HUMAN CAPITAL IN COMMERCIAL BANKS: DEVELOPMENT TRENDS AND PROBLEMS OF MANAGEMENT IN THE UNSTABLE ECONOMIC CONDITIONS

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Abstract

The Latvian economy has undergone a number of various changes in the last decade. The early 2000's were associated with a moderate economic progress. Active economic growth observed within the period 2005 to mid-2007 against the background of emerging global financial crises then changed into a sharp decline and in 2008 already the Latvian economy entered the stage of crisis that lasted until the end of 2010. Nowadays the Latvian economy is overcoming consequences of the crisis, which leads to new the emergence of new specific features in operations of the banking system and, in turn, puts forward new requirements towards personnel of the local banks.

Changing trends in the banking sector are accompanied by changes in requirements towards knowledge and skills of the banks' employees. At present, the banks demand not only qualified sellers of their products associated with management of the customer's assets, financial consulting, investment business etc., but also the employees possessing knowledge and skills in the field of credit monitoring, financial analysis, risk management. Saturation of the market with highly skilled specialists must be closely connected with enhancement of the training process in higher education institutions.

The research is dedicated to the analysis of the employees' movements in the banking sector, setting new requirements for personnel in the banks, as well as examining the personnel management policy in the Latvian commercial banks. Based on the summarized statistical information and the analysis of the questionnaires obtained from surveyed HR Departments, there specific recommendations to enhance the training programmes for the Latvian institutions which educate financial and banking specialists are worked out, as well as the suggestions how to enhance the efficiency of personnel management in the commercial banks.

Keywords: banking sector employment, eemployee workload, personnel influx ratio, personnel outflow ratio, HR management.

1. INTRODUCTION

The banking industry is one of the most important sectors of the modern economy in any country. Firstly, when providing services to legal entities and individuals, banks make a significant contribution towards creating the GDP; secondly, by directing financial flows banks are a key part of the financial infrastructure of the economy; thirdly, by responding to changes in the economic climate, banks become intermediaries implementing the economic policy of the state. (Korobova, 2004).

Human Resource Management is important for banks because banking is a service industry. Though pricing is important, there may be other valid reasons why people select and stay with a particular bank. Banks must try to distinguish themselves by creating their own niches or images, especially in transparent situations with a high level of competitiveness. In coming times, the very survival of the banks would depend on customer satisfaction. Those who do not meet the customer expectations will find survival difficult (K C Chakrabarty, 2012).

At the same time, the proportion of traditional operations in the banking business is decreasing and is replaced by new products and services as result of the changing requirements of clients. Looking for a greater return on their free capital banks' clients reject conventional bank deposits and turn to the more profitable and liquid financial instruments, thus increasing demand for advisory and consulting services and management of asset and investment portfolios (Nikonova and Shamgunov, 2005).

Changes in the field of banking services and banking priorities are also associated with global financial crisis. If during the pre-crisis period commercial banks mostly implemented an aggressive lending policy actively offering services in crediting of businesses and private persons, then in the post-crisis period the activity of banks is mainly oriented towards recovering of outstanding loans, new clients acquisition for building financial resources, and provision of own stability and safety. It all puts forward new requirements towards bank personnel. At present banks demand not only qualified sellers of bank products associated with management of client's assets, financial consulting, investment business etc., but also employees possessing knowledge and skills in the field of credit monitoring, financial analysis, risk management.

The rapid and ongoing improvement of banking products and services, as well as their distribution channels based on the modern information and communication technologies, makes innovation fundamental to the banking industry, which is associated with growing demand for IT and innovations field specialists. All of these factors presuppose preparing highly qualified professionals having specific and profound knowledge of banking business and being able to cope with the challenges posed to the industry.

Due to the above mentioned facts, the problems of studying supply and demand of labour resources in commercial banks, as well as the tasks of enhancing the quality of education of banking specialists are becoming particularly relevant.

Objective of the present study is to develop recommendations to improve the quality of bank specialists training in accordance with changing needs of the banking industry, based on the studies of employment trends in the Latvian banking sector and identification of the distinct features in HR management in the present-day conditions.

