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HR CHALLENGES IN BANKING SECTOR

Maneesha. V

Assistant Professor (on contract), Department of Commerce,
Ambedkar College of Arts & Science, Wandoor, Malappuram, Kerala.

ABSTRACT

Indian banking sector has undergone a lot of changes from the time of inception of the State Bank of India in 1921. After independence, in the early phases, banks were nationalized but from the 1990s liberalization set in, leading to the setting up of private banks and entry of foreign banks into the country. Globalization and resultant exposure to various types of banking services have increased customer expectations also. This has created many new HR challenges for banks. This paper is focusing on the current HR challenges in the banks, the opportunities that economic changes have brought about in the banks, the impact of globalization on banks, and suggesting remedial measures that could help the smooth functioning of both state-owned banks and private sector banks.

Keywords: Human Resources, Banking, globalization, liberalization, nationalization.

INTRODUCTION

Banking sector is one of the primary service sectors in the world. Banks function as the nerve centres of a country by facilitating the flow of financial resources and making sure that money is allocated properly for citizens' needs and the country's economic growth. In India, the oldest bank that continues to function now is the State Bank of India, which was formed in 1921 by the merger of three banks, namely Bank of Bengal, Bank of Bombay, and Bank of Madras. The original name of the bank was the Imperial Bank of India, which, in 1955, in free India, got the new name State Bank of India. It became the main bank that handled the financial transactions of the union government and state governments.

The Reserve Bank of India, which is the main banking institution of India, was established on April 1, 1935. Till then the State Bank of India (then known as the Imperial Bank of India) used to do some of the central banking tasks as well. Even now, in places without RBI branches, SBI functions as its agent. SBI handles the functions of the main bank like maintaining currency and acting as a clearing house.

ISSN: 2455-8834

Volume: 04, Issue: 10 "October 2019"

In 1959, more than a decade after independence, seven banks, which were the subsidiaries of the State Bank of India, were nationalized (https://www.gktoday.in). This continued when in 1969, under the Banking Companies (Acquisition and Transfer of Undertaking) Act, 14 major private banks became state-owned. "The 14 banks controlled 70 percent of the country's deposits" (Srivastava, 2014). The trend continued till 1980, when 6 more banks were nationalized. These banks' ownership was transferred to the state mainly to ensure that credit was properly channelized to small scale industries and for agricultural needs. "The expansion of branches in rural areas was particularly noteworthy. The figure rose from 8,261 in 1969 to a whopping 65,521 in 2000. The pace has slowed since then" (Srivastava, 2014).

The nationalization-trend changed in the 1990s when government policy became more liberal. This paved the way for the opening of many private sector banks. This liberalization, which continued into the 21st century, reduced the entry barriers to foreign banks. "Accommodation of new private domestic and foreign banks has lowered public sector banks' share in the total assets of the banking sector from 90 per cent in 1991 to less than 74% in 2010" (Das et al., 2012).

Banks are institutions that take financial risks on a daily basis while serving the public and generating revenue through that process. This, plus the fact that bank employees have to interact with customers routinely, make the human resources management of banks extremely crucial because HR department has to find the right talent that can minimize the financial risks, retain the existing customers, and win over new ones. This importance of human resources has increased significantly over the years, as more and more private banks and foreign banks entered the fray; the services that banks offered diversified and broadened; and the number of customers increased because of new banking services and rising population.

THE OBJECTIVES OF THIS STUDY ARE,

1. To assess the HR challenges in the banking sector
2. To identify the opportunities in banks
3. To analyse the impact of globalization on banks, and
4. To identify the remedial measures

1. The HR Challenges in Banking Sector

In India, Banks' staff are roughly divided into award staff and officers. Both these categories are equally important for the proper functioning of a bank. Award staff are generally transferred within a limited geographical area so that they are not plagued by too much changes in commuting schedules and place of residence while officers are transferred across the country to faraway states and often have to take up new challenges and take major decisions.

