Emerging Realities in Banking & Finance: Role of New Generation Managers

It is indeed a pleasure to be here in your midst today. To be amongst bright young students is not only energizing but also a learning experience - as we look at issues afresh and start by asking basic questions, which at some level are the most difficult.

2. The Reserve Bank has shared a very special relationship with the NIBM – it catalyzed its creation in 1969, provided the venue for its first campus and has been intimately associated with its functioning. While the institute has been a part of the capacity building exercise for the banking sector for over three decades, the PGPBF programme in Banking is an endeavour of the NIBM to 'catch them young' and create the bankers of tomorrow – a set of new generation managers for a new generation of banks.

3. Building up an organizational architecture that generates intellectual capital has been a huge challenge for banks and financial institutions. It is even more so today, when we are undergoing a period of the most rapid acceleration of what is alluded to as 'creative destruction' in the history of the financial sector. In the process of creative destruction, new constructs emerge. It is here that 'new generation' managers may have a role more demanding than that of the managers of yesteryears. A role which calls for more than just 'probity and prudence' which characterized the banker of yesteryears and increasingly focuses on managing 'competing imperatives'.

4. What do we mean by a new generation? How is the new generation different from the old? What has changed and is changing? And does it matter? In the context of time measurement, a generation refers commonly to a period of about 23 to 30 years, in which most humans become adults and have children. In another sense, the term generation refers to a common identity arising from common experience. Thus the identity of 'new generation' managers would arise from the common experience of a changing world around us, a product of the wider historical context. For a better insight into this we take a long view of the Indian banking.

5. While historians can slice the past into countless slices, in terms of transformational change, there have been only a few inflexion points in post-independence banking in India. The first was the enactment of the Banking Regulation Act, 1949 which brought in a comprehensive and formal structure of bank regulation and supervision in India. The nationalization of banks in our country marked the second such point. It generated forces that took banking from an elite class to the masses. It led to the establishment of a very substantial infrastructure across the geographical expanse of the sub-continent and was thus a critical trigger for financial outreach of institutions and empowerment of the common man. The third inflexion point in banking was the financial sector reforms initiative that was launched in the early 1990s. These reforms heralded a dramatic shift in the way banks functioned and operated in India. The changed environment and the internal compulsions arising from greater competition and the need to improve their market share / profitability gave rise to the quest for greater efficiency and the need to reposition themselves given the realities of the environment and their internal strengths and weaknesses.

6. This period also coincided with the onset of the knowledge revolution that launched a gigantic Third Wave - as famously described by Alvin Toffler – of economic, technical and social change and is still forcing businesses to operate in radically new, continually shifting ways. Every shred of industrial-era thinking is in fact now being re-scrutinised and re-formulated. It is precisely when an old paradigm crumbles and the new one is not yet fixed in place that we get great bursts of creative thinking. This is perhaps such a moment.

***Address of Shri V Leeladhar, Deputy Governor, Reserve Bank of India to the students of Post Graduate Programme in Banking And Finance, National Institute for Bank Management, Pune on April 3, 2005.**

7. What does the future hold? One thing is certain; - the future will clearly not be a continuation of the past. It will rather be a series of discontinuities. The exciting thing about discontinuity is that it breeds opportunity. We live in an age of unprecedented opportunity. But with opportunity comes responsibility. It is for tomorrow's managers to carve out their own place, to know when to change course and keep themselves engaged and productive throughout. To do things well, one needs to cultivate a deep understanding of oneself - not only the strengths and weaknesses but also how one learns, how one works with others, what his or her values are and where he or she can make the greatest contribution. Because only when one operates from strengths can true excellence is achieved.

8. These challenges call for a new, more dynamic, aggressive and challenging work culture to meet the demands of customer relationships, product differentiation, brand values, reputation, corporate governance and regulatory prescriptions. Understanding and dealing with difficult transitions is the key for the new managers to designing strategies for their organizations. Broadly along an analysis of transition trends by Edward E. Furash, we attempt a somewhat loosely structured tracking of the emerging realities of banking in India. An appreciation of these trends would perhaps help map the competencies that new generation managers may require to convert these challenges of the changing environment into opportunities.

The trend from deposit banking to financial services

9. First, there is the transition from banking to financial services. Banks are uniquely poised to broaden their product lines into the complete offerings that would go under the rubric financial services. This would imply a new founded emphasis on marketing; be it of investment, insurance and other products that consumers want. Banks have advantages in their image of trustworthiness and their extensive distribution systems. How they convert this into a marketing advantage will determine how they win market shares.

The trend from Balance sheet to off-balance sheet intermediation

10. Then there is the trend from balance sheet to off-balance sheet intermediation. Banking is no longer confined to 'acceptance of deposits for the purposes of lending' – today it refers to intermediating and managing risk. As the scope of intermediation expands to incorporate market risks, bankers are taking a view on how they will strategically position themselves in this new environment. While some will, perhaps, choose to migrate rapidly to off-balance sheet investment - or merchant-banking activities, others may stress volume origination which they can securitize and then manage for a fee, and still others may continue to position themselves as traditional banking retail players focusing on deposit intermediation. Nevertheless, the trend to off balance sheet intermediation and the complexities that it entails will demand that the some managers of the future be equipped with financial skills in a significantly greater measure.

