate the increased leverage of risky positions and delay necessary balance sheet adjustments. While policymakers can and should address such risks with other tools, they may still need to tighten monetary policy sooner than consideration of macroeconomic prospects alone might suggest.

(Source : BIS 80th Annual Report)

Name of Book : The Mckinsey Engagement : A Powerful Toolkit for More Efficient and Effective Team Problem Solving

Author : Paul N. Friga

Publisher : Tata McGraw Hill Publishing Co. Ltd., 7, West Patel Nagar, New Delhi 110 008.

No. of Pages : 247 Pages

Price : Rs.250/-

Reviewed by : V. Raghuraman

How collective team work can and does help solve problems is, perhaps, one of the latest findings that have engaged the attention of many management and HR professionals' work culture. It is this aspect that has been dealt at length in the aforesaid book under review.

As may be seen from the title of the book, the publication is a powerful toolkit for more efficient and effective problem solving. According to the author, Dr. Paul N. Friga, problem solving has always to be a team or collective effort, especially when it has to be lasting and enduring. Whether it is implementing a major change in one division or throughout the company, identifying and fixing a snag in a production chain, or reinvigorating flagging customer satisfaction, all these are effectively and lastingly solved only through collective action of problem solving. This is the "Mckinsey Way" of handling / solving problems big or small and bringing about fullest customer satisfaction.

With two similar publications "The Mckinsey Way" and "The Mckinsey Mind" which have already become international bestsellers to his credit, Dr. Friga has, in this publication, described the team-building and communication process / exercise which the reputed consultants use world over. The book focuses on the techniques used at Mckinsey and other firms globally for the benefit of a wider audience. Having himself worked with Mckinsey's as an associate consultant for long, he has intended this volume to serve as a 'field guide' for busy professionals, consultants and students who face a team-problem situation but don't have the necessary time to get to the main recommendations and have them implemented.

In his extensive research carried out on the subject, he has found that the key to success in team problem-solving lay in discipline while executing the task. To achieve this, what is required among others, is to have massive investment in recruiting, bringing people on board, training, mentoring and finally promptly rewarding people for the desired behavior that Mckinsey has identified as "being very critical for success". In this regard, he has cited how a good story telling leader is able to capture the attention of the audience for a long time. Likewise, he adds that "good consultants should develop and excel in the art of storytelling for succeeding in the field".

According to him, the aim has to be "to arm consultants and corporate problem-solvers with a blue print of action for achieving consistently favourable results". And, he has done this by cutting out on long theory and elaborating on action. While every chapter focuses upon one element in the problem-solving model, it is followed by a thorough discussion on the subject. This is mainly with a view to help readers to come to terms with the topic. By providing interesting and live case studies, Dr. Friga has made the job of understanding the task much easier even for the general reader.

Dr. Friga mentions in all chapters a few rules that are to be strictly adhered to if one were to succeed in the task. Foremost among the rules are the ones on communicating freely and constantly with one's team mates / colleagues. Discussing the problem thread-bare among associates is the first step in problem solving as this helps develop ideas in solving them. Equally important rule is paying attention or listening patiently to the view points of team members, even if they happen to be irrelevant. He also stresses on the motivation factor, which more than anything else, reinforces the team mates' "energy levels". One has to learn to openly laud/praise a colleague's efforts or achievements.

Concluding, one may quote what a retired partner of Ernst & Young has to say about the book : "……………..Veterans will identify best practices from their experience while learning insights to improve efficiency and effectiveness. Newcomers will find in this a blue print for success, complete with practical tools and techniques". In sum, the book should be a valuable addition to the shelf of every management student and lover of the subject, apart from being a must for the professionals in the field.

Books Added to the IIBF Corporate Library			
No.	**Title**	**Author**	**Publisher & Year of Publication**
1.	Armstrong's handbook of reward management practice : improving performance through reward, 3rd edition	Michael Armstrong	Kogan Page India, 2010
2.	Crucibles of leadership : how to learn from experience to become a great leader	Robert J. Thomas	Harvard Business School Press, 2008
3.	Delivering e-learning : a complete strategy for design, application & assessment	Kenneth Fee	Kogan Page India, 2010
4.	Direct taxes code	Taxmann	Taxmann Publications, 2009
5.	Economic survey 2009-2010`	Government of India	Oxford University Press, 2010
6.	Encyclopaedia of interest free banking : banking in Islam	D. R. Joshi	Cyber Tech Publications, 2010
7.	Financing of small & medium enterprises in India	Ashok Kumar Mohanty & Durga Madhab Mahaptra	Serial Publications, 2007
8.	Geeks & geezers : how era, values, and defining moments shape leaders	Warren G. Bennis & Robert J. Thomas	Magna Publishing, 2004
9.	How to read a profit & loss statement	N. Ramachandran & Ram Kumar Kakani	Tata McGraw Hill, 2010
10.	Human resource development in banking sector	Jyoti Sadhu	Serial Publications, 2008
11.	IQ testing : increase your vocabulary & develop your powers of calculation & logical reasoning	Philip Carter & Ken Russell	Kogan Page India, 2010
12.	Lords of finance : the bankers who broke the world	Liaquat Ahamed	William Heinemann, 2009
13.	Managing change and transition	Harvard Business School Press	Harvard Business School Press, 2003
14.	Merchant banking, 4th edition	H. R. Machiraju	New Age International, 2010
15.	Microeconimcs for managers	David M. Kreps	Viva Books, 2010
16.	Negotiation	Harvard Business School Press	Harvard Business School Press, 2003
17.	Overview of financial inclusion & micro credit	D. T. Pai	Author, 2010
18.	Readings in commodity derivative markets	Madhoo Pavaskar	Takshashila Academia of Economic Research, 2010
19.	Survey of Indian industry, 2010	The Hindu	Author, 2010
20.	Test your EQ : assess your emotional intelligence with 22 personality questionnaires	Philip Carter	Kogan Page India, 2010

