



## Employment and Changing Human Resource Practices in Indian Banking Sector

### KEYWORDS

Contractual employment, Quality of job, "Bad" job, Outsourcing, Formal employment

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**ABSTRACT** *The paper examines the change in the Indian banking sector employment in the context of structural change in its composition, trend and status of employment since the reform period. Reforms measures that give more emphasis on efficiency and productivity growth leads banks to adopt technology and functional flexibility by providing more autonomy to banks, transformed HR practices in banks from a highly regulated formal employment to more contractual employment. The sector shows a declining trend in its overall employment despite the huge growth in its business and extension of service. The structural change in composition shows a shift away from traditional dominated clerical staff towards more officer ranked employees. The status of employment is also altering from regular employment to contractual employment in the banking sector. The study explores that growing outsourcing of jobs deteriorates "quality of job" in the sector by exposing it to "bad" characteristics of job.*

### I. Introduction

Post-financial sector reforms guided by the report of the Narasimham Committee in the early 1991 followed by Second Report in 1998 traversed Indian banking sector a long way in terms of improving performance, efficiency and productivity. These reforms focussed on operational flexibility and functional autonomy for enhancing productivity and efficiency along with improvement in the Human Resource (HR). With the far-reaching reforms implementations, Indian banking witnessed a huge growth in its business with a compound annual growth rate (CAGR) of 18.67 from 1995-2005 along with massive branch expansions and services extension. However, the total employment offered by the commercial banks decreases from an annual average growth rate of 0.55 percent in 1991s to -10.55 per cent by 2000s. No doubt this declined in the employment has been due to the decentralization and deregulating policies as well as the adoption of outsourcing policy that altered the existing HR practices into more flexible and adaptable towards their manpower requirement in the intense competitive market. Outsourcing of non-core activities provide cost advantage for banks, however at the same time deteriorates "quality of job" in the sector. Nonetheless, it is pertinent that even in the era of high technology; it is the skill in human capital that will give a competitive advantage to the banking industry (Chakrabarty, 2002).

This paper therefore examines the implication of reform measures on the quantity and quality of banking sector employment by analyzing its evolving trend and changing composition and nature. The study proceeds as follows. Section II builds an analytical background of the HR practices in banking sector since reform period. Section III briefly describes the data sources. Section IV deal with the structural change in the composition and recently growing outsourcing of employment in the banking sector. Finally, section V concludes the study with emphasis on the risks and danger inherited by outsourcing and contractualization of banking sector employment.

### Section II. Analytical Background

Since the initiation of First reform, HR practices in banking sector regarded as the biggest challenge for the new age banking. Hence, Narasimham reform committees (1991

&1998) including the most recent Khandelwal committee on HR issues (2010) recommended a 360° transformation of HR policy in the banking industry. Traditionally, HR function particularly in public sector banks (PSBs) focused on establishment and administrative roles. Issues in HR were largely dictated and driven by the agenda of the unions. The employment in banking had been mostly full time jobs. All the jobs are bound by the 'terms of contract' which clearly mentioned the 'job conditions' and 'notice under which the job can be terminated'. Mostly, the 'terms of contract' were bounded by negotiations with unions and bi-partite treaties; job insecurity for bank personnel is very low. However, the liberalization measures of downsizing of staff, laying down of the officer-clerk ratio, monitoring staff cost, outsourcing of more and more non-core activities, decentralization bargaining of union led to fall in the overall regular employment and rise in contractual employment. This contractual group of employees lack job security, have inferior labour status, poor conditions of work in term of lacked of social security.

### III. Data Sources

The study is based on the banking sector data on employment available from the Statistical Tables relating to Banks and Basic Statistical Returns (various years) published by Reserve Bank of India (RBI), brought out annually. The data on total employment is available by the category level and at bank-group wise.

### IV. Changing structure of Banking Sector Employment

The term 'structure of employment' stands for the type of employment and employment arrangement that prevail in an organization, hence any change could be better understood in the context of the evolution in overall change in trend, composition and status in employment pattern. Hence, this section discusses the overall employment scenario in the banking sector since the reform periods.

**Table 1** shows the average growth rate of banking sector employment both for pre-reform and post-reform period to have better understanding of the evolving trend in the banking sector employment. The overall trend showed a mix trend with wide variation in employment growth within the period. While the pre-reform periods recorded a ro-

bust growth rate of 6.03 per cent in 1981-85 and 3.01 per cent during 1985-1990, the post reform periods witnessed a declining trend, where the entire period recorded a negative growth rate of -0.14 per cent in 1995-00, which is further dipped by much stronger rate of -10.55 per cent during 2000- 05. However, a moderate positive growth rate of 1.29 per cent can be seen for the recent periods 2005-10.