ISSN: 2455-8834

Volume: 04, Issue: 10 "October 2019"

Confirming the creditworthiness of loan applicants is a critical job that bank officers have to do because loss due to non-performing assets (NPAs) is a major problem that plagues banks. “Today, banks are groaning with burden of NPA‘s. It is rightly felt that these contaminated debts, if not recovered, will eat into the very vitals of the banks” (Manikyam, 2014). NPAs often result from the fact that repaying ability of the loan applicant is not properly assessed. In the case of big loans, interference from political authorities and social elites become a big problem for the bank staff in dispensing the loan.

Then there are unsecured loans like student loans, personal loans and credit card loans that banks are forced to give without the borrower pledging anything as a security. In giving these loans, it is probably not sufficient that the bank official verify the applicant’s salary slip and related credentials. He should ideally use his sixth sense in such cases by evaluating the applicant’s facial expression, body language, words, dialect etc. to decide whether he can or will repay the loan.

Speaking at a Conference of HR Heads of Banks and Financial Institutions, Dr K C Chakrabarty (2014), Deputy Governor of the Reserve Bank of India, opined that the HR functions in Indian banks were not being performed satisfactorily at all. He attributed this to the fact in most instances “the officials in HR departments virtually have no expertise or training in HR management and they land there more as a matter of providence than by design. The failure of the HR personnel in the banks and its impact on their performance has also got partly masked due to lack of competition in the banking segment”. Absence of a detailed job profile for an employee occupying a particular chair is another problem that afflicts the HRM of banks. Often an employee designated to handle a particular section is forced to help the person sitting at the next desk. This could be due the lack of experience of the latter or time constraints related to that particular section. This makes it difficult to evaluate employee performance and calculate the shortage or oversupply of human resources.

Performance management is not done meticulously in some cases and the functioning of performance management system is not sufficiently transparent. When there are no clear-cut performance yardsticks for evaluating performance, promotion criteria become vague and ill-defined. If top performers are not motivated by proportionate rewards, employee morale may go down and it will become difficult for that bank to retain talent.

are a big HR problem in many banks. They have to be brought up to a certain level by intense training after identifying their core competencies and deficiencies. As the core competency could be different for each individual, setting up a training program for them as a group may not be an easy task. When combined with the lack of a definitive job profile in some banks, this problem becomes quite weighty.

ISSN: 2455-8834

Volume: 04, Issue: 10 "October 2019"

Like performance yardsticks, accountability rules are also often not clearly defined so that employees are rarely held responsible for non-performing assets. “As per data reported by PSBs, during the last three financial years, staff accountability has been examined in 29,30,762 NPA accounts, and staff accountability has been fixed in respect of 53,122, or 1.8%, of these” (Bose, 2018). Accountability rules are also necessary to ensure that when disciplinary actions are initiated for performance errors, an unfair share of punishment does not fall on one employee.

In rural areas people are rather reluctant to avail the facility of online banking services. That is mainly because of e-banking illiteracy and the fear of security risks involved in online transactions. As such, the staff of banks working in rural areas have the added responsibility of creating customer awareness of e-banking facilities.

The first quarter of the 21st century has been a fast-changing phase for Indian banks because the country and the world in general, are moving into a cashless scenario. At one end of the spectrum, there are still people in India who do not use banking services at all. This could be due to the fact that there is not enough money to be put in an account, because land and gold are considered to be better saving options, or because of some religious restrictions. Then there are those who are not very e-literate that they prefer to manage their bank transactions at the physical branch, and finally those who prefer online banking to everything else. So, banking staff are faced with the challenge of creating awareness among all these 3 segments as well as satisfying the increasing customer expectation, and also that of managing the rising competition around because of the steady increase in the number of banks and non-banking financial institutions.

