



PHILIPPINE INSTITUTE
FOR DEVELOPMENT STUDIES
*Surian sa mga Pag-aaral
Pangkaunlaran ng Pilipinas*

Policy Notes

October 2002

No. 2002-07

Can the Philippines' Human Resource Base Meet the Challenge of a Liberalized Financial Sector?

*Leila Calderon, Cheryl Villanueva
and Tereso Tullao Jr.**

The financial sector has undergone extensive liberalization and deregulation in recent years. An essential element of success in this kind of environment is the readiness of various parties to compete. Readiness can be viewed in terms of the capability of the domestic firms to face foreign competition and the capacity of the host economy to provide the necessary infrastructure to reap the benefits of liberalization.

With regard to the soft infrastructure of the economy—the *availability* and *quality of human resources*—does the Philippines have a sufficient supply of professionals who are capable of meeting the human resource requirements

of domestic and foreign financial corporations in an integrated world economy?

This is what this *Policy Notes* will look into and provide some answers to.

The GATS and financial liberalization in the Philippines

When the Philippines acceded to the General Agreement on Trade in Services (GATS)—a multilateral agreement covering rights to trade internally in all services except the exercise of government—it committed to open up banking operations, services offered by nonbank financial institutions and insurance. This meant allowing foreign players to establish and expand various financial operations.

What areas are affected by this liberalization?

In commercial banking, it involves the liberalization of the acceptance of deposits and other repayable funds from the public; all types of lending; all payment and money transmission services; trading for own account or for account of customers of money market instruments, foreign exchange, derivative products and interest instruments, participation in issues of all kinds of securities, and asset management. In financial advisory services, it covers the liberalization of

PIDS Policy Notes are observations/analyses written by PIDS researchers on certain policy issues. The treatise is holistic in approach and aims to provide useful inputs for decisionmaking.

This *Notes* is based on PASCN Discussion Paper No. 2001-10 entitled "Human Resource Requirements of the Financial Sector Under a Liberalized Regime" by the same authors under the auspices of the Philippine APEC Study Center Network (PASCN). The views expressed are those of the authors and do not necessarily reflect those of PIDS or PASCN or any of the study's sponsors.

*The authors are Associate Professor of Finance, Research Assistant and Professor of Economics, De La Salle University—Manila, respectively.

underwriting guarantees and commitments, credit reference and analysis, investment and portfolio research and advice. And in insurance services, it liberalizes the life insurance subsector, the general nonlife, marine, casualty motor car, health and accident, burglary, engineering, suretyship fidelity/surety, and bonds.

Based on these areas, what types of human resources are needed? And what kind of competencies is needed?

Demand for professionals in the financial sector

The finance industry, consisting of banks, nonbanks and insurance companies, contributed an estimated gross value added of P130.3 billion to the economy in 1998. This amount is approximately 5 percent of the gross domestic product (GDP) and 9 percent of the gross value added of the services sector. The bulk of this income comes from the banking sector (72 percent).

Although the banking sector employs only a small portion of the labor force, its capacity to absorb additional employment has been growing rapidly, as evident in its annual average employment growth of 7 percent. This employment growth has been attributed to the expansion of the industry brought about by the liberalization measures implemented in the 1990s.

In terms of human resource requirements, the competencies needed in the financial sector cover two categories: (a) competencies common to all workers, and (b) specific competencies of various workers.

The old generalist and administrative competencies for upper-tier workers, procedural competencies for middle-tier workers, and specialized skills for lower-tier workers are being replaced by new expertise and entrepreneurship for upper-tier workers, customer assistance and sales competencies for middle-level workers, and the disappearance of the low-skilled jobs. The desired skills for the future include, among others, the learning to learn, communication, personal management, adaptability, group effectiveness and influence.

According to a report of the Bankers Association of the Philippines (BAP), the minimum competencies required of college graduates to be employed at entry level in the

banking industry are oral and written communication skills, work knowledge and specific banking courses taken.