Tasks of the study:

- identification of peculiar features in HR management at commercial banks under changing economic conditions;
- to elicit the tendencies of *employees' movement* in Latvian banking sector;
- to determine *the educational level* of Latvian banks' personnel;
- to determine the existence of an *unsatisfied demand* and/or an *excess supply* of labour resources in the main areas of banking;
- analysis of changes in number of personnel by banking activities.
- to evaluate the *level of qualification* of banking specialists graduating from Latvian higher educational institutions.

The study is methodologically basing on the observation and collection of statistical information about activity of commercial banks, the analysis and synthesis of acquired data, the method of comparison, the surveyed method, and the ratio method as well as the method of graphic display of obtained information. The study employs the official statistical data of the Association of Latvian Commercial Banks, the commercial banks supervisory body – Financial and Capital Market Commission, as well as data of surveyed Latvian commercial banks.

In order to study the tendencies and development problems of the labour market in Latvian banking sector, the authors have developed a *questionnaire* and have surveyed banks' human resource departments. 60 present of the commercial banks currently operating on the Latvian market have participated in the survey. In Latvia, this type of analysis has been conducted for the first time and therefore it definitely appears to be unique in this way.

2. SPECIFIC FEATURES OF PERSONNEL ORGANIZATION AND MANAGEMENT IN BANKS

Banking has certain peculiar features which distinguish it from most other businesses. We can set out the following peculiarities inherent in banking activities *per se* and those inherent in bank-wide HR management systems.

In many countries commercial banks tend to be relatively large institutions in terms of total employment. And more than in most types of companies, banks establish in-house liaison & networking. For example, credit analysis, approval, administration, and monitoring imply participation of several branch-level departments. Besides, the regional departments and the headquarters office may also be involved in the process.

To operate this complex and interrelated series of functions effectively, and to meet the growing internal and external demands, banks must *organize their staff members to work effectively*. They must develop an organizational structure intended to achieve specific results; clearly define responsibilities for the results; structure individual jobs to meet work requirements; and staff organizational units with the appropriate personnel to meet the mission and goals of the unit. (Donald G. Carlson, 1994).

The challenge here is to determine the right staffing levels today in each job, each unit, and the bank overall. Three quantitative techniques are particularly useful in banks: workload analysis, relationship analysis, and modeling. Similarly, quality requirements must be defined. This task is simpler, merely requiring that the bank identify those units which require higher-quality staff than the rest. For example, a bank wants the best loan staff to work on their most difficult loans, the best personal bankers to work with their most important or difficult customers, the best lawyers to work on the most important legal matters.

The change in market characteristics entails changes in the pattern of workforce needs of commercial banks. To be able to operate efficiently and at profit, bank staffs are now expected to respond proactively to fluctuating customer demand for financial services and withstand fierce competition from peer banks.

The human resources planning can be presented as a scope of the following actions:

- Rationalize current staffing level.
- Select a planning horizon.
- Project the supply of personnel.
- Forecast the demand for personnel.
- Identify emerging excesses and shortages.
- Make specific plans to resolve shortage and excesses.

It should be emphasized that no single action will resolve either the shortage or the excesses; a range of actions will be necessary during the planning period. But each bank will consider and select a hierarchy of action. After emerging personnel shortages and excesses have been identified and plans made for resolving them, the bank is ready to take action to implement the plans. These plans should be a solid foundation for much of the bank’s recruitment, transfers, promotions, training and development, and outplacement (Donald G. Carlson, 1994).

Bank specific nature is that it cannot operate unless being staffed with highly skilled personnel who demonstrate the appropriate attitudes which are conductive to the productive performance.

To build the right skills and workplace culture, banks must pursue five basic tasks:

- Identify the full range of required skills and attitudes.
- Identify the individual (and collective) capabilities, resources, and developmental needs of staff.
- Accelerate, intensify, and focus training and development to fill existing shortages and to meet changing skill requirements continually – in particular, build management skills and core functional skills.
- Develop a workplace culture throughout the organization that supports the bank’s mission and strategy.

Hire persons who are clearly capable of learning and meeting the current and evolving standards of the bank. (Donald G. Carlson, 1994).

Organizing people to work effectively, optimizing staffing levels and skill mix, and building the right skills and workplace culture, while critically important, are not enough. A bank must manage the performance of its employees directly and actively to achieve business goals. Developing and maintaining high-quality leadership is a key starting point. Preparing practical strategies and operating plans sets the directions and the objectives of the organization. Developing goals and realistic action plans for each operating unit of the bank gives each manager a clear focus for managing the respective unit. Intensifying performance monitoring, measurement, and follow-up helps all managers identify and deal with potential performance problems before they get out of hand. Based-on-performance reward can be a powerful tool in focusing and motivating personnel to achieve priority results. (Donald G. Carlson, 1994).