The trend from capital adequacy to capital efficiency

11. Thirdly, there is the transition from capital adequacy to capital efficiency. The Basel II prescriptions have already put us on track for transition from the traditional regulatory and market measures of capital adequacy to an evaluation of whether a bank has found the most efficient use of its capital to support its new business mix. In effect, future plans may therefore include the fluid use of capital, an approach that has been called the "just-in-time balance sheet" management, in which capital flows quickly to its most efficient use. This transition in how capital is used and how much capital is needed will become a significant factor in return-on-equity strategy for years ahead and strategic plans may be required to execute this kind of approach.

The trend from physical to virtual distribution

12. Perhaps the most visible and overt change in banking in the eyes of the public has been the trend for banks to move away from branch banking to electronic, anywhere-anytime distribution of financial services. If this has triggered the 'death of distance', the Real time Gross Settlements (RTGS) System is threatening to consign time lags in settlement of financial transactions to history. In reality, delivery systems like ATMs, on-line banking and 'phone banking are a continuum of options from which the consumer selects. Consumers select the delivery system that is right for them. In other words, distribution differentiates a bank when it sets up a delivery system that attracts certain customers. Distribution is the new way to segment consumer markets and the transition of distribution systems is in fact emerging as an essential part of bank repositioning strategy.

The trend from fragmentation to consolidation:

13. The forces of change today are favouring larger entities which bring mergers and acquisitions squarely into the strategic decision making of the banking sector. We are slowly moving from a regime of ‘a large number of small banks’ to ‘a small number of large banks’. Every bank will of course, depending on its strategy, have to migrate to its best position in this new structure. Picking a market position and transitioning to it is one of the most significant strategic decisions a bank must make. All types of entities can be highly profitable if they transition to the right market position and right cost structure to execute the strategy.

The trend from data to information to knowledge

14. Perhaps the most talked about, yet least understood, transition ahead is in the area of information technology and information application. Distribution and processing technology transitions are keys to the shift to virtual banking which is prompted by the desire to have low cost operations. But technology-driven information transformation is at the center of the even more important management, marketing, and risk transitions that banks must make. Information is only valuable if it can be put to work and used for decision tools such as programmed trading, target marketing, predictive credit modeling and scoring, amongst others. Most new financial services are in fact based on technology creating ways to do them. The transition from an old world of data processing and information management to a new world in which knowledge is being put to work on competitive advantage will be a major strategic preoccupation in the years ahead.

15. It is today's bank strategies that must handle these transitions for tomorrow's success. Managing these transitions well is the secret to strategic execution. Organizations however ultimately stand or fall on the quality of the work and decisions made by their people. So what sets most successful organizations apart is how they manage human resources. Increasingly, banks all over are therefore adopting the socio-technical approach to job design that recognizes the productivity gains of optimum technological arrangements as well as the importance of workplace sociology. The new generation managers on their part will have to learn how to create and thrive in an environment that embraces change not as a threat but as an opportunity.

16. What are the challenges that these changes bring to the persons who manage the sector? A challenge for the sector is to attract and deploy a new generation of managers in an age when turnover of human capital is extremely high. How organizations define and align the job orientation and employee expectations and put it to optimum use, today top their boardroom agenda. As the dominant demographic profile of our banks change rapidly and the customer needs and positioning strategies take different contours, finding and placing the right person for the right job is indeed critical. Not only has the environment changed, there has also been a palpable change in the attitudes of the new generation. The present generation, correct me if I am wrong, is increasingly looking for a mix between opportunities for personal growth, autonomy, job delight, social esteem that comes with responsibilities which are entrusted, diversity, stability, and of course, remuneration.

17. There is an increasing trend that remuneration, though the most tangible, is only one of the mix of offerings that the new generation of managers today demands. What truly gets them going would ideally have to be the right mix of a set of ‘push’ – motivation, recognition, career progression, capacity building and - and ‘pull’ factors such as higher pay, better benefits, heftier perks as well as drawing out plans.

18. What is the identity that will define the new generation managers? While leadership skills, the ability to multi-task and manage competing imperatives will be the necessary ingredients of the new generation managers, the old- fashioned qualities of a desire to learn, a strong sense of professional ethics, an enquiring mind, a strategic view, the qualities of humility and empathy, a willingness to embrace practical experience, and an eagerness to adapt to new experiences would be critical.

19. As I have said, this calls for a diverse repertoire of competencies, the diagnostic ability to understand what new things are required or what things should be unlearned and the behavioural flexibility to be able to change. I am sure your management course would have prepared you to see things before the curve, before others do. We live in exciting times and - as you stand on the threshold of a new life and a career in the banking – I trust you will continue to cherish the ideals and dreams of youth, after all they are what make life worthwhile. I wish all of you – tomorrow's leaders - every success in your entire future endeavour.