2. Opportunities for Banks

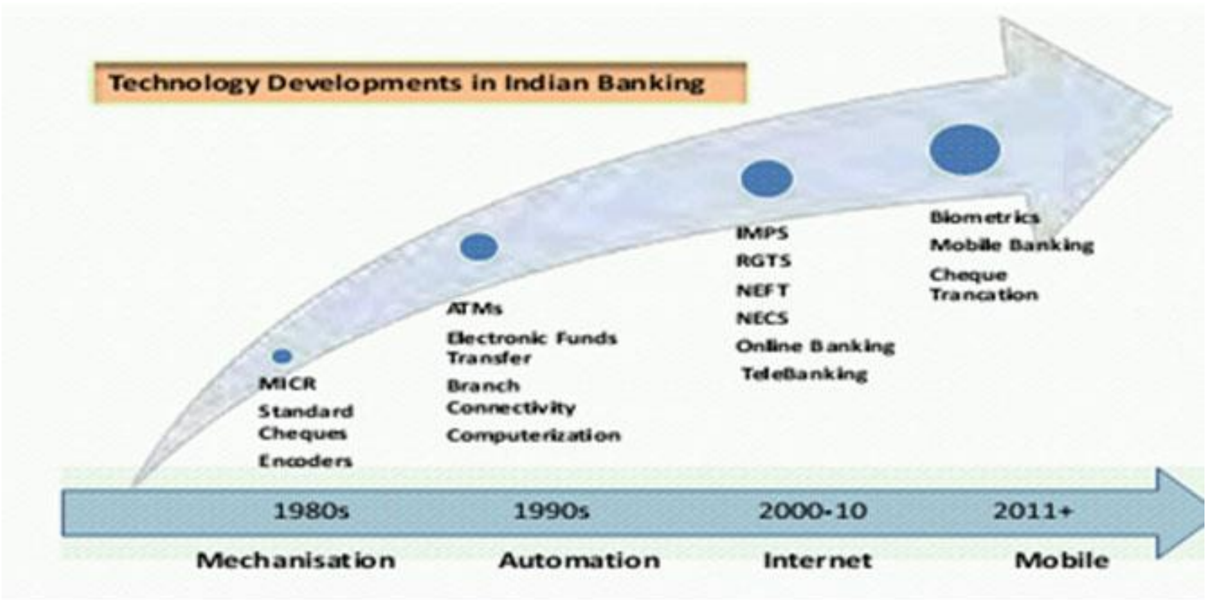
Since bank transactions too, like most of the other business transactions, have become digital, the opportunities for banks are also taking a new turn. However, the importance of banks’ physical branches has not gone down to any marked extent. Though there are countries like Norway where people prefer online channels almost exclusively, a global survey has found that “branches remain the dominant channel for account opening and customer satisfaction” (Srinivas et al., 2019). Increased customer satisfaction leads to more loyal customers who will recommend that bank to others as well. Physical bank branches also help to nurture the image of the bank and keep alive good relationships with customers.

Despite the fact that India is not 100% literate, Indians have taken to online banking reasonably well. A survey by Avaya has shown that “Indians prefer a digital-first approach to banking, and will not hesitate to protest poor service” (The Economic Times, 2019). 51% of Indians have been seen to prefer online banking to commuting to banks. E-banking has cut the cost of bank

ISSN: 2455-8834

Volume: 04, Issue: 10 "October 2019"

transactions considerably, thereby helping to increase bank revenue, and it has also encouraged more and more people to use banking facilities.



Source: (www.forbesindia.com, 2017)

In this era of advancing technology, Indian banks are getting many opportunities for improving operational efficiency and increasing revenue. India's economy is growing fast. Though a significant number of Indians are living below poverty line, India "has sustained rapid growth of GDP for most of the last two decades leading to rising per capita incomes and a reduction in absolute poverty. Per capita incomes (measured in US $) have doubled in 12 years" (https://www.tutor2u.net). This trend has given banks ample opportunities to widen their business.