Therefore, the human resource management within the bank is a self-sufficient function aimed at achieving certain goals through using the workforce effectively and applying specific principles, techniques and tools.

There is a number of principles for human resource management in the bank:

- Bank's orientation towards markets demand and requirements;
- Balanced human resource recruitment, selection and employment.

The human resource policy of the bank includes the following:

- Human resource recruitment and placement
- Employment and dismissal policy terms and conditions
- Training and development
- Performance management (performance appraisal)

Above-considered aspects of HR management in banks are widely applicable to any institution while becoming especially important for banks experiencing the necessity of restructuring in order to increase the efficiency of their performance.

3. RESULTS OF STUDIES OF EMPLOYMENT TRENDS IN LATVIA'S BANKING SECTOR

In last decade Latvian banking system is featured by changing tendencies. Early 2000's were associated with a gradual growth having then considerably increased within 2005 and 2007. Within 2001 and 2007 the average value of bank assets has grown more than sixfold and amounted to 18.9 billion lats. Net profit in the industry has increased from 49.6 million lats in 2001 to 371.3 million lats in 2007 (or 7.5 times). In 2008 the assets growth rate more than halved and at year-end total was all-time lowest 119 percent (in absolute numbers growth turned out to be quite high – 3.66 billion lats). Year 2009 became most dramatic for Latvian banking industry when the amount of assets has demonstrated a descending tendency for the first time in 15 years with losses of 773.4 million lats. The reason behind the high losses in banking industry was loan loss provisions-related expense (LLP reached 1.3 billion lats at year-end 2009). In 2010 the average assets remained practically unchanged 21.8 billion lats) but losses started decreasing (according to 2010 results, losses of banking industry in Latvia were 360.7 million lats).

During the crisis as well as in the post-crisis period Latvia's commercial banks have tightened their lending policies and currently continue their efforts to recover outstanding loans. Besides, considerably dropped cash flow from bank clients does not foster favorable trends in development of banks themselves. Businesses and private persons, who had survived the financial crisis, encountered funding squeeze and therefore are barred from placing the funds in bank system. It all leads to consistently continuing decrease in assets of Latvia's commercial banks which currently only amounts to 20.4 billion lats. (Financial and Capital Market Commission, Latvian Commercial Banks Association, 2012). The data is reflected in Table 1.

The analysis of development tendencies of the Latvian banking sector shows that along with the changing financial indicators, both the quantity of bank employees and the total expenses on personnel in banking industry are changing.

While within 2001 to 2008 the average number of personnel employed in Latvia's banking sector has increased by 81 percent (from 7,943 to 14,381 employees), during 2009 to 2011 this figure has dropped by 20 percent to 11,480 by the end of 2011. Personnel costs within 2001 to 2008 has increased more than fourfold which was associated with both rapid growth in number of employees in banking sector and growing level of their remuneration. But already in 2009 personnel expenses have reduced by 18 percent and in 2010 the expenses have been cut by another 7 percent. However, in 2011 the tendency was observed again towards increasing personnel expenses accompanied by reduction in its number. This tendency is explained by increased work - load on bank employees.

Analyzing the figures of work - load on bank personnel, the following can be found. The average assets per bank employee ratio have increased fourfold within 2001 to 2008. Main factor having impact on this tendency was the outrunning growth in assets compared to growth in number of personnel. Between 2009 and 2011 the average assets per employee ratio have increased by 20 percent compared to 2008. The reason for growth in personnel work- load was the overrunning personnel cutting (by 20 percent) compared to reduction in assets (3.3 percent). In 2011 the average assets per employee ratio has slightly (by 0.5 percent) decreased compared to previous year which was influenced by 1.7 percent reduction in assets and 1.2 percent in number of personnel.

