TRANSFORMATION OF THE WORKFORCE IN THE FINANCIAL SERVICES SECTOR

The true measure of a nation's wealth lies in the skill of its human resource

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1. Introduction

This is an overview of an examination of labour market issues surrounding the question of transformation and the role of skills development in the Financial Services Sector. It formed the basis of a presentation made to the undertakings covered by Bankseta, Inseta and Fasset respectively, which was then presented in the major centres in South Africa during the month of August 2003.

The major thrust of the task was to identify the labour market issues that would either constrain or encourage the growth and extension of skills development within the sector, and with it, the role and the contribution played by the three Setas. The term 'transformation' is somewhat imprecise in its meaning and application. It has no standardised meaning, and this adds to the difficulty of trying to encourage a process that not everybody sees as neutral, or necessary.

A term such as 'evolution' was one which I chose to use during my presentations to try to indicate that I was dealing less with issues of Black Economic Empowerment, and more with the evolution and development of the labour force, in terms of skills demanded and skills supplied. In this sense the term ‘evolution’ is more neutral. (It also implies that evolution and labour market development are necessary for survival.)

This is not to say that the issue of Black Economic Empowerment is not vitally important, it is, and especially so in the light of the imminent 'Financial Services Charter', rather similar to the policy document relating to the Mining Industry. Nevertheless, this is possibly less the immediate concern of the Setas, and a stage removed from the question of skills provision. Nevertheless, the Setas themselves may well have an important educative role. There is an important point to be made: the hyper-skewness of the size distribution of firms in the sector virtually predominates every other consideration, and accordingly demands special consideration.

The understanding of the need for Black Economic Empowerment and to a large extent the shareholding, finance and scope to accommodate it will be a function of the size of the firm, and will prove to be a major constraint and limitation within the sector[1]. While it will be an essential part of the major banks and life assurance companies business strategy to seek black shareholdings, and to practice positive strategies of affirmative action, this cannot be said equally of the myriad of small brokerages and financial services businesses that typify the structure of the sector.

2. Economic Growth, Skills Supply and Job Creation

The question of economic growth in South Africa cannot be separated from a consideration of its impact on job creation. This latter point being one of the central policy issues presently at any level of discussion. Once again, there are special and particular considerations that need to be taken into account in the three sub-sectors that make up the Banking and Financial Services industry.

There is an important question here that we ought to pause to examine briefly. It is the broad consideration of whether or not economic growth creates jobs and employment opportunity.

The answer is unequivocally positive in the medium to longer term. Today's laptop computer represents more jobs per keystroke than did the first electronic calculating machine in 1948. In the same manner, every passenger mile flown today translates into literally millions of jobs from airport construction to aviation medicine, as compared to the first powered heavier than air flight of the Wright Brothers in the early 1900's.

The problem is neither the emergence of the IT Sector nor the Airline industry did much for those involved in the business of Blacksmithing. Economic growth and technological development tend to create a greater number of jobs at new and enhanced skills levels, but are often a short-term displacer of more traditional forms of labour.

This problem of imbalance of skills demanded and supplied is called structural unemployment. It is the most intractable of all forms of unemployment in the short-term. Resolution of the problems of structural unemployment lie largely in policy interventions by governments on the skills supply side of labour as attempts are made to upgrade and improve the quality of the national asset of skilled labour. It is suggested that a proper understanding and positioning of the Skills Development Act (1998) is central to this consideration: it has far less to do with reclaiming levy from year to year. These interventions do, however, take time, and are medium to long -term in their impact and efficacy.

[1] In approaching the issues in this paper, I comment generally on all three sectors, Banking, Insurance and Accounting as one. There are sufficient similarities to allow for this treatment on a broad basis. Where

Better-trained and more skilful labour forces are of overall benefit to society at every level. The economics of education are fairly simple. There is a positive correlation between education, skill, and earning capacity. Better-trained workers are more productive, and contribute more. Their marginal revenue product is higher, and therefore they make a greater contribution. They can therefore earn more. Rising wages increase the disposable income of workers, overall standards of living rise, and households 'buy' more education. This feeds back into enhanced skills supply, and we all become more prosperous. This, in a nutshell seems to be the lesson of economic history in the West since the Industrial Revolution. Where there is an imbalance of skills required over skills supplied, the resulting structural unemployment chokes output, drives up the scarce wages and strangles growth. All this apart from the manifest social and political problems that are attendant upon large-scale unemployment.

