

SPEECH**BANKING EDUCATION AND TRAINING — MANAGEMENT OF DYNAMIC CHANGE***

C. Rangarajan

Ladies and Gentlemen,

I am, indeed, very happy to be here, this evening. The Indian Institute of Bankers deserves to be complimented on having taken this initiative to host the 10th World Conference of Banking Institutes, at a time when banking, the world over, is undergoing a transformation.

2. The financial markets in the industrially advanced countries have undergone far reaching changes in the 1980s. Innovations spurred by deregulation and liberalization have been a marked feature of this transformation. Rapid strides in technology in the areas of telecommunication and electronic data processing have helped to speed the changes. A major consequence of these changes is the blurring of the financial frontiers in terms of instruments, institutions and markets. The distinction between banks and non-banking financial institutions has become thin. Restrictions imposed earlier on banks regarding the activities that they can undertake have been removed one by one. Effectively, universal banking has become the trend. Another feature of the market is interlinking of different national markets. With the dismantling of exchange controls and the rapid developments in communications systems, funds have started moving rapidly from one country to another. It is the interlinking of different national markets which has come to be known as globalization. Important financial institutions are present in all the leading market centres and markets are in operation on a twenty-four hour basis. Deregulation has thus meant the dismantling of regulations relating to entry and expansion; it has also meant the removal of all direct controls over interest rate wherever they existed. The integration of markets, both financially and

spatially, has led to a more unified market for the allocation of savings and investment among the participating countries. The functioning of the financial markets in the decade of 1980s has, however, raised some serious concerns. There is a fear that the state of the financial markets is now inherently more risky than in the past. In a technologically integrated financial world, the chances of systemic risk increase. The potential damage to the system arising out of the failure of a large globally active banking or non-banking financial institution can be immense. Because of the intense competition which banks have come to face, both as a consequence of the growth of non-banking financial institutions as well as securitisation, it is feared that the quality of bank loans has suffered. With the spectacular growth of non-bank financial institutions, the question of adequate supervision of these institutions has also gained urgency. It is for these reasons that increasing attention is being paid in these countries towards evolving a common code of prudential regulations applicable to all countries. Several significant steps have already been taken in this direction. The new approach is somewhat loosely summarized in the phrase "with as much freedom as possible and with as much supervision as necessary":

3. The three major forces thus, bearing upon the banking industry today are:

- (i) the prescription of internationally acceptable prudential and capital adequacy standards.
- (ii) the growth in 'financial engineering' and the resulting supply of new financial products; and
- (iii) the impact of technology.

The new capital rules are compelling banks to readjust. The principle behind the capital

* Inaugural address by Dr. C. Rangarajan, Governor, Reserve Bank of India at the 10th World Conference of Banking Institutes, at Goa on November 4, 1993.

adequacy norms is to ensure that banks attain sound financial health and depositors' interests are protected. It also aims at incorporating capital weights into management decisions and prompt bank managements to think about the relationship between risk and capital in a more consistent and systematic manner. Banks are therefore seeking ways to raise new funds, cut costs and restrain their risk asset growth. The latest Basle proposals relating to netting, market and interest rate risks further aim at strengthening the banking industry's operating standards. This is already having several effects and is compelling banks to review their operating practices and portfolio. In this task, banks are putting to use technology and financially engineered products. Further, as the world moves rapidly into Peter Drucker's "knowledge" society, banking is increasingly relying upon technology, to cope with information and data explosion.

4. Perhaps the greatest challenge which the banks are currently confronting relates to the proper management of risks. The Group of Thirty report on derivative financial instruments, provides a comprehensive overview of the financial derivative activity and the risks. The most critical task before bank managements today is to put in place sound principles and a framework for risk management and control. This is also of significance to regulators and supervisors and calls for a review of the accounting standards, regulatory structures and supervisory approaches. The tremendous growth of derivatives activities, specially over the past decade, has provided banks and customers the benefits of more efficient allocation and management of risks. Wherever the derivatives markets have operated in a continuous, smooth and safe manner, the costs of risk intermediation have been lower and more finely tuned hedges have been made available to investors, institutions and corporates. The end users of these products, as well as those who are the market makers in these products must have a complete understanding of the systemic risks and the possibilities of a financial disruption which could be caused due to operations of these and similar products. Skills and techniques must be therefore

available to critically evaluate risk taking and risk management, the nature of market, credit liquidity operational risks. Proper valuation procedures, as well as a responsive management information system should be in place. A part of training and banking education would therefore involve an understanding of the links between the financial markets and their potential systemic implications.

5. The Indian economy too is passing through a period of transition and undergoing a rapid transformation. The programme of stabilisation and structural reforms has been introduced for over two years now, and the market environment is fast becoming competitive. While ensuring a balance between structural continuity and structural change, the policy aims at accelerating the overall growth which, indeed, provides the best answer to the social and economic problems which our country faces. What is being aimed is an improvement in the functioning of the various entities whether they be in the private or public sector by injecting an element of competition. In order to ensure that the market for banking and financial services operates on sound and competitive basis, the agenda of the structural reforms in the financial sector focuses broadly on (a) the strengthening of prudential regulations, on lines of the Basle norms, including issues such as provisioning against loan losses, capital adequacy and reform in the accounting and reporting procedures; (b) improving the access of banks to the capital market; and (c) increasing the competitive element of the market through entry of private participants.