Table 1

The dynamics of performance indicators in Latvian banking sector (2001 - 06.2012)

No	Indicators	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012 6 months
1.	Number of banks - total	23	23	23	23	23	24	25	27	29	31	31	29
	including:												
	- banks	22	22	22	22	22	21	21	21	21	21	22	20
	- branches of foreign banks	1	1	1	1	1	3	4	6	8	10	9	9
2.	Average number of employees	7 943	8 240	8 895	9 664	10 520	11 611	13 334	14 381	12 628	11 616	11 480	*
3.	Total personnel expenses (ths. LVL/year)	44 482	50 914	57 759	71 421	89 141	120 339	158 509	182 870	149 845	139 414	149 873	71 783
	including:												
	- remuneration for Board and Council (ths.LVL/year)	3 634	3 798	4 271	4 732	6 884	10 855	10 205	11 275	9 682	7 226	8 457	4 143
4.	Total expenses per employee (ths. LVL/year)	5 600	6 179	6 493	7 390	8 473	10 364	11 888	12 716	11 866	12 002	13 055	*
5.	Customers' current accounts – total (ths)	1 651	2 041	2 207	2 403	2 912	3 316	4 341	4 545	4 462	4 525	4 707	*
6.	Customers' current accounts per employee	208	248	248	249	277	286	325	316	353	389	410	*
7.	Average assets (billion LVL)	3,078	3,940	5,07	6,783	9,396	13.425	18.912	22,58	22,46	21,8	21,447	20,392
8.	Average assets per employee (ths. LVL)	387	478	570	702	893	1 156	1 418	1 570	1 779	1 879	1 868	*
9.	Credit portfolio (billion LVL)	1,635	2,125	3,00	4,38	6,96	10,879	14,92	16,6	15,4	14,33	13,17	11,984
10.	Provisions (billion LVL)	0,028	0,033	0,037	0,049	0,048	0,057	0,08	0,36	1,3	1,62	1,52	1,075
11.	Net profit or loss (ths.LVL)	49 566	56 325	71 511	116 010	193 061	265 908	371 297	60 072	-773 421	-360699	-178661	78 529

* - n/a date

Source: Financial and Capital Market Commission (FCMC); Latvian Commercial Banks Association

The number of customer accounts per employee ratio has grown by 1.6 times within 2001 to 2007, followed by a certain reduction, whereafter the customer's accounts per employee has increased by 1.3 times within 2009 to 2011. Overall, during 2001 to 2011 the average assets per employee ratio has grown by 4.8 times, while the customer' current accounts per employee has doubled. It is indicative of a perpetually intensifying work-load on bank personnel (Figure 1-2).

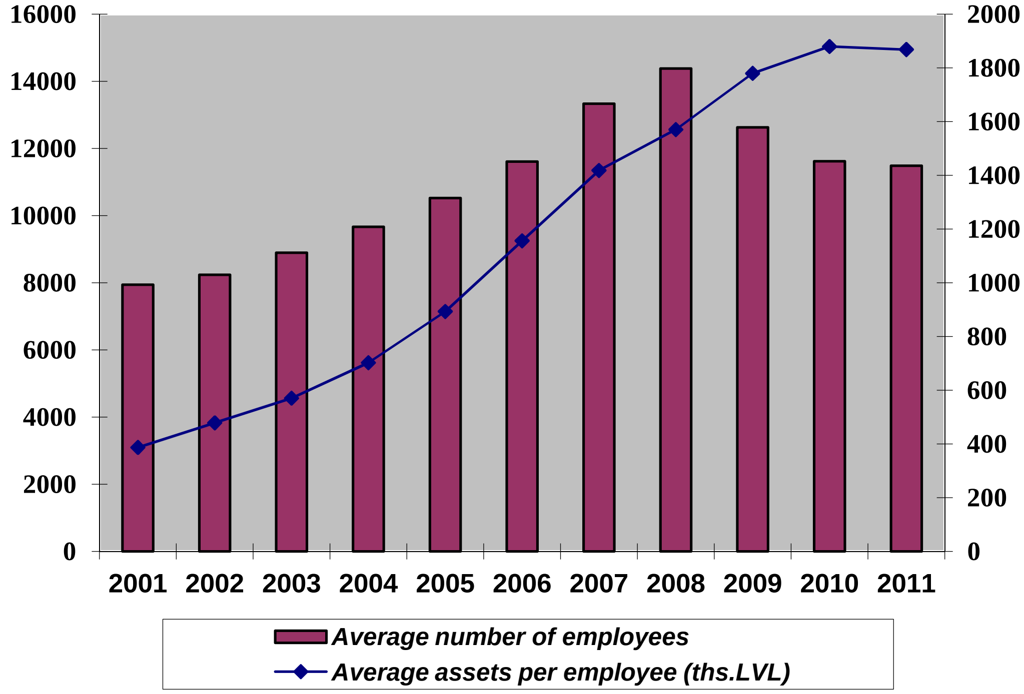

Figure 1. Assets/employees ratios in Latvian banking sector (2001 – 2011)

