

Human Resource Problems and Challenges in Indian Banking Sector

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Abstract

The process of reforms in the Indian banking industry was set in motion with the Narasimham Committee Report, which heralded reforms in accounting, risk management and other areas. Subsequently, the banking industry has admirably adapted technology and also ventured into retail. But HR issues have remained unaddressed in the system. This is probably because banks are obsessed with industrial relations. The Khandelwal committee, which was set up to address the human resource challenges of state-owned banks, while acknowledging the manpower shortage banks are facing, said that in the next five years, 80 per cent of general managers, 65 per cent of deputy general managers, 58 per cent of assistant general managers and 44 per cent of chief managers would be retiring." Now that a lot of people are suddenly retiring and attrition is high, it has created a vacuum at the top and a skill-gap in the system in key areas like risk-management, treasury and international banking. Therefore, HR issues have suddenly come to the centre-stage. This paper aims at reviewing various researches done in the field of human resource management in Indian banking sector and identifying various HR challenges pertaining to this sector and suggesting some solutions to overcome these challenges.

Key Words: Human resource management, performance management, career planning

Introduction

India is the only country, which saw five per cent economic growth even after global recession hit the world. As the recession has taken toll of almost all economies across the world, India not only survived the meltdown, but also witnessed a growth of five per cent and above, whereas other economies grew by two to two and half percent.

The most important factor that saved the Indian Economy from getting destroyed was its strong banking sector. Indian banks due to their conservative approach have not been much impacted by the global downturn. The banks in India remain resilient from the impact of world's recession because of strong financial fundamental, strict vigil on risk appetite and firm monetary guidelines. The Indian banking sectors remain insulated from the factors leading to the financial crisis. The Indian banking sector has shown high economic growth and performance in the past, low default ratio, absence of complex financial products, time to time intervention by RBI, proactive steps for maintaining the liquidity in the market have favoured the performance of Indian Banking in recent global financial turmoil.

India's banking sector is currently valued at Rs 81 trillion (US\$ 1.31 trillion). It has the potential to become the fifth largest banking industry in the world by 2020 and the third largest by 2025, according to an industry report. The face of Indian banking has changed over the years. Banks are now reaching out to the masses with technology to facilitate greater ease of communication, and transactions are carried out through the Internet and mobile devices.

But this strength of Indian Economy is now facing problematic issues and challenges related to its human resource management.

Importance of HRM in banking sector:

HRM is a management function that entails “planning, organizing, directing and controlling of activities relating to the development of employees in terms of enabling them to acquire competencies needed to perform their present and future jobs with ease and enthusiasm”.

The HR function in banks is not different from that in other organizations. It is a continuous process that seeks to ensure the development of employee competencies, dynamism, motivation and effectiveness, in a systematic and planned manner.

Being a service industry, human resource is one of the most important factors in the banking industry.

Human resource is the life blood of any organization without which every other resource is of no use. Management of people and management of risk are two key challenges facing banks. Efficient risk management may not be possible without efficient and skilled manpower. Banking industry is facing an acute shortage of skilled manpower.

Human resources are becoming scarce – both in quality and quantity. And according to laws of economics, any resource that is in short supply needs to be properly managed.

Banks are going through an unusual manpower crunch. According to an article in a newspaper, in the next 10 years they will have to hire around one million people to keep their branches running and account for retirement and natural attrition. Finding the right candidate for a leadership position will be even tougher.

The following table will give a better idea about the distribution of employment in the BFSI Industry and how important is it to manage human resource in banking industry:

Employment in Various Segments in BFSI (BANKING AND FINANCIAL SERVICE) Industry

Industry segments	Total employment (In ‘000s)	% of total
Banking*	1100 – 1200	25 – 30%
Insurance*	200 – 300	4 – 5%
NBFC*	25 – 30	0 – 1%
Mutual Funds*	15 – 20	0 – 1%
Financial Intermediaries	2500 – 3000	65 – 70%
Total	4000 – 4500	100%

Source: RBI, IRDA, Capital line, IMAcS analysis; *On-rolls employee

Literature review

Dr. K. C. Chakrabarty, Deputy Governor, Reserve Bank of India at the HR Conference of Public Sector Banks at Mumbai on June 1, 2012 emphasized on the factors like planning,

acquiring the right people, retaining/ developing the people and managing people separation / exit for better human resource management in banking sector.

The Khandelwal committee, which was set up to address the human resource challenges of state-owned banks, while acknowledging the manpower shortage banks are facing, said: "The leadership gaps in public sector banks are palpable. In the next five years, 80 per cent of general managers, 65 per cent of deputy general managers, 58 per cent of assistant general managers and 44 per cent of chief managers would be retiring." So many people leaving at the same time has prompted the Reserve Bank of India to call the 10 years from 2010 to 2020 as the 'decade of retirement'.

The Khandelwal committee in its report submitted in 2010 had suggested some drastic steps, such as performance-linked pay on the lines of the private sector to attract talent to state-owned banks. It said PSBs were seriously handicapped, as they were lagging behind their private sector counterparts in terms of human capital. "Their employee compensation package, skill sets, skewed age profile, restrictive deployment, performance management system are the major issues placing PSBs somewhat at a disadvantage," the report said.

D.V. Ramana Murthy has discussed in this article on "Human Factor in Banks," the significance of human factor and trade unions in the banks.

Dr. K.C. Chakrabarty, Deputy Governor, Reserve Bank of India at the Conference of HR Heads of Banks and Financial Institutions held at College of Agricultural Banking, Pune on February 6, 2014 talks about preparing the employees against adverse developments in future. Undoubtedly, the rapidly changing business environment and the impending entry of new banks are posing new challenges for the banks in terms of recruiting skilled personnel and retaining the existing talent, but the larger issue is whether the existing crop of human resources are geared to perform optimally in the existing environment.

