Staff Papers No. 12

SEACEN CENTRE

SOME OBSERVATIONS ON TRAINING AND MANPOWER PLANNING IN A DEREGULATED BANKING ENVIRONMENT

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The SEACEN Research and Training Centre
1986

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Dr. Vinyu received his Doctorate in Economics from the University of Fribourg, Switzerland.

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FOREWORD

One of the major activities of the SEACEN Research and Training Centre in the pursuance of its objective of promoting closer collaboration and understanding among the South-East Asian central banks is undertaking research. The research activities of the SEACEN Centre covers a wide range of subjects, in particular, monetary, foreign exchange, fiscal and other current issues faced by central banks and monetary authorities in the region.

The publication of the Staff Papers reflects the continuing efforts of the SEACEN Centre to achieve the above-cited objective. These papers were prepared by the professional staff of the Centre and were done mostly in connection with its other activities. More specifically, they were undertaken to serve as background papers for the seminars and meetings conducted by the Centre, as special papers on current issues in the annual Economic Survey on SEACEN Countries, and as materials for the speaking engagements of the staff members. Hence, these studies are not the regular research projects of the Centre which are more in-depth and usually cover a longer time perspective.

The views presented in these papers are those of the author's and do not necessarily reflect those of the SEACEN Centre or the member central banks and monetary authorities. It is hoped that the publication of the Staff Papers would contribute to a better understanding of the developments and issues currently confronting central banks and monetary authorities in the region.

This paper was presented by the author at the Fifth Conference for Training and Personnel Managers on "Changes in the Financial Industry: the Implications for Personnel Managers and Trainers". It was organised by the Institute of Bankers of Malaysia and was held in Malacca on October 17, 1985. The author wishes to acknowledge the contributions made by Dr. Zeti Akhtar Aziz of the Economics Department of Bank Negara Malaysia in the preparation of this paper. The ideas and suggestions she provided were found most useful.

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May 1986

SOME OBSERVATIONS ON TRAINING AND MANPOWER PLANNING IN A DEREGULATED BANKING ENVIRONMENT

Introduction

Deregulation of the financial sector is a topic which, in the recent past has been discussed at different forums. Whenever bankers meet, the topic of conversation is on deregulation. Statements were made, lectures given, papers presented and articles written on the subject in the various forums during the past few years.

This paper presents some observations on training needs and manpower planning of the banking sector in a deregulated environment. First, an understanding of the author on "Deregulation" will be given to obtain a common frame of reference on what the word means. There has always been a confusion in the use of this word and people give different interpretations to serve their various purposes. This will be followed by the implications of deregulation on the concepts and ideas of manpower planning and development, and more specifically training for those in the banking industry.

Deregulation

The subject of deregulation of the banking industry has been something which was talked about a lot recently. The discussions on deregulation of the banking industry in the United States some five years ago may be recalled . During the past few years, talks focused on this part of the world and at this moment, "everybody" talks about dere ulation.

Deregulation in the banking industry in this paper is visualised in many forms, the more important of which are:

Deregulated Entry. Deregulation may imply relaxation of the control in the number of participants in the banking community. This would include regulations with regard to the setting up of new banks and other financial institutions; allowing more foreign banks and financial institutions to set up office and operate in a country; or less control on expansion and the setting up of branches of existing banks and other financial institutions.

Deregulated Functions. In most of the countries, there is a clear legal definition of commercial banks, finance companies and other financial institutions with specific terms of reference listing the kind of activities to be performed and services to be rendered by each and every one of these banks and non-bank financial institutions. These include functions such as operating a current account, the various forms of deposit taking, investment, etc. The deregulated environment would result in the blurring of the delineation of functions among the various types of institutions. Finance companies, for example, may accept current account deposits and commercial banks may undertake investment functions.

Deregulated Supervision. It is often mentioned that deregulation would result in lesser and/or more lenient control on the part of the central banks and monetary authorities on the operation of banks and other financial institutions.

In the more specific context of Malaysia, a lot of discussions could be heard lately about an end to fixed rates for government securities, that finance companies would be allowed to enter the interbank market, the breaking down of regulation separating commercial and merchant banks and other financial institutions, secondary mortgage markets, and even the possibility of granting more foreign banks licences to generate greater competition and efficiency.

It is generally believed that there will be changes in regulations governing functions of the various types of financial institutions and that the delineation of responsibilities of these various institutions will be much less clear in the near future. It is doubtful, however, whether the new entry into the market of new banks and more foreign banks will be allowed in any large scale. With regard to degree of supervision, there is no doubt that strict supervision will continue or even strengthened as the functions are more deregulated.

The Global Scene

There can be no doubt that the recent trend towards deregulation that is sweeping the financial system in both the developed and developing countries has resulted in significant financial changes. In view of the significant changes of this trend on the operations of the financial institutions, there is, therefore, an important need for these institutions to adapt to the changing environment.