Banking deregulation is another factor that has increased opportunities for banks. Deregulatory acts introduced after 1991-92 allowed government-owned banks to obtain capital from the public and this provision enabled banks to raise significant amounts of capital. The acts loosened government control on banks and permitted banks to fix their own interest rates for lending and depositing.

Another factor that helped banks because of deregulation was the permission granted for opening private banks and arrival of foreign banks in the country. This development infused competition into banking business and encouraged banks to perform better. The raising of microfinance loan cap by the government in response to demand in rural areas also increased the business of banks.

ISSN: 2455-8834

Volume: 04, Issue: 10 "October 2019"

“This sector has 99% repayment record while banks are facing extreme stress on corporate lending” (Ray, 2018).

Banks have their opportunities in offering loan schemes for startups, women entrepreneurs, and micro, small, and medium enterprises (MSME). Overall, the banking sector has profited from these, even though there have been many cases of defaulting in loan repayment. The increase in GDP has resulted in more and more people opening savings bank accounts and current accounts. All this has increased the money supply of banks.

Besides the regular officers and award staff of the bank, banks offer people a lot of jobs like that of bill collectors, loan officers, account collectors, financial managers, bookkeepers, audit clerks, financial service representatives, data entry personnel, and computer and network maintenance personnel. Further, each bank requires its own special software and thus it gives a lot of work for software professionals as well.

3. The impact of globalization on banks

Globalization entails easy movement of capital, goods, and services across the different countries of the world and thereby opens up a country’s economy to the global market. Globalization will have direct and indirect effects on a nation’s policies. It is a transnational economic phenomenon which spurs international trade, improves cross-border cultural and social interaction, and enables flow of capital and exchange of technology across countries.

Globalization of banking sector is a rather recent development. Earlier, most of the countries were reluctant to open their doors to foreign banks because they were probably afraid that the competition that foreign banks would bring in would be unhealthy for the local financial institutions. Later, the attitude changed. “Ravaged by banking crises, some countries have opened up their banking markets to foreigners because of the paucity of domestic capital and the need to improve the quality of domestic credit allocation” (Bisignano, n.d).

Foreign banks may find their way to a new country by opening a branch there or by keeping a representative office. Whether the arrival of foreign banks is detrimental or beneficial to a country will depend on the country’s economic situation and financial needs, and local competition. “At end-June 2009, 32 foreign banks were operating in India with 293 branches. Besides, 43 foreign banks were also operating in India through representative offices” (Manikyam, 2014).

Globalization allows banks to enter new markets and do new types of businesses. For this they will have to device new ways of working, train the staff in it, redefine work parameters, and introduce a new type of customer service. In other words, to benefit from these opportunities, some internal reforms and streamlining will have to be done and that will pose a fresh challenge for many traditional banks.

Exposure to broader worldwide banking practices as a result of globalization is making customers demand better services. Earlier, banks were seen as service-oriented organizations which did not need much marketing to survive. In the globalized world, as local and foreign banks offer a variety of services like that of housing loan, gold loan, personal loan, educational loan, car loan, agricultural loan, microfinance services, travellers cheque, safe deposit vault, credit card services, debit card services, money transfer services, tax advices, and investment advices, competition has become intense and banks too have to advertise to survive and increase their revenue.

In a globalized world, banks have to remain up-to-date with technology that is advancing at a fast pace. As banks introduce new technology, the parameters of customer service are getting redefined and customer expectations at every bank also change accordingly. As such, to remain afloat, banks have to invest money on introducing new technology, on getting their staff attuned to new technical devices, and creating customer awareness about the changed situation. They have also got to introduce new services to survive in the highly driven field of banking in the new ambience.