K Chidambaram and A Rama in their research paper "Determinants of Job Satisfaction" concluded that the efficiency and performance of an employee are often hampered by his socioeconomic conditions. As these are out of the periphery of formal organizational jurisdiction and could hardly be changed, it is always better for the management to concentrate on the job variables which determine job satisfaction and are considered deficiency areas. These might include environmental factors related to the job, such as pay and benefits satisfaction, promotional opportunities, equipment and resources, to aiming, workload and supervisory relationships.

Research objective

- To identify various challenges and issue related to human resource management in Indian banking sector.
- To know how the skilled human resource can be retained in the banking sector.

Research methodology

This paper is basically based on the secondary data available in the form of various articles, research papers; reports, bulletins etc. have been used to identify the research objective.

Findings & Suggestions

The reasons mentioned below are the major factors for the increasing attrition rate and skill gap in the banking sector. This paper focuses on three stages of Human Resource Management: Hiring, Developing and Retaining human resource.

1. Hiring

- **Defining Job Roles:** Defining the profile of the job of each desk in a bank is one of the important issues that must be looked upon. This will not only help the employees to be specialised in their job but will also facilitate the customers as they will be aware of the concerned person with whom they have to deal.
- **Training before joining:** The employees should be made familiar with the bank and its culture, the nature of the job they will have to do, the technologies and softwares they will be using etc. for better and confident performance of the employees by the very first day of their job.
- **Transfer policies:** The employees of a bank can be transferred anywhere in whole of the country which creates a high level of dissatisfaction in the minds of the employees. The top management should formulate the transfer policies in such a way that it should give the maximum satisfaction to the employees and their families which in turn will increase the productivity and loyalty of the employees.
- **Timings for the Officer cadre:** The officer cadre of banks often complains that there are no defined timings of their duty. This again creates a sense of frustration in their minds. The authorities or the top management should create a mechanism which can deal with this problem. One such mechanism can be rotational shift with fixed working hours and timings.
- **Leave management:** The leave management shall also be improved. The banks in many countries remain closed on the Saturdays and Sundays. But in India, Saturdays are working (half-day). This can be a major step to make bankers feels happy if they are given Saturdays off.

2. Training and Developing

- **Training/re-skilling:** As mentioned above the employees lack the knowledge about their job and technology they use. The banks these days have started with their own staff training centers but still there is a need of rigorous training programs which may not only help the employees to gain knowledge of their job but also to keep them updated with the changing technology and banking reforms.
- **Career Planning and Performance management system-** It is the duty of higher management to formulate a mechanism for better career planning of each employee so that he/she can fulfill all the needs ranging from physiological needs to self actualization need according to Maslow's need hierarchy. The policies related to the promotions should be based on the performance rather than on seniority basis. This will motivate each employee to perform at his/her best. Proper incentives shall be given to the ones who perform well.
- **Recreational activities-** One can perform and give his/her best in a harmonious working culture. The banks should provide their employees with some kind of recreational activities which will not only increase the sense of belongingness in the employees but the productivity as well.

3. Retaining

- Compensation: The employees in the banking sector often complain that they are underpaid for the kind of risky job they undertake as compared to other sectors or industries. The job is risky in the sense that it involves finance and financial transactions. To err is human. The risk involved can be understood in this way that if an asset (loan) turns bad, it can create staff accountability or a cashier might be cheated on easily. There should be a proper return to such a risky job profile. The authorities shall take in account the risky nature of the job while formulating the compensation structure.

- Increasing attrition rate: Increasing competition within the banking sector and increasing job opportunities in other financial sectors has resulted in an increasing attrition rate in the banking industry.

From the table given below, it is very clear that on the one hand banking sector is improving on all the business parameters but has come down in the no. of staff employed.

Indian Banking System – 1991 Through 2009

	1991	2009	Change
Branches (No.)	46,051	65,412	19,361
Deposits (Rs. crore)	2,43,701	40,53,638	38,09,937
Advances (Rs. crore)	1,51,341	29,94,334	28,42,993
Customer (No.)*	8,64,18,430	58,16,58,012	49,52,39,582
Staff (No.)	9,47,544	9,41,375	6,169

Source : RBI *As of March 31, 2008

Also, once the new banking licenses are cleared, the financial services industry is likely to witness a significant surge in recruitment activity so much so that attrition rates are expected to hover around 18% in 2014, says Kelly Services. In order to retain the talent, there has to be some motivational force in cash or kind i.e. incentives, bonus, promotions etc.

- Increasing Retirements-The Khandelwal committee, which was set up to address the human resource challenges of state-owned banks, while acknowledging the manpower shortage banks are facing, said: "The leadership gaps in public sector banks are palpable. In the next five years, 80 per cent of general managers, 65 per cent of deputy general managers, 58 per cent of assistant general managers and 44 per cent of chief managers would be retiring." So many people leaving at the same time has prompted the Reserve Bank of India to call the 10 years from 2010 to 2020 as the 'decade of retirement'. These retirements will further as to the skill gap which the top management of the banks has to take into account. It becomes more important to retain the existing talent in such a scenario.

- Employee relationship: The top management shall adopt a harmonious approach to deal with the employees. Bankers often complains that they are punished if with or without any reason if a customer complaints against them. There should be proper investigation of the

complaints before taking any action. Remember, customer is the king but employees are the life blood of any business.

Conclusion

Banking sector is a pillar on which the Indian economy has been based and being a service industry this sector is based on its human resource. To keep the economy growing at a good pace, banking industry plays the most important role and to keep the banking system going, human resource has to be properly managed and developed in such a fast changing and competitive environment. The attrition rate has to be lowered and skilled human resource has to be created and retained.

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