Source: Financial and Capital Market Commission (FCMC); Latvian Commercial Banks Association

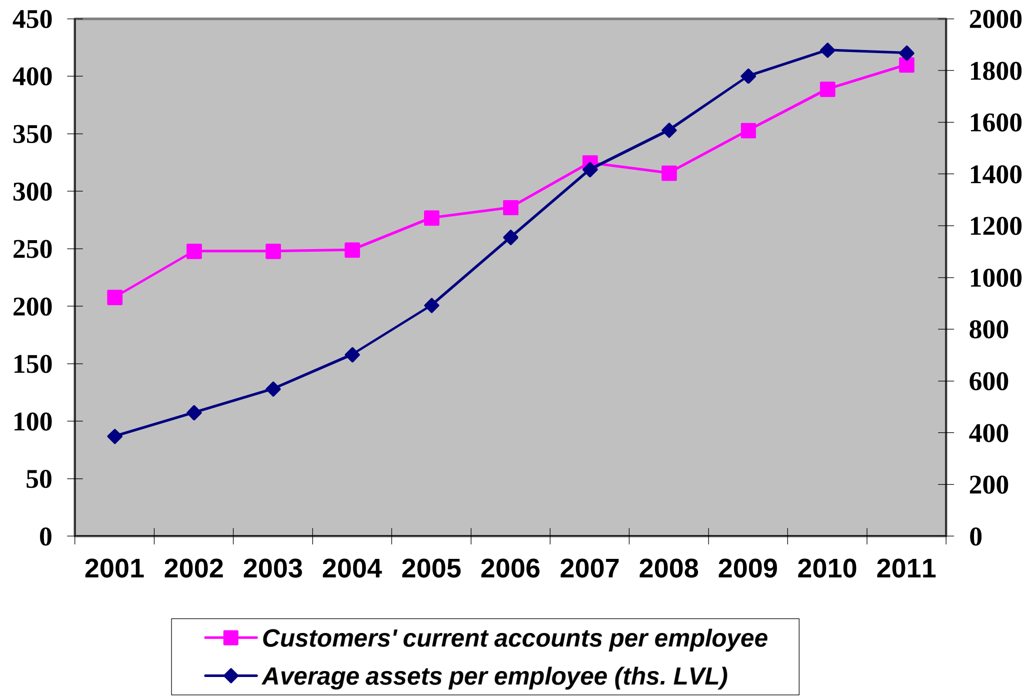

Figure 2. Employee workload ratios in Latvian banking sector (2001 – 2011)
Source: authors' calculations based on data of Financial and Capital Market Commission (FCMC) and Latvian Commercial Banks Association

The results of survey carried out by the authors demonstrate that presently the number of bank personnel dealing with mortgage and business lending drops most rapidly while the slowest reduction in number is shown by bank personnel addressing problem loans and servicing payment cards. Irrespective the general decline in personnel in the commercial banks, individual banks demonstrate growth in number of employees. Thus, according to majority of respondents having participated in the survey, during the post-crisis period the most rapid growth in number is demonstrated by employees servicing corporate, followed by IT employees. To compare, during the active growth period 2004 to 2007 the highest growth rates in Latvia featured the number of personnel engaged in the field of mortgage loaning, business crediting and IT. (Konovalova N., Rozgina L., 2007). As was predicted by HR teams of commercial banks, personnel number shrank in 2008 in the areas such as lending (mortgage loans, business loans), payment cards transactions, and on financial market operations.

Analysis of personnel-turnover dynamics allows concluding that the tendency towards its growth became visible during the past 5 years in Latvia’s banking sector. Personnel-turnover index for a group of respondents having participated in the survey is currently 20.5 percent, or by 4.1 percent higher than in 2007. Characteristic feature is that the biggest gap between numbers of dismissed and hired employees (10.0 percent) was fixed in 2009 – just when banking industry has experienced the consequences of deterioration in quality of assets and suffered heaviest losses. Tendency of personnel outflow/influx ratio for banks having participated in the survey within 2007 to 2011 is presented in diagram on Figure 3. Analysis of personnel influx trends allows concluding that the number of those specialists accepted for employment in banks increases, who have previous experience in banking sphere. The authors think that this factor contributes to generally increasing the quality level of personnel in banking industry.