6. The financial system particularly, banking, is in the midst of change, facing unprecedented challenges and opportunities. The deepening and widening of capital and money markets is also occurring. In the context of the objectives of the economic reform programme, the value of an efficiently operating financial system lies in mobilising and agglomerating resources and transferring these from net savers to net users. Allocative efficiency is necessary to ensure higher growth rate and levels of income. Banks are therefore diversifying their activities through

merchant banking, factoring, investment banking, housing finance, etc., and preparing to undertake larger operations in the international capital markets also. Modern computer and communication technology is being gradually adopted, on a larger scale, in order to improve productivity and customer service.

7. In India, as in other countries which have embarked on a programme of economic liberalisation, as the economic and financial policies shift away from creating highly regulated markets to those characterised by openness and market discipline, commercial banks have to face competition from foreign and private sector banks, financial services companies and other entities in the corporate sector, in respect of mobilisation and deployment of resources. Banks therefore, are redefining their strategies to deal with the emerging environment. Sound and professional bank management, has become a pre-condition, as financial liberalisation, competition and diversification expose banks to new risks and opportunities. It has become imperative for banks to understand the dynamics of change, which are indeed complex and require adjustment.

8. The theme selected by the Indian Institute of Bankers: "*Banking Education and Training – Management of Dynamic Change*" for this Conference is therefore very appropriate and relevant to the current environment. Banking institutes, have to play a vital role in promoting banking education and training and respond to the changing needs of the financial system. Banking education and training today, at all levels, has assumed the role of a 'change agent' and has to play a major role in bringing about a 'skills revolution' in the banking industry.

9. Banking education and training is required by banks to equip their employees with new expertise and techniques in order to operate successfully in the competitive environment. Conscious efforts have to be made by banks to explore trends like deregulation, globalisation, securitisation, consumer and private banking etc. In a complex environment, the need for a complete understanding of the fundamentals of managing commercial banks within the framework of the

contemporary financial services industry has become important. What has also become important, specially in the context of the developing economy is, that while applying management and other analytical techniques, bankers must not lose sight of public policy concerns. Similarly, the management implications of the policy option must be accurately considered. With the 'technology absorption' levels among banks rising dramatically, it has also become critical that all bank personnel are equipped with a basic level of technology awareness. 'End-user' computing among bankers must be aggressively popularised so as to correctly absorb technology and benefit from technology gains.

10 Training is indeed, a continuous process and has to be updated in terms of its content, methodology and techniques from time to time. I am sure, the heads of the banking institutes who are present for this Conference would address themselves to the questions of the type and quality of banking education and training, the course contents for training programmes and the techniques for providing education and training necessary for the professional bankers today. The problem is particularly acute for banking markets like that of India which have a vast network of branch banking, where thousands of staff in hundreds of branches have to be trained simultaneously on the introduction of new regulations, guidelines and products. Another feature of Indian banking is the vast network of rural branches catering exclusively to rural and farm clientele. An important element of effective training in such a context therefore becomes one where training has a strong rural orientation and bank personnel are well trained in the nuances of rural credit systems.

11. An area which has become popular abroad is use of computer assisted learning courses. Banks are increasingly turning to faster and more cost effective ways of imparting training by using technology such as computers, audio and video as part of the training mix. Innovative ways are being found out to train bank staff in new procedures and systems and acquaint them with banking theory and new practices. In fact,

experiments have been made with the Inter-active Video (IV) which has gone a step beyond Computer Based Training (CBT) by adding video films to the work place so that staff can also see the actual demonstration of the particular operation.

12. This raises the question as to whether the present delivery system we have in respect of training would be able to meet the growing demands or do we need to really make a break and go in for totally different kind of training system. There is also the question of combining the existing system of training with other systems that may be necessary in order to meet the new demands. Suggestions have been made about distance learning, correspondence courses, or 'DELFI' method etc. All these are methods or techniques by which we can bring in a larger number of people within the training fold without making them go to a particular institution. But, obviously we will continue to require institutions. I cannot think of the day when teaching will be done without teachers. Other teaching methods may become adjunct to the class room, and there is no doubt that they can become very effective adjuncts.

13. Here, I feel that there is great advantage in trying to pool together resources. After all, the subjects taught are more or less the same everywhere and, therefore, if we can get the best material on a particular course or a particular programme, it is better for banks to share such material. The Conference should therefore explore ways in which the banking institutes could co-operate with each other in producing text-books, exchange of bank teachers and so on. The prospects in cross-border distance learning should be explored.

14. As has been well stressed by many, training is obviously linked with recruitment before and placement after it, and therefore we have to — as the poet said — look before and after. Recruitment and placement and, in between the two, training, have got to be linked together into an organic whole in order to have the most effective outcome of training.

15. The bank trainers must also help in the development of ethics and some core value among bankers such as creating an atmosphere of action orientation, respect for the individual aiming at excellence etc. So the attitude to banking and the attitude to customers have all to change. As I mentioned earlier, teaching or training does not operate in a vacuum. Training in a particular institution must be in tune with the organisational culture which it must try to change wherever it becomes necessary.

16. I understand that the Indian Institute of Bankers is reviewing the role of the Institute in the context of the changing banking environment in India and abroad, and preparing a long term plan for the developmental activities of the Institute. The discussions and deliberations which will take place in this Conference on the essential aspects of banking education and training, will help the Institute in framing its policies on banking education and training on a long-term and a sustainable basis.

17. With these words let me welcome you to Goa, which, with its natural scenic beauty and a rich cultural milieu, provides an ideal environment for your deliberations. Let me wish you all a pleasant and rewarding stay in India. I would also like to thank you for inviting me to inaugurate this Conference and wish the Conference success.