4. Suggested Remedial Measures

Because of fast-advancing technology, globalization, and new types of services that have entered the banking field, HR problems in banks also have undergone a lot of changes. Brainstorming regularly takes place in banks to find solutions for the changing HR challenges. Some of the measures that can help in improving the performance of bank staff are listed below:

Lack of a clearly-defined job profile for each employee is a problem that affects the functioning of banks because sometimes an employee posted there to handle one job has to help the employee whose responsibility is something else. This could be either because the former has excess time or because the latter has less of it because he has more work than he can handle or because he does not have thorough knowledge of what he is supposed to do. While such helps may not be wrong on the face of it, defining a perfect job profile will help to correctly evaluate the performance of each employee. This in turn will help in deciding whether some jobs are totally redundant after digitization of financial transactions; where human resources material shortage exist; in which sections human resources are superfluous; and whether certain job profiles are not properly defined.

The performance benchmark of each position should also be clearly defined. This will help in assessing the performance of each individual clearly. Better performers should be motivated by

ISSN: 2455-8834

Volume: 04, Issue: 10 "October 2019"

proportionate rewards. Non-performers can be a serious problem in banks and management must have a clear-cut idea on how to handle low-performers, if any. Besides organizing in-house training schemes for under-performers, banks can encourage them to join organizations or clubs that will improve their performance in areas in which their performance is lacking. For example, bank staff who lack communication skills can be encouraged to join clubs like Toastmasters International which works for improving the communication skills of members.

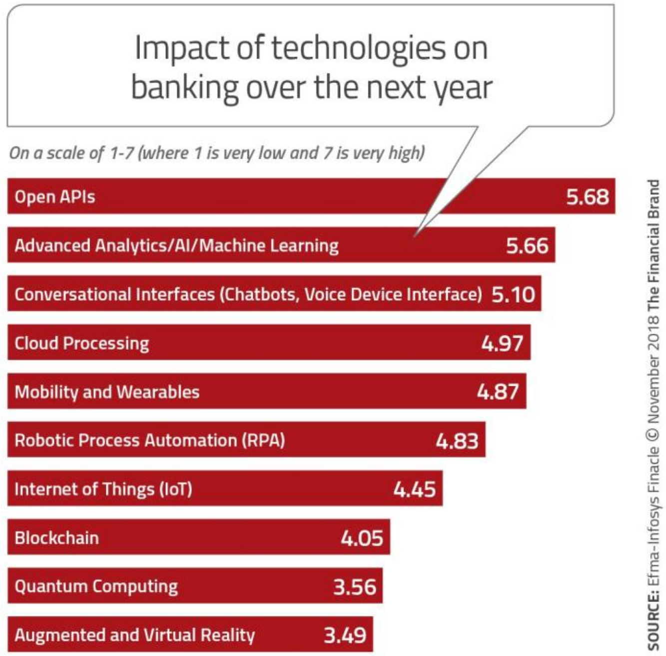
Training requirements of each person have to be planned on the basis of his or her core competencies because uniform training for all people may not solve the problem. However, it is also not easy to have special training sessions for each employee. So it is a complex problem with no easy solution. This problem and solution is connected with defining job profile correctly. At the time of recruitment, the core skills and interests of employees have to be assessed properly. For example, there may be people with extra ability to handle rural operations because of their knowledge of agricultural practices, produce markets, and local financing methods. Such people can be asked to work in rural areas for a lower salary package since house rent and commuting expenses are bound to be lower in such areas.

Dr K C Chakrabarty (2014), Deputy Governor of the Reserve Bank of India, gives a lot of importance to 'proofing of banking personnel' which means insulating the human capital of banks "from being poached by the rival banks and also planning their man power requirements for meeting the future needs of the business." He also speaks about 'future proofing' which is the preparing of "the employees against adverse developments in future".