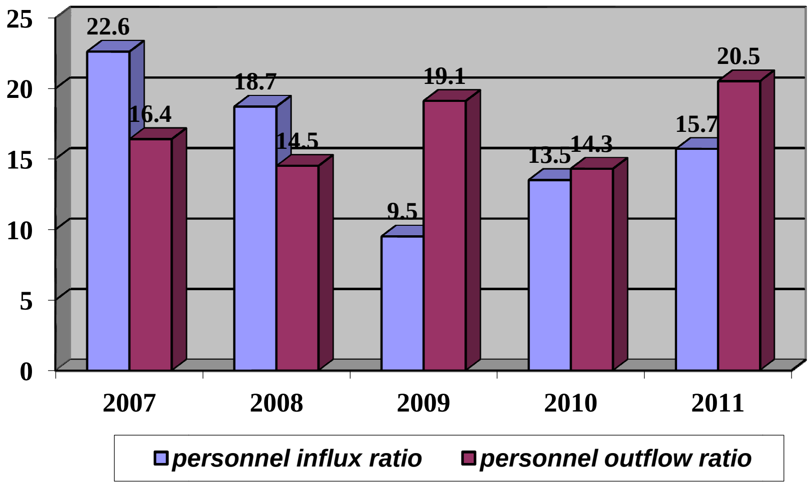

Figure 3. Personnel influx and outflow trends in surveyed commercial banks (2007 – 2011)
Source: the authors’ calculations based on data of surveyed commercial banks

The results of this study demonstrate that banking industry in Latvia is featured by growing educational level of employees (Figure 4-5). Thus, if in early 2007 higher education diplomas, also master’s and doctor’s degrees were held by 66 percent of employees in surveyed commercial banks, then in the beginning of 2012 this figure was already 82 percent. The share of employees having master’s degree has also increased (21 percent of employees having master’s degree worked in the banks as on the beginning of 2012). Moreover, reduction is observed in the number of employees with unfinished higher or other education. Thus, if in early 2007 of all bank employees 15 percent had unfinished higher education and 19 percent - other (secondary and secondary vocational) education, then in 2012 their share dropped to 5 percent and 13percent, respectively. All these figures evidence a high educational level of bank specialists with a consistent tendency toward growth.

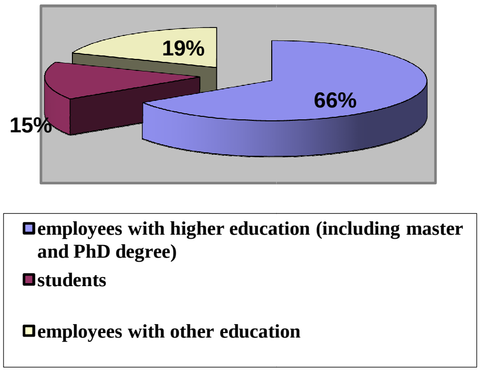

Figure 4. Educational level of employees in early 2007
Source: the authors' calculations based on the data of surveyed commercial banks

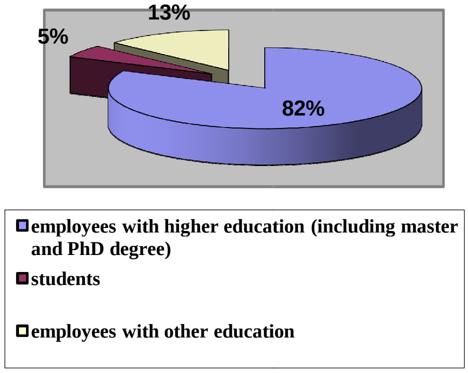

Figure 5. Educational level of employees in early 2012
Source: the authors' calculations based on data of surveyed commercial banks