Before considering the question of overall growth in job opportunity, it is expedient to pause for a moment and consider the question of employment creation elasticity. What this refers to is how many jobs both growth and technological progress will create. Obviously, this value will vary from industry to industry. It will also be impacted upon by the nature of the Capital/Labour Ratio in the industry under consideration[2].

If the combination of labour and capital is such that growth and technological development will end up creating relatively more jobs than capital, well and good. However, this tends not to be the case with technological progress, which often comes about by substituting computers for clerks.

This is particularly so in the sector which we are considering, where progress tends to reflect itself in intellectual capital and technology. International competition also ensures that our technology must equal world standards, which by and large takes little account of the needs of third world economies, or those where there are deep rooted problems of structural unemployment.

In such circumstances, growth in the numbers of jobs will come from general and overall economic growth, rather than growth in output or efficiency dominated by technological progress, and this too, will be dependant on individual factors existing on a sectoral basis. Now, in a general sense, this is in a large part what the Brenthurst Initiative, launched in the week in which the presentations were made, is addressing. I personally regard this as both an important and exciting initiative and one that is worthy of support

necessary, individual comment will be made.

[2] By Capital/Labour Ratio (or K/L to give it the abbreviation usually assigned to it in economics), we are talking about the proportion of the combination of capital and labour required by each job' in order to produce. It is the measure of relative labour intensity or capital intensity.

and commitment. However, while it may be largely true that doubling the growth rate will halve the unemployment rate, given that we can finance this by a more than proportional increase in investment, this will not be so for all industries[3].

These same observations are also not applicable in a general sense of the financial sector that we are discussing here. This is, amongst other factors, a result of the skewed size distribution of undertakings in the sector, a point upon which I shall comment further upon later.

The most obvious import of this fact, is that at least one part of the sector under consideration, that dominated by the major firms, is not only unlikely to provide much by way of increases in numbers employed, but is likely to be a net reducer of jobs as a result of mergers and acquisitions and increases in efficiency.

This will not excuse this part of the industry from skills shortages. This lies in all our futures, but it does mean that if the sector is looking to grow jobs, then the most easily tapped potential in this regard does not lie with the major employers themselves, but rather with the smaller undertakings in the sector.

3. Structural Considerations in the Sector

As I have already mentioned, the most immediate and apparent observation that can be made about the sector, is that it is dominated by a small number of super large employers, each employing thousands of employees. The major 'high street' commercial banks dominate the economy as well as their own particular sector.

There is similarly, a small number of major life and short-term companies that dominate their turf, and the big accounting firms need no introduction. Contrast this with myriad of tiny brokerages, bookkeeping firms and accountants that are found in every corner of the land, and some notion of the size of the problems of inequality of scale of undertaking become clear.

An obvious conclusion follows from this. It is simply not possible to regard the sector, or its three sub-components as being a homogeneous and uniform entity. What is sauce for the goose, in this case, is certainly not sauce for the gander, and we will need particularly different interventions to coax the smaller players into training and development, let alone into Black Economic Empowerment deals.

[3] At this stage the actual numbers and ratios are less important than the fact that confidence and stability are the pre-requisites for investments.

I suspect that the majority of the training and development done to date, and the rebates refunded, have gone to the big players. This may, in part be due to the fact that for the big players, the rebated Skills Development Levy numbers are very large indeed, as well as the fact that there is probably a much sharper understanding of the benefits that flow from training and development among these major employers.

Incidentally, if the percentage of payroll spent on training in South Africa is calculated by sector, then first place goes to Insurance. Banking is in second place, and Accounting is in fifth position. Overall the three sectors can hardly do better[4] by South African standards. Nevertheless, it is again safe to speculate that the large employers are undertaking by far the greater part of this training only.

Now in this regard, it is to be expected, that the larger the employer, the greater the propensity to train. This, I would suggest, is because the indirect costs of training, as well as the real risk that the employee will leave with the skills, before a return has been enjoyed from the training, are such as to be relatively far higher for the small employer than for the large one.

If this is so, it raises real issues of whether or not the levels of rebate available are sufficient to entice the smaller employers to come to the party. I very much doubt that this is the case.