**Table1: Average Annual Growth Rate of Employees of SCBs by region, Various Years**

Region	1981-85	1985-90	1991-95	1995-00	2000-05	2005-10
Northern region	5.96	3.59	0.89	-0.95	-11.68	5.23
North-east region	4.40	3.08	1.18	1.66	-9.99	5.70
Eastern region	7.78	3.09	0.87	0.86	-10.84	0.36
Central region	7.81	3.48	0.83	-0.66	-8.39	-6.24
Western region	6.58	1.98	0.46	-0.56	-9.33	6.72
Southern region	5.06	3.15	0.03	-1.11	-11.85	-3.53
All India	6.26	3.01	0.55	-0.14	-10.55	1.29

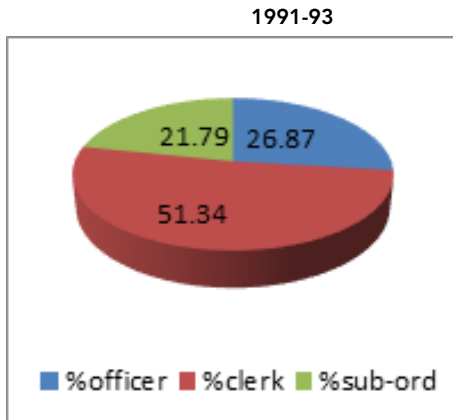
Source: Computed from Banking Statistics, RBI; Note: Data till 1995 has been taken from Anand, 1998, IJLE

**Shift in the Structural Composition**

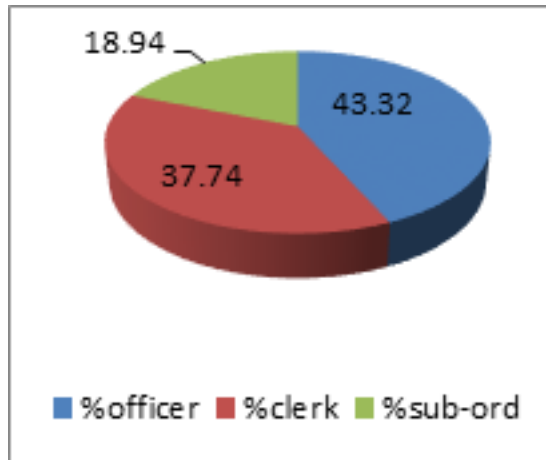
Another interesting trend that follows during the same was the change in the structural composition of the workforce. Data on employment in commercial banking is given by three categories---officers, clerical staff and sub-ordinate staff. Amongst these categories of employment, the employment structure is shifting more in favour of officer ranked employees in compared to clerical and subordinate groups of employees.

This is clearly depicted in **Figure 1**. For the year 1991, more than 50% of the total employment was constituted by clerical staff with marginal difference between the officers ranked employees (26.87%) and sub-ordinate staff (21.79%) composition. The prevailing pattern significantly altered by the year 2010 where officer ranked employed (43.37%) superseded clerical group (37.78%) and subordinate staff still remaining at the bottom level, rather it show a fall in the overall share in employment from 21.79% in 1991 to 18.94% by 2010.

**Figure 1: % Distributional Change in the Employment, 1991 & 2010**



2009-10



Source: Computed from Statistical Tables related to Banks in India, RBI

**Changing Nature of Banking Sector Employment**

The increasing pace at which banks are reducing their workforce and the relative shift in the composition pointed out the transformation in the “work organization” that has taken place within the banking sector. Technology being the backbone of the modern banking, banks is resorting to high skill human capital (officer) for increasing the returns to the technology (Errol, 2002). Banks, nowadays in the name of efficiency and cost cutting outsourced or subcontracted its routine and peripheral tasks that of clerical and sub-ordinates to external firms in the name of scalability and efficiency. This change in the work organization in the banking sector evidenced the downsizing and compositional shift in the employment structure of the banking sector. The situation today is such that PSBs are no longer recruiting clerks despite large number of vacancies. The positions are being squeezed or outsourced in the name of applying different banking models (Indian Express, 17Nov, 2013). National Skill Development Corporation (NSDC, 2009) estimates banking industry outsourcing size as Rs. 4.08 billions and that expected to grow at a CAGR of 47% for the next 4 years. This is expected to generate more contractual employment in the sector.

**Table 2: Professional Employees of Various Banks**

Banks	Chartered Accountants	MBA's	Law Officers	Rural Development Officers	Engineers
Central Bank of India	44	54	-	368	-
Indian Bank	16	-	8	29	6
Syndicate Bank	-	54	9	-	-
South Indian Bank	-	180	10	-	67

Source: Annual Reports, Various banks, 2012

**Table 2** shows the data of few contractual Specialists hired by banks for the year 2012. Almost every bank hired MBAs on contract basis, followed by law officers and engineers to handle the IT and operating system.

Outsourcing and contracting out policies of the banking

sector has not only retarded the growth of regular jobs but also encourage a new form of Contractual employment that are often stands against (or does away with) what used to be "Standard" or regular jobs in the banking industry. Most of the jobs created are for short duration and lacked the provision for available social security. Hence, employees have insecure job and poor working benefits like protections or social benefits. Such poor quality of job deteriorated the "quality of job" and exposed the employees/workers to "bad" jobs.

#### V. Conclusion & Policy Change

During the last two decade, it has been recognised that banking sector employment is gradually declining and the workforce is transforming from clerical group of employee to more officer ranked employees as well a swipe away from regular full time employment to more contractual employment. Such transformation in HR practices is principally a governance issue or deregulation policy as suggested by various reform committees. However, increasing contractualization of employment in the banking sector recognised as of poor quality in terms of insecure job and lacked of social security. Nonetheless, such transformations from regular standard employment in the banking sector to nonstandard employment led to sudden and unexpected multi-dimensional effects. Various unethical practices in the banking industry can be seen such as leakages of confidential information of the consumers, cheating and fraud by the outsourced employees of the banks. Such practices are fuelled mainly due to incentive-linked salary paid to the employees by the banks. It is quite obvious that incentive-based salary would fuel such unethical practices into the banking sector which will harmful for the system in the long run. However, contractual job arrangements becomes the economic realities of twenty-first century, hence the policy challenge is to decrease the costs of working informally and to increase the benefits of working formally.

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