It was found out during the study process that on the background of common tendencies for reduction in number of personnel, the commercial banks experienced both the surplus of labour force and deficit of qualified staff in the profile of individual activities. Thus, the survey results demonstrated that in present-day situation the biggest labour force surplus took place in the field of mortgage loaning while slightly less it was felt in business lending sector. However, differences exist here from viewpoint of bank specialization. Those banks which are mostly engaged in lending to corporates experience the biggest manpower surplus just in the field business loaning meanwhile banks with a big share of loans to natural persons in their credit portfolio have faced manpower excess in the field of mortgage loaning. Slight excess of labour resources is observed in activities with payment cards and in the field of operations on financial markets. At the same time, commercial banks experience deficit of qualified personnel in individual fields of their activity. Respondents note that in present-day situation the biggest deficit of employees is felt in IT field as well as deficit of qualified lawyers and financial analysts takes place. Some banks are facing the personnel deficit problem in the field of financial markets. Although loan workout officers are in general highly in demand, the commercial banks have enough of them. The reason is quite simple: professional credit managers are highly qualified and diversely specialized. Therefore, they were able to undertake different -- albeit related-- jobs on a secondment basis.

4. EVALUATION OF THE QUALIFICATION LEVEL OF BANKING SPECIALISTS GRADUATING FROM LATVIAN HIGHER EDUCATIONAL INSTITUTIONS

The staffing level within the banks and the level of qualification of bank personnel directly depend on the quality of education obtained by students in the higher educational institutions as well as on strengthening partnership between the educational institutions and banks. The Latvian Education Law specifies that "educational outcome is that an individual possesses a combination of knowledge, skills and attitudes (personal qualities)" (The Higher Education Act of Latvia, 1995, last edition 2012). Hence, education should be geared toward practical application. Student internship is just the first step to the practical application of knowledge and acquisition of skills.

The study has shown that Latvian commercial banks mostly accept for their internship positions the students of nine (9) higher education institutions – *University of Latvia*, *Banking Institution of Higher Education*, *Stockholm School of Economics in Riga*, *Riga International School of Economics and Business Administration (RISEBA)*, *School of Business Administration "Turība"*, *Riga Technical University*, *Transport and Telecommunication Institute (TTI)*, Information Systems Management Institute (ISMI), and *Daugavpils University*.

University of Latvia and *Banking Institution of Higher Education* share the first place by the quantity of students accepted for internships. The second place is occupied by *Riga Technical University and School of Business Administration "Turība"*. *Stockholm School of Economics in Riga* and *Riga International School of Economics and Business Administration (RISEBA)* take the third place in the quantity of students accepted for internships. Students from Transport and Telecommunication Institute (TTI), Information Systems Management Institute (ISMI) and Daugavpils University undertake internship only in few commercial banks.

Among the students who have completed internships in Latvian banks, respondents mentioned the students of *Banking Institution of Higher Education* and *Stockholm School of Economics in Riga* as the most prepared ones. Banks have also indicated a sufficiently high level of qualification among the students of the *Riga Technical University, RISEBA and* “Turiba”.These differences in the level of students’ preparation are explained by the degree of specialization of studies and the availability of specialized study programs in educational institutions. In institutions, where specialized programs in banking operations exist, student qualification is significantly higher than in institutions, where the specialized banking programs are lacking. Therefore, in order to increase the quality of education of banking specialists as well as specialists in other areas, higher educational institutions should focus a particular attention to specialization and develop specialized study programs.

When analyzing personnel management related questions in banking industry it is important to define bank’s priorities with regards to *personal qualities* of the staff, their *motivation factors*, as well as the attained *competitive edges* (Robert L. Mathis and John H. Jackson, 2006).

The results of the research have shown that the most important personal qualities for the employees of the banking industry are the following:

- the ability to find a fair solution to a problematic situation and analytical thinking;
- the ability to learn;
- ability to organize and manage;
- creativity;
- communication skills;
- ability to work in a team.

Thus, according to survey results, distribution of motivational factors by priorities is as follows:

- *employee monetary reward systems* take the first place;
- *career growth prospects* take the second place;
- *further education for the personnel* takes the third place;
- *finally, working environment* take fours place.

It is necessary to emphasize that most of commercial banks in the first place see *relationships between the staff members* and *possibility of getting further professional education* as their competitive advantage. *The possibility of career development* and s*alaries and bonuses* takes a second place. Finally, *the working conditions* are on the fourth place. The data from the questionnaires is evidence to the fact, that, while directing themselves towards new areas of business and new demands of clients, commercial banks aim to create a single, consolidated team of high-qualified specialists, who are able to provide quality services for the clients.

