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The Role of Human Factors in the Bank Capital Evaluation Framework

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Abstract:

The article assesses various versions of «Bank capital» definitions, and the own bank capital definition is suggested by authors. It assumes that bank capital is a monetary value of the bank's debts and equities. Milestones of managing the bank capital such as formation and application are provided in the paper. Two groups of bank capital users such as external and internal stakeholders are highlighted. The key-note of the paper is defining the role of human capital in evaluating the bank capital. Human capital is suggested to play positive and negative role through the whole bank capital evaluation. Both subjective pros and cons of the human factor are revealed in the paper.

Typical errors such as low-skilled staff, non-flexible mind, inconsistent risk policy in decision-making, deficient analytical framework, lack of useful forecasting are defined. Authors also defined a set of advantages of the human factors such as: quality education, professional skills, professional development, and diplomatic, highly analytical and independent mind, stress tolerance, and so on. The paper highlights the concept that entities' benefits which are in evaluating the bank capital could be structured in importance and effect of the parties concerned. The hierarchical framework of interests completely depends on the person arranging the framework. The paper stresses that interests of the parties concerned should be listed in the bank capital's evaluation policy. A set of key indicators such as capital profitability rate, adequacy ratio to highlight stakeholders' interests are defined. Key features of bank capital management are described. Objectives of internal and external stakeholders' activity are defined. The set of factors indicating the impact of human factors on evaluating the bank capital are discussed.

Key Words: *Bank capital, banks, internal and external stakeholders, human factors*
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1. Introduction

Bank capital is defined in economic dictionary as a complex of monetary capitals raised in banks for applying in payments and other transactions i.e. bank funds. According to Raizberg B., Lozovsky L., Starodubtseva E. bank capital is a monetary capital rose in bank from multiple sources and used for bank transactions i.e. bank funds. So we can define bank capital as a monetary value of the total bank capital and divide into equity and debt.

Bank capital is evaluated through the whole capital flow process. Bank capital's management includes two major stages:

1) Generating the bank capital;
2) Applying the bank capital.

Both of the stages are connected with human factors which could have both positive and negative influence at generating and applying the bank capital.

It's notably that there are a set of errors and advantages connected with the human factors. We can highlight errors such as low-skilled staff, non-flexible mind, inconsistent risk policy in decision-making, deficient analytical framework, lack of useful forecasting.

Advantages of the human factors are: quality education, professional skills, professional development, and diplomatic, highly analytical and independent mind, stress tolerance (Sultanova and Chechina, 2016). Stakeholders always make financial decisions, define policy priorities, and define targets and goals. Entity's targets and goals defined because the set of methods and research tools of applying the policy based on the core concepts of financial management and banking and also with internal and external factors to be taken into account. All of these elements take place through the whole evaluation process namely during the generating as well as applying the bank capital stages (Akopova and Przhedetskaya, 2016; Allegret *et al.*, 2016; Glavina, 2015).

According to the evaluation framework, we should consider all the stakeholders' interests and hereafter the framework of the interests in order of importance and impact comes to life (Theriou *et al.*, 2014). This framework depends on the person who arranges it. Therefore we emphasize on the essential role of the human factor.

Bank capital evaluation policy should include the description of stakeholders' interests to be satisfied through the evaluation process.

We can consider ROC (return on capital) rate, capital adequacy ratio, and others as target ratios to indicate the stakeholders' interests.

Bank capital evaluation policy should take human factors into consideration to balance the stakeholders' interests and indicate and specify them in the evaluation policy and objectives.

2. Theoretical, Informational and Empirical, and Methodological Grounds of the Research

The bank capital evaluation system should consider human factors and provide solving the set of objectives such as:
1) Methodical and regulatory support of applying the evaluation system i.e. analysis, planning and control;
2) Providing a legal board of directors' responsibility for the evaluation process;
3) A rule of methodical certainty;
4) A rule of confidential evaluation process' procedures;
5) Other rules dealing with applying the evaluation process' procedures and portfolio approach.

Highlighting the following rules needs further study.

The term of "Human factors" should include human capital because of its components.
So, the human capital framework includes:
1) physiological capital i.e. longevity, health, disability;
2) intellectual capital i.e. skills, education;
3) Organizational capital i.e. management skills.

We should stress the importance of skills, education, health, and management abilities when building the evaluation process' framework since any of these factors could easily affect the evaluation process and its accuracy.
Some compare human capital to the resources produced.

We can say that skills to generate revenues are not inherited or received accidentally but acquired as a capital. Also the «abilities» category is a more neutral term and could be used to reveal the nature of human capital as a part of «human factors».
Anyway, we should highlight the importance of human skills to generate «superprofit».

The World Bank proposed a new concept of national wealth (capital) measuring which includes human, natural, and reproducible capital. So, the World Bank took the role of human factors into consideration and provided some values of capital as of 2016 (see Table 1).

Table 1. *National wealth (capital)*

Area	Total	Including:		
		Human capital	Natural capital	Reproducible capital
	Thousand dollars per capita			
Russia	400	200	160	40
USA and Canada	326	249	16	62
Europe	237	177	6	55
Near East	150	65	58	27

Russia tops the list of national wealth index while ranks second of human capital index. So, it indicates a huge potential in human capital in Russia.