Banks should manage to cut the cost of their services. For that, they have to encourage their customers also to make full use of advancing technologies. As long as their customers do not make use of facilities like ATM, online money transferring etc. banks will not benefit from introducing that technology because they will still have to have a full-time teller dispensing cash to the customers. Product innovation is also important for banks to increase their revenue. "The importance of innovation and developing new solutions that take advantage of data, advanced analytics, digital technologies and new delivery platforms has never been more important. We are seeing organizations innovate in targeting, expanding services, re-configuring delivery channels, delivering proactive advice, integrating payments and applying blockchain technology" (Marous, 2019).

ISSN: 2455-8834

Volume: 04, Issue: 10 "October 2019"



Because of the continuously changing working ambience in banks since the 1990s, it is important that staff members be re-skilled to fit in with these changing needs. This re-skilling should go hand in hand with redesigning duties and restructuring roles that become necessary to retain the existing talent and ensure profitability.

Banks have to streamline technology the right way to fit in with their business needs. To keep pace with advancing technology, it is not sufficient to upgrade technology constantly but also integrate it with the functioning style of the bank. Banks have to recognize the present and emerging digital scenario as a platform for improving operational efficiency. “Banks have to realize that their business has to drive technology and not vice versa. All technology strategies and plans should be based on the principle that any investment in IT should add business value to the bank and these customers” (Patel et al., 2013).

Bank officials must be able to work in a pressure-free atmosphere where they have the full freedom to decide who deserves the loan, after keeping in mind the best interest of the bank above everything else. There should not be pressure from authorities or politicians for loans to be sanctioned because NPAs are the biggest bane of banks.

Banks should also have the freedom to take tough measures against loan payment defaulters. Here too, banks are often prevented from taking pre-emptive action or enforcing punitive measures because of pressure from influential people or from activists if humanitarian considerations are involved. Humanitarian concerns cannot be completely overlooked but they

ISSN: 2455-8834

Volume: 04, Issue: 10 "October 2019"

cannot be made the sole responsibility of a bank just because the loan was advanced by that bank. Such concerns are the shared responsibility of the society which that bank serves and have to be solved by the unified action of all the members of the society.

Wilful defaulters are a different problem altogether. “A prime example is Kingfisher Airlines’ Rs. 9,000 + crore debt which hasn’t been paid back — and can never be, since the airline has long since shut, and the person in question is not in India” (Dwivedi, 2017). Even if a loan like that may never be recovered, HR department has the big responsibility to probe deep to find out which bank officials were hand in glove with politicians or the loan applicant in dispensing such loans that “eat into the very vitals of the banks”.

“Till December 31, 2016, there were 9,130 willful defaulters in the country who had taken loans amounting Rs 91,155 crore from various PSU banks, Minister of State for Finance Santosh Gangwar said in Lok Sabha” (The Hindu BusinessLine, 2017). It is difficult to accept that this level of loan sanctioning can take place completely without the connivance or incompetence of bank officials, however much the pressure from higher-ups is. HR departments have the duty to unearth how and where in the chain that such rot has set in.

CONCLUSION

The role of banks in a country’s economy can never be overemphasized. In India, the banking sector has undergone a lot of changes in the last three decades due to changes in government policies. Before the 1990s, the policy veered towards keeping banks under governmental control by nationalizing them. The deregulatory acts of the 1900s and the liberalization that followed in the first decade of the 21st century led the way to an increase in number of private banks and foreign banks in the country.

In this evolving ambience, the HR requirements in banks have undergone a sea change because the services that banks offer have widened significantly, the expectations of customers have changed, technology is advancing at a fast pace, and competition has become intense among banks. The HR department has the demanding job of retaining the existing talent pool in the bank and training the employees for the emerging future. Some of the things that they can do to make the best use of available human resources material is to have a clearly defined job profile for employees, have a performance benchmark for every employee, assess the core competencies of employees and give them the required training, cut the cost of the services, and introduce new services by testing the market. Finally, the ambience of the banks should be such that staff should be able to work without pressure from politicians and authorities. It is also important to completely root out the possibility of corruption among the staff.

ISSN: 2455-8834

Volume: 04, Issue: 10 "October 2019"

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