Key informants in the industry reveal that the human resource requirements can be categorized by: (a) *educational qualifications*, (b) *skills and competencies*, and (c) *personal characteristics*. Necessary skills and competencies include communication skills, analytical skills, computer literacy, accounting and finance background. For personal characteristics, the graduate should have ethical integrity and honesty, industry, and high emotional quotient.

Can the country respond to these demand and requirements?

Supply of professionals in the financial sector

According to the Commission on Higher Education (CHED), there are very few schools offering a degree in banking and finance in the country. The practice in many schools is to incorporate finance as a major course in business management, accountancy, business administration, economics and other commerce programs. Although the accountancy program in many schools is geared towards the training of certified public accountants (CPAs) and auditors through the passing of the CPA licensure examinations, many accounting graduates as well as a large number of CPAs are attracted to the finance-related occupations and jobs.

For schools offering degrees in finance, the curriculum, like in any other major business program, is composed of three broad categories of courses, namely, general education, business professional courses and core professional courses. Since the CHED curriculum sets only the minimum requirement, many schools have the option of offering more courses to enhance their programs.

The quality of academic programs, however, is influenced to a great extent by a single factor: the quality of teachers. Thus, the qualifications of the teachers in the schools' academic programs determine the type of subject offerings, content of the course, selection of instructional materials and delivery of instructional activity.

Aside from undergraduate programs, there are several colleges and universities all over the country offering graduate programs in business. The most prestigious is the

Asian Institute of Management (AIM). De La Salle University–Manila, University of the Philippines–Diliman, Ateneo de Manila University, University of Santo Tomas and almost all colleges and universities cited by CHED as centers of development in business and management education are offering Master of Business Administration (MBA) programs. However, very few institutions offer graduate programs in finance. Each of these institutions has certain thrusts and market niches in terms of the scope of finance courses offered. One weakness, though, is their inadequate foundation in economics. In contrast, in many graduate courses in finance abroad, a solid foundation in advanced microeconomics and macroeconomics, together with the tools of advanced statistics and econometrics, is required among the students.

Meanwhile, what complements the degree programs in finance in the country are nondegree programs offered by various organizations and institutions. The Ateneo Bankers Association of the Philippines Institute of Banking, for instance, offers periodic seminars on various aspects of banking. The Association of Investment Management and Research (AIMR), together with the AIM, offers review sessions for the Chartered Financial Analyst (CFA) exam. The Financial Executives Association of the Philippines (FINEX), on the other hand, has developed the Financial Management and Analysis Test (FMAT). In addition, various internal training programs are also conducted by banks, the Insurance Commission, the Securities and Exchange Commission (SEC) and the Philippine Stock Exchange (PSE) to suit the needs of their finance professionals.

Issues and concerns

As the Philippines continues to liberalize its financial sector amidst a growing globalization of the sector, it has to address certain issues and concerns in human resources to be able to face the challenges brought about by said developments.

Some of these are:

* **Adequacy of existing training programs in finance.** While there are some positive features contributing to the relevance and potential strength of the undergraduate finance education in some schools in the country, the overall quality and other academic constraints make such

undergraduate programs inadequate to meet the demands of the industry resulting from globalization and the advances in information technology. This deficiency is supposed to be addressed by the various graduate programs in finance and related fields. However, in spite of the growth of the graduate programs in the financial sector, the number of students in these programs is very few compared to that in the MBA programs.

Moreover, what appears to be the emerging role of schools is not just the training of human talents with highly specialized skills in finance but also the development of individuals with good communication skills and analytical skills. In other words, highly trainable and adaptable individuals. Undergraduate programs in finance should be well grounded in the foundation courses that stress the training of students in communication skills, critical analysis and human relations skills. The relevant and appropriate training programs for financial specialists, therefore, are the nondegree continuing professional education programs conducted by several professional organizations. These programs are task-specific, skills-oriented and tailor-made to suit the needs of financial professionals.