NEWS FROM THE INSTITUTE

Dispatch of Result Advices - JAIIB & CAIIB

Institute will henceforth be issuing consolidated Marksheet cum Completion Memorandum to candidates who have passed all the subjects of the JAIIB / CAIIB examination. As regards candidates who have not passed all the subjects, printed result advices (original as well as duplicate) will not be issued but the same will be available on Institute's website in printable form. Candidates are requested to download the same from our website 'www.iibf.org.in'.

The Basel Committee's response to the financial crisis : report to the G20

The Basel Committee's response to the financial crisis : report to the G20 describes the measures taken by the Committee and its governing body of Central Bank Governors and Heads of Supervision to strengthen the resilience of banks and the global banking system. The Basel Committee reforms address the identified weaknesses of the pre-crisis banking sector, thus delivering on the G20 mandate given at the Pittsburgh summit to develop a more resilient banking sector.

The new global standards to address both firm-specific and broader, systemic risks have been referred to as "Basel-III". Basel-III is comprised of the following building blocks, which were agreed and issued by the Committee and its governing body between July 2009 and September 2010 :

- higher *quality* of capital, with a focus on common equity, and higher *levels* of capital to ensure banks can better absorb the types of losses like those associated with this past crisis;
- better coverage of risk, especially for capital market activities;
- an internationally harmonised leverage ratio to constrain excessive risk taking and to serve as a backstop to the risk-based capital measure, with a view to migrating to a Pillar-1 treatment based on appropriate review and calibration;
- capital buffers, which should be built up in good times so that they can be drawn down in periods of stress;
- minimum global liquidity standards to improve banks' resilience to acute short term stress and to improve longer term funding; and
- stronger standards for supervision, public disclosures and risk management.

The Basel Committee is also contributing to the Financial Stability Board initiative to address the risks of globally systemic banking institutions by developing approaches to identify them and ways to raise their loss absorbing capacity, including work on capital surcharges, contingent capital, and bail-in-able debt.

(Source : BIS website)

Invitation For Articles - Guidelines For Contributors

Contributing articles to the Bank Quest : (English / Hindi)

Articles submitted to the Bank Quest should be original contributions by the author/s. Articles will only be considered for publication if they have not been published, or accepted for publication elsewhere.

Articles should be sent to :

The Editor : Bank Quest

Indian Institute of Banking & Finance

"The Arcade", World Trade Centre, 2nd Floor, East Wing, Cuffe Parade, Mumbai-400 005, INDIA.

Objectives :

The primary objective of Bank Quest is to present the theory, practice, analysis, views and research findings on issues / developments, which have relevance for current and future of banking and finance industry. The aim is to provide a platform for Continuous Professional Development (CPD) of the members.

Vetting of manuscripts :

Every article submitted to the Bank Quest is first reviewed by the Editor for general suitability. The article may then be vetted by a subject matter expert. Based on the expert's recommendation, the Editor decides whether the article should be accepted as it is, modified or rejected. The modifications suggested, if any, by the expert will be conveyed to the author for incorporation in case the article is considered for selection. The author should modify the article and resubmit the same for the final decision of the Editor. **The Editor has the discretion to vary this procedure.**

Features and formats required of authors :

Authors should carefully note the following before submitting any articles;

1) Word length :

Articles should generally be around 5000 words in length.

2) Title :

A title of, preferably, ten words or less should be provided.

3) Autobiographical note and photograph :

A brief autobiographical note should be supplied including full name, designation, name of organization, telephone and fax numbers, and e-mail address (if any) or last position held, in case of retired persons. Passport size photograph should also be sent along with the submission.

4) Format :

The article, should be submitted in MS Word, Times New Roman, Font size 12 with 1½ line spacing. A soft copy of the article should be sent either in a floppy or by e-mail to drwazkar@iibf.org.in

5) Figures, charts and diagrams :

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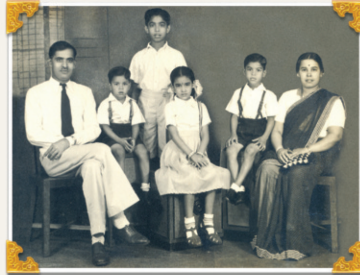

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