This seems to be borne out by some work done jointly by the University of Cape Town and the World Bank. This work showed that overall. 35 % of the firms surveyed identified 'inadequate skills' as the most important reason for low productivity. In the services sector, this figure was even higher at 39%. If, however, firms employing fewer than 50 employees are taken, only 1% listed 'lack of skills' as their first reason, but 31% gave it as their second reason. I take this as very significant evidence of the fact that although for small business, training is a very important issue; it is not the key survival issue. In fact, it ranks far below this.

In research undertaken by the Department of Labour, it was established that 'cost' is the first factor taken into account in encouraging/discouraging training. The positive factors motivating investment in training were identified as enhanced productivity, strategic advantage, and keeping pace with technological change. Given that the smaller employers are likely to have fewer cash resources than the larger ones, training becomes more of a 'nice to have' rather than an essential.

[4] American estimates show that leading firms expend around 5% of payroll costs on training and development of staff. It is said that one of South Africa's leading employers, and a household name, commits 4% to the cause of skills enhancement.

Research within the sector itself supports the above conclusions. Looking at the major reasons for low productivity in the sector by size of firm, lack of training comes out as the most frequently cited reason. However, when asked to rate the most pressing survival issue, training was not first. This indicates that whilst seen as vital, training is not ranked as a survival issue, and this is one of the reasons why when times are difficult, it is most often that training falls by the wayside. If training needs to be encouraged amongst the smaller employers, special steps will need to be taken.

4. Participation Rates

A large part of the sector is dominated by female labour. This has caused some comment in terms of the equity figures, but should not be a cause for immediate concern.

It is a labour market fact that certain jobs or sectors have a tendency to be predominantly supplied by labour of a particular gender, and this appears to be the case with this sector, especially with regard to jobs of a clerical and administrative nature. Here, females outnumber males.

It is unlikely that any actions aimed at remedying this will either be justified or successful, in the short-term. It is also illustrative of another point, which is this: generally, legislative power is the only means available to pursue policies of redistribution or 'equity'. Often, legislation of this nature finds itself coming into conflict with economic or market forces that are not influenced by considerations of fairness and equity. Legislation is a difficult and imperfect means for attaining these outcomes. This is not to say that we should be put off by the complexity of the task, or by the lack of really sharp cutting tools, but more to remember that the best way to create an equitable society is when men and women determine for themselves that this is the sort of society in which they want to live. A point perhaps worth remembering when the work of the Setas is considered.

If a high female participation rate were then a characteristic of the industry, then it would be of great value to have a better understanding of some of the problems that relate specifically to this predominant supply of female labour.

The first issue is that of participation rates. During the child bearing and rearing years, the attachment of women to the labour force is less fixed, and they will therefore tend to move in and out of jobs more frequently. This has significance for training, earnings, and promotability, as well as the actual jobs women will seek and will accept. These are limiting factors, and a looser attachment to the labour force does not correlate positively with earnings and occupational advancement and skill. It is, simply put, often a wasteful use of an important skilled resource.

With a greater degree of understanding of the patterns of female participation in the industry, specifically of programmes to encourage women to return to the sector, so that the knowledge, skill and experience are not lost, a great deal could be achieved. It is also likely that this factor will be particularly important for the smaller firms, for whom the relative costs of staff losses, recruitment and retraining are higher. This appears to be a fertile and rewarding field for research.

5. Who is the Client?

From my examination of the sector, and from some of the comments made above, I believe that it is clear that the central problem is to provide services to the small employer, on the basis that this will give that employer a real incentive to upgrade staff skills.

Equally, there is a clear stratification of skills within the sector, and the majority of the skills required are not those of the actuary or the highly skilled and qualified accountant[5], but are much less taxing, and more easily and more immediately subject to the beneficial returns of training.

Another feature of the size and geographical distribution found in the industry is the fact that communication is bedevilled. In this regard, I shall only comment on the fact that traditional classroom-based training methodologies are ineffective. Further, the infrastructure required to mount such training by way of venues, furniture, classroom equipment and the like, is such as to put it beyond the reach of the small players in the industry. There is ample opportunity for the development of computer-based and learner controlled training interventions of a generic nature, which should be made freely available to all in the industry – or perhaps to selected smaller employers.

In this regard too, specific programmes to purchase/provide computers to smaller businesses could be examined, provided that these are linked to learnerships, or similar programmes to encourage the hiring of additional trainees.