The move towards deregulation had in general also been accompanied by financial and technological innovations which had contributed further to transform the financial system. While it is recognised that the ¬ath of deregulation differs amongst nations in view of the different economic, financial and physical context that prevails in a particular country, there is nevertheless an important need for the omestic financial industry to follow the developments occurring in other countries. This is because the domestic financial system cannot operate in a vacuum. With increased financial and economic interdependence among nations, there are increased links between domestic and international financial systems, and developments in one country have important implications for another. Thus in view of these international linkages, a country operating within the context of a global financial system would have to take into consideration these changes taking place in the financial systems of other countries. It is important not only to adapt and adjust to the changes occurring in the domestic financial system but also to be aware of changes occurring in other countries, particularly those in the major developed countries, not only in view of their importance to the world financial system but also of their implications on their own financial operations.

Factors Underlying Deregulation

The move towards deregulation has largely been in response to developments in the economic and financial systems. A major factor has been high, volatile and unpredictable interest rate movements, an outcome of which is disintermediation, when market rates rise above stipulated ceiling rates and savers take advantage of the differential between returns offerred by regulated financial institutions and those offerred by non-regulated financial institutions.

Fluctuations and uncertainties with respect to interest rates have changed the generally accepted relationships between short and long term sources and uses of funds. With uncertainties in interest rates movements, lenders tend to become less prepared to acquire long term assets. In other words, it has led to attempts by financial institutions to reduce risk exposure through a shortening of the maturity of debt instruments.

In view of these developments, the need for new cash management techniques and a more flexible system to respond to this changing financial environment arose. In these circumstances, financial institutions could also attempt to lessen their risk exposure by variable rate lending.

Changes in the general economic environment also serve to promote deregulation. The financial sector has also been affected by the general slowdown as with other sectors of the economy. In addition, restrictive monetary policies in developed countries to combat inflation, and adjustment policies pursued in developing countries to deal with balance of payments problems all contributed in eroding the profitability of financial institutions. This has intensified competition among financial institutions. Those institutions, in particular commercial banks, that are subject to more regulations have pushed for an opportunity for dismantling of certain constraints to enable a more even competition among financial institutions.

Another major factor that has resulted in the move towards deregulation is the progress in the application of new technology. This has enabled expansion of competition for financial services. The utilisation of advanced communication systems and computers have facilitated the transmission and analysis of information. Fund transfers can take place more rapidly and at lower costs. The easier switching between bank accounts and the short time span in which it can take place has enabled a reduction of exposure to risk and has allowed a greater possibility of cash management. Technological developments have also contributed to the overlap in functions of different financial institutions and between domestic and international markets. The operations of many financial institutions have been small and limited due to constraints arising from communications and transportation. With high speed fund transfers through electronic fund transfer systems, financial institutions can widen their geographical markets considerably. As a consequence, changes such as interest rate movements in one country can be easily transmitted to another country.

Consequences of Deregulation

Although the extent and nature of financial deregulation varies in different countries, the basic thrust of deregulation accord a greater role to market forces in the financial sector and in particular the dismantling of a range of controls over banking business.

A major consequence of deregulation is the increased competition amongst financial institutions. As can be seen in most countries, this has tended to erode the market share of commercial banks in the financial system as other non-bank financial institutions offer increased financial services that are in direct competition with the commercial banks. Previously, each type of financial institution was established to perform a particular function and fulfil a specific demand for a particular type of financial service.

With deregulation, commercial banks have experienced significant changes in the sources and uses of their funds primarily reflecting the change in demand for their financial services. In Malaysia, it can be observed that, recently, there is a sharp decline in demand deposits and an increase in fixed and savings deposits. As in other major financial systems, demand deposits represented a major source of funds but now the pattern of deposits has changed significantly. The composition of banks' assets can also be seen to have changed. Generally, loans in the total portfolio increases as a percentage of the banks' total assets as banks are prepared to take on higher portfolio risk. Banks have also been willing, with deregulation, to take on a more diversified portfolio thus contributing to the blurring of functions among deposit-taking institutions. This is true also of the non-bank financial institutions as they move closer to commercial banking functions.

With new financial developments, banking has become a more risky and uncertain activity. While the supervisory authorities are directing their efforts toward maintaining stability in the financial system to protect the interest of depositors and to ensure that the changes that are being introduced occur without disrupting the financial system, the banks must themselves be prepared to adjust to these changes in an organised manner. In the event of these changes, the primary concern of the banking sector is that it will result in excessive competitive pressures. These pressures, if felt, would erode the profitability of the banks and pressures are exerted to narrow margins. Further, banks are now prompted to go into new areas of operation and business which may involve risks that may not be compatible with banking or on areas where banks do not have the necessary expertise. Also, non-bank financial intermediaries or even companies may conduct banking or quasi-banking business. These institutions may also not have the necessary skills and may have different objectives, not to mention that they may be subject to different supervision or not all. This is another development that the banking sector would have to accept with deregulation and financial innovation.

