

R Gandhi: Roundtable on capacity building in banks

Speech by Mr R Gandhi, Deputy Governor of the Reserve Bank of India, at the Roundtable on Capacity Building in Banks, organized by the Centre For Advanced Financial Research and Learning (CAFRAL), Mumbai, 18 June 2015.

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I appreciate CAFRAL for taking the initiative of holding this roundtable on capacity building in banks. As I am given to understand, the objective of this roundtable is to discuss the key aspects of the recommendations of the Committee on Capacity Building in Banks and Non-Bank Institutions (Chairman: Shri G. Gopalakrishna) and to formulate strategy to streamline and implement the recommendations. I also understand that the issues and challenges in implementing these recommendations would be the major focus area today. At a time when the Reserve Bank as a regulator is engaged in consultation with the stakeholders on the aspects of implementation of the various recommendations of the Committee, such an initiative is most welcome. The feedback from the deliberations today would serve as a good input for us, going forward as we formulate the policies for implementation.

Capacity Building

2. Let me start by asking a fundamental question to set the tone for the deliberations to follow. What is “capacity building”? Capacity building is an ongoing process through which individuals, groups, organizations and societies enhance their ability to identify and meet development challenges. It also aims at understanding the obstacles that inhibit people and organizations from realizing their development goals.

3. Capacity Building is much more than training and includes the following:

- Human resource development: the process of equipping individuals with the understanding, skills and access to information, knowledge and training that enables them to perform effectively.
- Organizational development: the elaboration of management structures, processes and procedures, not only within organizations but also the management of relationships between the different organizations and sectors (public, private and community).
- Institutional and legal framework development: making legal and regulatory changes to enable organizations, institutions and agencies at all levels and in all sectors to enhance their capacities.

4. A practical definition can be as follows: Capacity Building is planned and continuous development of (or increase in) knowledge, management, skills, and other capabilities of persons and organizations through acquisition, guidance, incentives, technology and/or training.

Capacity Building – an obsession with financial market regulators

5. Capacity Building is an obsession with the financial market regulators in general and more specifically with the Indian financial market regulators. The Reserve Bank of India, being the oldest among the financial market regulators has a long history of persisting with this obsession. Its efforts include establishing and operating or being a catalyst for the formation of very many capacity building organisations, not just for itself, but also for the banking and even the financial sectors. These institutions have catered to training, higher

academic research, technology, education and certification, etc needs of the sector. There is really a very long pedigree of institutions established / catalysed by the Reserve Bank right from early 1950s. These are the Reserve Bank Staff College, the Bankers Training College (BTC), the College of Agricultural Banking (CAB), the Indira Gandhi Institute of Development Research (IGIDR), the Institute for Development and Research in Banking Technology (IDRBT), the National Institute of Bank Management (NIBM), the Indian Institute of Banking and Finance (IIBF), Indian Institute of Bank Management (IIBM), Institute for Banking Personnel Selection (IBPS) and now the Centre for Advanced Financial Research and Learning (CAFRAL). And, we have not yet stopped; we are now at work to establish an RBI Academy.

6. The other financial market regulators who came later have also imbibed this spirit and have established institutions to meet the needs of their sectors. For example, the Securities and Exchange Board of India (SEBI) has established the National Institute of Securities Management (NISM) and the Insurance Regulatory and Development Authority of India (IRDAI) has established the Institute of Insurance and Risk management (IIRM).

7. We can also observe this trend in the regulators of other countries as well, be it in a developed nation or in a developing nation or region. The Federal Reserve Bank, the Bank of England, the Bundesbank, the Banque de France, the International Monetary Fund, the World Bank and others have all established capacity building institutions and arrangements.

Why this obsession?

8. Finance is primarily a knowledge oriented activity. The chief capital and inputs required for this sector all relate to “information” and “knowledge”. This “information” and “knowledge” is highly dynamic; new research and new concepts crop up every often. The paradigm changes in the sector has very wide ramifications; the sector is highly interconnected; happenings in this sector has high visibility. That means that the regulators have to be upto date with such cutting edge “information” and “knowledge”; be abreast of the developments in the sector; and be hands on. On top of these, these efforts have to be continuous and over the whole career. That is why the regulators typically have such capacity building institutions under their direct charge.

Background and overview of key recommendations

9. Another significant feature of Indian financial sector is that the Government is also equally keen on supporting these efforts. Before the regulators came on the scene, it was the Government which played the catalyst in establishing several capacity building arrangements for the securities and insurance sectors. The National Knowledge Commission, established in 2005 as a high-level advisory body to the Prime Minister of India, has made several recommendations, with the objective of transforming India into a knowledge society. Several of these recommendations are being implemented.