Human capital includes a set of rates indicating national wealth and comfort as noted above. Every day lots of resources are used to support the human capital including educational, health and other human performance and wealth frameworks to increase the productivity and human skills.

The World Bank pays much attention to human capital index as an inherent national wealth and economic growth element. It's suggested to evaluate the overall costs in education, skills, health, and wealth to consider the human capital.

Theoretical and methodological aspects of capital measurements and socioeconomic processes' state regulation developed by J. Keynes, V. Leontyev, R. Stone and others smoothly came into our lives. Key concepts of them are stated in NAS (national account system) Russia as well as other countries had adopted.

Now the value and condition of capital could be properly measured.

However, it's impossible to measure the human potential exactly though it also could be depreciated as well as funds. The general human capital measurement and evaluation theory still don't exist, since there is no general opinion among scholars in principles and methods of labor evaluation.

Major disagreements among scholars are defined in the fundamentals of political economy and ideology i.e. human labor, capital, public regulation or liberalization of socioeconomic activity measurements as well as human resources' capitalization and socialization.

The problem of measuring an ideal wealth was always discussed and many scholars like A. Smith, J. Say, K. Marx, A. Marshall tried to be involved in.

Even then an idea of human potential was widely applied for various purposes i.e. to measure the profitability of human migrations, health protection policy, to estimate the losses of war and disasters, and to evaluate the human life significance.
Current official statistics framework has a set of various rates measurement

approaches. There we mean GDP, incomes, standard of living, poverty, unemployment etc.

The contribution of human capital to GDP generation could not be measured properly for now e.g. the value of wage labor along with the share of human capital is not properly indicated in national wealth indexes. The major resource like employee is eliminated from the measurements. That's why UN urged all countries to measure the HDI (Human Development Index) including long life, education, and wealth.

It's recommended to apply the UN standards to measure the human resource depreciation. Herein a person is compared to assets which could be also depreciated. The moral (ethical and natural) depreciation depends on living conditions the government must provide. Therefore stress and life challenges reduce the life expectancy.

We should also consider the human potential depreciation which we can determine by comparing the gain and consumption rates.

3. Results

In Russia most of researches to find reliable methods of real human potential evaluation are done by statisticians, economists, physiologists, psychologists, managers, and specialists in team management. Thus, the set of measurements to indicate the real human factor as a part of bank capital evaluation system should include data such as:

1) National wealth and living conditions i.e. physiology (longevity, health, disability, injuries), intelligence (education, skills, professional experience), managerial abilities (management, professional communication, and relations);
2) Population abilities i.e. financial capital management (cash, foreign currency, investments, securities, loans), non-financial capital management (land, fixed capital, intangible assets), investment costs;
3) Human, financial and non-financial capital applying efficiency;
4) Human, financial and non-financial capital applying intensity.

Bank capital stakeholders could be divided into internal and external ones. Legislative and regulatory standards which affect the bank capital evaluation policy are defined by external stakeholders. Internal stakeholders are generally involved into generating and applying the bank capital, adopting and monitoring the evaluation policy.

The evaluation policy could be developed only in line with the corporate capital culture (we mean a human factors there) as a part of general corporate management policy.

According to S. Breslavtsev the culture includes philosophy, instruments and techniques of any bank operations management.

V. Vidyapin and K. Tagirbekov consider that the proper bank culture development is not possible without applying the corporate rules and standards providing the general policy of bank activity and its registration.

A board of directors is responsible for developing the bank culture and policy.

According to E. Morsman the bank culture represents a set of beliefs, working styles, ways of expression, and philosophy i.e. a worldview and ideological values which are adopted in the bank.

The Bank of Russia has presented its view in the official letter dated may, 16th, 2012, highlighting the recommendations of BCBS (Basel Committee on Banking Supervision) in proper operational risk managing by explaining the corporate culture as a combination of individual and company-wide values, behaviors, and skills determining the company management policy. Corporate capital evaluation policy is an inherent part of corporate management policy and is connected with ethical business guidelines and reward policy.

4. Conclusions and recommendations

So, human factor is the basic feature of the bank capital evaluation system.

Goals of stakeholders could be different. Internal and external stakeholders are focused on different goals throughout the bank capital evaluation process and therefore they use different approaches to measure the capital adequacy.

External stakeholders consider capital adequacy to prevent the bank from losses and shortages. As to internal stakeholders this rate is used to make profit from risky transactions. Thus the bank capital evaluation system should include a human factors-based and properly balanced framework of stakeholders' goals.

Human capital is a part of human factors framework and should be described as a pattern of rates indicating human reproduction, skills, satisfaction of needs under current conditions considering health, safety and environment.

It's notably that some compare human capital to the resources produced. Skills of generating revenues are not inherited or received accidentally. Yet the role of heredity cannot be ignored.

One needs some ethical and physical resources i.e. components of human factors like intelligence, management, and property issues to be invested in since the very childhood.

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