Another area in which the banks need to be prepared is the fact that banks potentially face greater risks from variation in interest rates. Banks will need to direct their attention to liquidity management and they have to be more systematic in matching the maturities of assets and liabilities so as to reduce the risk from unexpected changes in interest rates. With the advance in technology in banking, banks will have to rely more extensively on computers to conduct a wide range of their functions and activities. Banks would face a number of operating risks, including failure in the supply of power and loss of files. To revert back to manual methods of processing would, under these circumstances, be difficult, if not impossible. Banks would, therefore, need to be adequately prepared to adapt to technological progress in the industry and to deal with and protect against such risks or failures.

It can be seen from the above that the future of the financial sector and particularly of the banking industry will be characterised by the following phenomena:

- The market will generally be more competitive. There will be a larger number of market participants and more overlap of functions among the various types of financial institutions.

- Changes will take place particularly as a result of computerisation and a broader use of electronic banking. New services will be introduced, and new instruments will be brought into the market.

- Changes will take place at more frequent intervals.

- External pressures and influences not only from neighbouring countries but from the industrialised countries around the world will have serious implications on conditions of the domestic market.

Implications on Manpower Planning and Training

The implications of the above conclusions on manpower planning and more particularly on training are widespread and deep-rooted. The following points should be kept in mind by manpower planners and trainers:

1. Training services should be adapted to the changing conditions.

2. Staff knowledge would have to be broader that would normally be required as the services of the commercial banks and other financial institutions will be much more diversified than the present.

Also, managers under a deregulated environment have greater flexibility in making decisions. This implies greater opportunity in making correct decisions and also greater chances of making wrong decisions.

3. Bankers need to be updated on the technological changes in the areas of computerisation and electronic banking. Their applications will be much more extensive than the present situation and changes will be very rapid.

4. The shift on the emphasis of training will have to be conducted within the banking industry. It would not be realistic to assume that the university curriculum will be adjusted to meet with the new requirements of the market. It should be kept in mind that there is a very strong rigidity in the academic institutions with regard to the curriculum content. It will take quite sometime before changes could be introduced. The greater burden of producing appropriately qualified personnel lies within the banking community itself.

5. There is a need for more frequent training. With rapid changes both in technological advancement and in monetary policy, bankers have to keep themselves up`ated more frequently.

6. Training is not only required for the lower and middle level bankers in the operating departments but also at the very top management level. There are now more decisions to be made. Senior executives need to understand the more complicated banking environment, they need to be in a position to

various forms are therefore necessary for the top management level also.

7. Professionalism in the operations of the banks and other financial institutions are needed now more than ever. The time is gone for banks to be run as a family trading business. The level of sophistication of the financial sector requires a matching competence in the banking industry.

8. It is crucial to fully understand the developments that are taking place in the various industrialised countries. The increased interdependence and the increased speed at which transactions are being undertaken make it necessary for bankers to know not only the economic and financial situations in their respective countries but also those of other countries.

Conclusion

Things are changing and changes are happening very quickly. The commercial banks would have to prepare themselves to the changing situations. Training at all levels will have to be planned such that bank officials are prepared for a more competitive environment and a larger scope of activities. Bankers need to be more professional in their qualifications. Most of these training needs would have to be met internally within the banking sector as output from academic institutions cannot be expected to change quickly.

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THE SEACEN CENTRE

The SEACEN Research and Training Centre was set up by the South-East Asian Central Banks (SEACEN) comprising the Union of Burma Bank, Bank Indonesia, Bank Negara Malaysia, Nepal Rastra Bank, the Central Bank of the Philippines, the Monetary Authority of Singapore, the Central Bank of Sri Lanka and the Bank of Thailand.

The basic objective of the SEACEN Centre is to promote closer collaboration and better understanding among member central banks and monetary authorities by undertaking research activities, conducting training courses and organising seminars and meetings.

Research activities of the SEACEN Centre are undertaken to have a better understanding of the monetary, foreign exchange, fiscal and other economic issues and developments affecting the member countries.

Training courses are conducted to provide an opportunity for officials of the member central banks and monetary authorities to acquire, refresh and expand their knowledge of the basic concepts and techniques necessary in the performance of their tasks as well as to widen their understanding of the issues related to policy formulation and implementation.

Seminars and meetings are organised to provide a regional forum for exchange of views and experience on selected aspects of central banking from the operational and policy standpoint.

Although the SEACEN Centre acquired its formal legal status only in 1982 when it was registered as a corporation in Malaysia and agreements to that effect were signed by the Governors and Managing Director of the member central banks and monetary authorities, collaborative efforts started as early as 1972. These undertakings initially consisted of training courses and eventually expanded to research activities and holding of seminars and meetings.