10. Further, the Financial Sector Legislative Reforms Commission (FSLRC), established in 2011, has, while recommending a major transformation of the legal foundations for Indian finance through the enactment of the Indian Financial Code (IFC), made several recommendations which pertain to capacity building in banks and non-banks, streamlining training intervention and other related measures. As you are aware, it is in this context that a Committee on capacity building in banks and non-bank institutions in India was constituted by the Reserve Bank and Shri Gopalakrishna headed that Committee.

11. Let me begin by outlining what really the Reserve Bank had in mind when the Committee was constituted. The thrust was on the entire gamut of human resource skill set which is required for improving the efficiency of the employees of banks and NBFCs, which would in turn help the organisations individually and benefit the financial system as a whole. The issue is the level of intervention that would ideally be required in terms of enhancing

their skill building – entry level expertise, training requirements both initially and on an ongoing basis, skill sets and qualifications required for certain specific and specialised areas, and exploring the need and methodologies for prescribing certification for required qualifications. In short, the most important deliverable for the Committee thus was to identify capacity building requirements keeping in view the role of the financial sector and what it should deliver.

12. Key recommendations of the Committee are in the areas of HR management practices, training methodologies and innovations, system wide institutions and processes, exploring mandatory certification requirements and amplifying capacity related requirements in Boards of banks. I shall dwell on each of these aspects in some detail.

HR management practices

13. HR management is an important function for banks covering the whole gamut of areas such as recruitment, role mapping, training, skill set identification, building up of HR data base, and performance assessment. It is very important for this function to be taken up as a specialised area and given its due importance rather than as just a routine operational work to be done. HR is going to be at the forefront of change in the years to come and it should be understood that banks having clear HR policies with awareness of employee engagement and development will gain a vital competitive edge in a tough market environment in the years ahead.

14. The HR function world over has undergone many developments / evolution over the years, particularly from its administrative beginnings to a strategic orientation as is seen today. However, it is a fact that in a majority of the banks in India even today, the HR function is at best a supplementary function which is not given its due importance in the banking hierarchy. There is a need for change in the mind set to underscore the fact that to drive your efficiency, as well as the topline and bottomline in your balance sheets, you need skilled resources. Such skill resource base is not possible if you do not have a structured approach to the entire gamut of HR management.

15. HR is an essential element of corporate strategy and is invariably linked to the performance of banks as well. I am happy to observe that this aspect has been emphasised in the Committee report which talks about aligning human resource planning with strategic planning to achieve the strategic goals of banks and non-banks. As you go about your deliberations during course of the day, I am quite sure you will have some more clarity on these aspects.

Training methodologies and interventions

16. A great deal of emphasis has been given in the Report on the process of skill development, particularly on training needs and training strategies. As you are aware, training enables employees develop the needed competencies to achieve the desirable outcomes. Training ensures learning in a structured manner and reduces randomness. Banks and NBFCs need to encourage a culture of learning on an on-going basis.

17. With a fast changing environment, skills and qualifications acquired could fast become redundant if there is no on-going updation. While it needs no emphasis that the initiative should also come from the employees themselves to keep abreast of the developments, it is also the duty of the organisation to equip their employees by providing a minimum training support at periodical intervals. Apart from taking away the monotony of their daily work, and expanding their horizons and knowledge levels, it can also change employee attitude and behaviour, thereby contributing to the organisational performance.

18. Studies have shown that training and effectiveness programs have a positive impact on employee performance. In this backdrop, there is an interesting suggestion in the Committee Report to introduce a system where employees have to pass a certification

program compulsorily to progress to the next grade in the hierarchy. It is in this context that institutes like IIBF, IBPS, NISM and CAFRAL have a very vital role to play.

19. Another interesting suggestion is for training programmes to be combined with certification which will improve training efficiency and will offer quality assurance. This will also ensure that training efforts are taken seriously by the recipients.

System-wide measures

20. The next set relates to the steps needed to be taken on a system-wide basis to drive capacity building. The Committee acknowledges the need to look beyond an individual institution's perspective and consider various measures on a system-wide basis to support and drive capacity building. The success of these measures would hinge on coordination and collaboration of all relevant stakeholders. The Committee has outlined the various aspects that need to be reckoned, including creation of accreditation agency, introducing Banking Aptitude test, developing Centre of Excellence for Leadership Development for banking sector, fostering development of data and research on skills in banking sector and improving academic-industry interface, etc.

21. A very important suggestion is for an accreditation agency to be set up as an independent quality assurance body for the banking sector which would be responsible for accrediting learning initiatives within the banking industry. As per the report, the main focus of the accrediting agency will be to accredit training institutes in the industry. When it comes to implementing this recommendation, the modalities of such accreditation needs to be worked out. I understand that this would be one of the issues which will also be discussed today.