* **Quality of graduates.** In many schools, finance students are perceived to be inferior to accounting students. Even in the labor market, this perception occurs as many firms hire accounting graduates, with special premium for CPAs for finance-related jobs. If the labor market for financial services continues to hire CPAs and MBAs first before considering those with finance degrees, then the latter may end up in the second tier of jobs and firms.

* **Matching industry needs with educational capacity.** There is a perception in the industry that there is more than enough finance graduates to fill in the available positions but too few graduates, most of whom come from the top universities, who can meet the standards set by the industry. Aside from poor communication skills, firms also often cite inadequate computer literacy and inappropriate knowledge of finance as problems in hiring new graduates. This calls for a continuing review and upgrade of its curriculum by the educational system to be responsive to the changing needs of the industry.

* **Human resources issues confronting the financial sector.** In terms of recruitment and selection, a person with a degree in commerce, accounting, finance and economics, and even computer science is usually hired for entry positions in the financial sector. Although there are no professional license requirements, some degree of screening is observed in many banking institutions. For training and development, there is a need to update and upgrade existing programs. The focus should be towards the development and requirements of an integrated financial market.

* **Improving undergraduate education and quality of faculty in finance.** Although the undergraduate education in finance should not be too specialized and considered as the sole training ground for skills in financial services, there are various ways of improving the program. Aside from the emphasis on the foundation courses, specialized courses in banking should be offered or at least introduced. The undergraduate curriculum can also be improved in terms of focus, content and relevance to the needs of the financial sector. However, the key issue is the improvement in the quality of teachers.

* **International cooperation.** It is possible that with the liberalization of the financial sector, training programs on the innovations in the field developed by foreign financial institutions may also accompany the entry of foreign service providers. Thus, the entry of foreign financial institutions should be welcomed. They serve as conduits in upgrading the skills and competencies of Filipino professionals in the field of finance. Because the need for highly trained professionals in finance is not only a requirement in the Philippines but also in other countries in the region, it may be wise for professional organizations in banking, finance and insurance to establish a consortium arrangement with the key universities in the region for the conduct of specialized training programs in finance.

Recommendations

In conclusion, the following recommendations addressed to officials of higher education, private industry and professional associations are meant to ensure the availability and quality of Philippine human talents in a liberalized financial sector.


* **Quality of finance education.** There is a need to continually review and upgrade the curriculum in finance to reflect the dynamic changes in the financial sector under a liberalized regime. The accountancy program should be re-focused away from public accounting by developing a program towards financial accounting or management accounting. The role of financial economics should also be emphasized in the finance curriculum.

* **Faculty qualifications.** The competencies of faculty in business and finance need to be upgraded through graduate education and continuing professional education. A balance of full-time and part-time faculty should complement the improvement of the academic curriculum.

* **Skills and competency building.** Undergraduate programs should be well grounded in courses that train students in communication skills, critical thinking and human relations skills. The training of specialized skills in finance, on the other hand, can be done through nonacademic training programs conducted by professional organizations.

* **Specialization.** There is a need to professionalize finance specialists through an examination for financial analyst.

* **Adequate compensation.** An upgrade in the skills of finance specialists to meet international competition should be matched with an adequate upgrading of compensation packages. This may help to arrest the outflow of professionals.

* **Industry participation.** Professional organizations in banking, finance and insurance should establish consortium arrangements with key universities in the region for the conduct of specialized training programs in finance. 

For further information, please contact

The Research Information Staff
Philippine Institute for Development Studies
NEDA sa Makati Building, 106 Amorsolo Street
Legaspi Village, Makati City
Telephone Nos: 8924059 and 8935705;
Fax Nos: 8939589 and 8161091
E-mail: tullaot@dlsu.edu.ph
jliguton@pidsnet.pids.gov.ph

The *Policy Notes* series is available online at
<http://www.pids.gov.ph>