During the course of the presentations made around the country, it was also quite clear from the response of audience members, that there was a feeling that the needs of the

[5] This is not to say that there is not a shortage of such skills, but rather to highlight the fact that perhaps too much is made of it to the exclusion of other jobs and skills, which are numerically more prosaic, and where there is a greater impact and return from initial training expenditure.

smaller employer ought to be taken into specific consideration. This may or may not have validity, but the sentiment was expressed, and thus warrants attention.

6. The Cost of Training

Training costs do not only comprehend the costs of the trainer/trainee, and the cost of the material. It is probably true to say, that the smaller the organisation, the greater the relative cost of the training, if for no other reason than the economies of scale are not available. Thus, the smaller the organisation would be, the less likely it would be to undertake any training. The fact that so many undertakings in the sector are of micro-size, often employing no more than one or two employees, means that the difficulties of encouraging training via the Setas is a Herculean task. This once again highlights the particular problems that are inherent in the size structure of the sector.

If the relative and actual cost of training for the smaller employer is greater than for the larger one, then it is valid to ask whether or not the rebate of 100% of the cost of the training is sufficient an incentive for the smaller employee to train. Equally, until we have established a reliable and accurate structure of the actual training costs, we can ask what we are actually rebating?

Some further examination of these costs would be of value to the three Setas from a policy point of view. It might be that a more positive incentive is needed to encourage the take up of training amongst the smaller employers.

7. What Kind of Training?

The skills gap has been well documented in the three areas, and there is a degree of similarity as would be expected. They are specific accounting and financial skills, often involving university degree-level study and requisite experience. There are literacy, computer and IT skills, as well as those of management and leadership. Work readiness skills have also been identified. A number of considerations follow from this.

Firstly, we should examine whether or not we have set the bar too high. Setting aside the arguments of skills dilution, the development of the para-legal, the para-medic, and similar categories of operative that are able to perform more routine tasks without having the full competencies of the more senior qualification. Some further research here to determine competencies, skills and curricula, might be of value in furthering these thoughts.

8. Delivery of Training

The geographical dispersion in the industry obviously, as has already been mentioned, affects delivery of training. The answers, equally obviously lie in using technology.

It is possible that the establishment of simple learner controlled computer based training on some of the core skills in the industry could be developed and made available on a free to user basis to any member of the industry. Much basic training could be achieved with such simple programmes, and a portable and personal recognition of the learning, developed within the sector would act as an incentive to individuals. A scheme could be examined whereby employers who were willing to take up learnerships, could be supplied with a computer and access to the training material, having the benefit of the computer for their own business when not being so utilized.

At a more ambitious level, an open web based 'university' could be developed for those who want to upgrade their own skills, or be linked to learnership programmes in the sector.

The macro industry shortages that have been identified could be dealt with by the establishment of scholarships, bridging programmes, student support programmes and the like.

9. Marketing and Outreach

It seems to the writer, that the difficulties faced by the sector, as well as the possible frustrations that they may feel is attendant upon their work, derives from the particular problems (once again) of communication in the sector – reflecting the size and geographic disparity.

In the light of this, it is probable that marketing and outreach programmes aimed at communicating the benefits available from undertaking training to the smallest of employers in the sector, such as small pamphlets or booklets for employers along the 'Why I should train and how I can go about it?' style, would be very valuable. A similar book for employees along the lines of 'How to get ahead' be developed, at nominal user fees, so as bring potential employers and job seekers into contact. Above all, the learnership concept should become the focus of a coordinated effort between the three Setas.

10. Summary

It is important to bear in mind that the three industries whose Setas are being dealt with in this consideration, are in the top five in the country when it comes to the provision of training: they also occupy first and second place respectively when it comes to percentage spent on payroll. While there is always more that can be done, this is by no means a doom and gloom scenario. A great deal is being done, and has been done. Whilst it is true to say that a great deal may yet be achieved, it will not be easy and will require specific focuses because of the structural considerations already dealt with.

There is also a broader consideration, and that is that the sector fulfils a broader role in the overall development of skills in South Africa. The requirements for managerial, computer, accounting, financial and clerical skills are universal across all sectors. In being a core source of supply of these skills, the three financial sectors make a greater contribution to overall growth and development than to their sector alone. In this regard, the sectors, and most specifically the larger employers within them serve as a training and development centre for the general upgrading of skills and competencies on a national basis. This too, is of great national value.

Andrew Levy
August 2003

Disclaimer: Views expressed in the article do not necessarily reflect the views of Bankseta, Fasset or Inseta.