22. In this respect some other action is also needed. Of utmost importance are discussions with the stakeholders – the banks, the premier training institutions, the bankers' associations, and in the case of public sector banks, the Government itself.

Building capacities of top management and members of boards of banks

23. Public sector banks have been witnessing increasing number of younger officers at top levels of hierarchy over the last few years. Some of them have risen rapidly thru senior positions over a short period of time. While this can bring fresh perspectives on various issues, it is also a fact that given the strategic importance of leadership at the top, it is important to understand the training requirements of top management and fulfil the same. The Committee has recommended mentoring programmes for CMD / CEOs of banks. I find that CAFRAL has already carved out a niche for itself in this area.

24. We are all aware of the concerns that corporate governance weaknesses in banks world over had contributed to the financial crisis. Doubts have been raised on the ability of Boards of banks to adequately guide and oversee their institutions. There have been questions on the role of Boards of Directors and the desired, but frequently missing, skill sets of non-executive directors in light of lessons drawn from the crisis. Bank boards are in constant scrutiny of the regulator, shareholders, and various stakeholders. Needless to add, directors need to possess adequate skill sets and stay abreast of developments in the financial sector to guide banks and steer them in the right direction.

25. In our country, in terms of the Banking Regulation Act, 1949, not less than fifty-one per cent, of the total number of members of the Board of Directors of a banking company are required to have special knowledge or practical experience in accountancy, agriculture and rural economy, banking, co-operation, economics, finance, law, small-scale industry or any other matter the special knowledge of, and practical experience in, which would, in the opinion of the Reserve Bank, be useful to the banking company. There is thus no requirement for a specific educational qualification for nomination as a Director.

26. What is interesting is that the Committee has deliberated in detail on the issue of compulsory certification of individuals before their appointment as Directors on boards of banks. While the Committee has recommended that such certification need not be considered as of now, it has thrown open the debate on the knowledge and skill development at the highest decision making body – the Boards. Formal and systematic induction process and regular training intervention subsequently for members on bank Boards have been recommended. These are some of the recommendations, which in my view, can be implemented immediately.

Certification

27. Having discussed the recommendations in broad details, I would like to spend more time on the specific issue of certification in more details. Why separate certification is needed? Can't the academic credentials, university degrees, diplomas and certificates be sufficient? These questions can naturally be raised. The answer is that several aspects of banking and finance is becoming increasingly a set of specialised knowledge. As distinct from an academic perspective, a practitioner's perspective is more relevant here. India is poised for growth; along with stable growth, we will have a stable & low interest regime. This will necessitate the capital market to grow much faster and larger. The financial instruments and services that will be demanded by the investors and offered by the financial institutions users will be much more in number and in complexity. Complex expertise in niche area will be the increasing need of the hour. Attrition and Lateral recruitments will further exacerbate this. Knowledge assurance will be an imperative. Customer rights and the financial institutions' liabilities and proof of burden will be squarely on the shoulders of the financial institutions. Legal and regulatory compliance will demand another set of special talents and skills. If the banks and the financial institutions will have to meet all these challenges, they will need the assurance that their operating officials are duly qualified to undertake the respective responsibilities. And certification will provide that assurance.

Implementation of the recommendations

28. In so far as the implementation of the recommendations of the Committee are concerned, since it involves among others, issues such as specialisation, entry point qualification, special recruitments based on job roles and competency, accreditation agency to be set up as an independent quality assurance body, national online aptitude test at entry level as well as exclusive funding arrangement under the nomenclature of the Financial Sector Development Fund with a large corpus (to be considered by the Government of India) to support various capacity building initiatives, etc. it will have a significant bearing on the HR policies of public sector banks. In view of this, we are in consultation with the Ministry of Finance, Government of India and the Indian Banks Association on operationalising the recommendations.

29. While the consultation process is underway, there has been some feedback that the proposals of the report should manifest as broader guidelines for the banks' which are recommendatory in nature and not mandatory. While several will remain so, requirements like certification and accreditation can be mandatory. If this roundtable could discuss the suggestions and arrive at a valuable implementation road map, it would be a welcome feedback for the Reserve Bank as we finalise our policy on implementation of the proposals.

Conclusion

30. Banking sector plays a very important role in the economic growth of the country and our banking system has to ensure that its capacity to deliver has to continuously evolve and adapt to the developments in the sector. Banks have to make conscious and structured effects in building such capacity, by putting in practice the various recommendations in the

Report. I am confident that the discussions in this roundtable will lead to specific road map for action and provide clarity on issues.

31. Thanking you all for your patient attention.