In order to successfully achieve this purpose, the authors have included questions in the survey that had highlighted, which learning courses in the area of banking operations should receive the most attention during the education of the students. According to the respondents, the learning course such as *“Financial analysis and control in banks”* have the *primary importance* for banking specialists. Further the study subjects are arranged in order of descending importance: “Financial markets”, “Informational technologies in banks”, “Crediting”, “International trade operations in banks”, “Banking law” and “Bank marketing”. Putting the subject “Financial analysis and control in banks” at first place by banks witnesses the bank’s current demand for qualified specialists-analysts both in the field of crediting for qualitative assessment of financial position of potential and existing borrowers and also for inhouse financial assessment of bank’s activity. The role of analysts has also grown in connection with the need for inhouse assessment of bank risks and provision of continuous control over bank capital adequacy (in accordance with Basel Committee requirements). Banks’ assessment of study subjects “Financial markets” and “Informational technologies in banks” as important enough is undoubtedly associated with the demand for qualified specialists in the field of customer’s assets management, investment business, IT and financial consulting. Good knowledge in crediting and international trade operations is at all times demanded in banking sector. However, the respondents have put these subjects at No. 4 and No. 5, respectively, in the chain of interconnected subjects. The authors regard this as evidence to the fact that the specialists in these areas of banking operations have a sufficiently high level of knowledge and good practical skills.

Importance of subject “Banking law” is stipulated in current situation by increased requirements towards knowledge of legislation, ability of bank employees to comply with AML/CFT framework as well as to ensure control of bank's activity in accordance with changing legislative environment (compliance risk management). Knowledge in the field of banking law is also necessary in connection with greater attention towards professional development of great variety of contracts: credit, deposit, trust, account service, etc.

The importance of knowledge in the field of bank marketing is caused, under the current circumstances, by the need to develop and promote new banking products, manage service prices and bank advertising, to develop the brand, etc. However, presently the banks consider that specialists of this profile have good level of training and possess knowledge of high enough quality and good practical skills.

In the opinion of Latvian commercial banks further improvement in preparation of banking specialists should stipulate the following:

1) more attention should be focused to the *practical training* of the students;
2) *interactive* study methods should be applied more widely and bank specialists should be involved to read lectures;
3) allocate more hours for self-directed learning of students;
4) the professional level of lectures should be increased on an ongoing basis.

5. CONCLUSIONS

Results of the research allow the authors to make the following conclusions:

- Bank specific nature is that it cannot operate unless being staffed with highly skilled personnel who demonstrate the appropriate attitudes which are conductive to the productive performance.
- During the crisis as well as in the post-crisis period Latvia's commercial banks have tightened their lending policies and currently continue their efforts to recover outstanding loans. Besides, considerably dropped cash flow from bank clients does not foster favorable trends in development of banks themselves.
- Number of personnel and salary costs in Latvia's banking industry during the past decade are featured by two major trends: rapid growth within 2001 to 2008 and formation of evidently descending trend during the next 3 years,
- During the period of growth in KPLs of the banking sector the average number of employees in commercial banks has increased by 81 percent while during the crisis and post-crisis period the number of employed in the banking industry has reduced by 20 percent.
- Total amount of personnel expenses during 2001 to 2008 has increased more than fourfold which was associated both with rapid growth in number of employees and with rising level of their remunerations. Within 2009 to 2011 personnel expenses have reduced by 18 percent, i.e. slightly less than percentage of reduction in number of personnel over the same period.
- Indexes of work-load of personnel in Latvia's banking sector demonstrate tendency for growth within periods of both economic upturn and recession. Within 2001 to 2011 the average assets per employee ratio has increased by 4.8 times while the customer accounts per employee has doubled.
- During the past 5 years personnel turnover in surveyed commercial banks has increased by 4.1 percent.
- The biggest gap between the number of dismissed and accepted employees (10 percent) was fixed in 2009 – just when banking industry has experiences the consequences of deterioration in quality of their assets and suffered the heaviest losses.
- Analysis of changes in the number of personnel by banking activities has demonstrated that presently the number of personnel dealing with mortgage and business lending drops most rapidly while the slowest reduction in number is shown by personnel addressing problem loans and servicing payment cards.
- During the post-crisis period the number of personnel grows most rapidly in the field of corporate customer service and IT sphere.
- Banking industry in Latvia is featured by increasing educational level of employees. Within 2007 to 2012 the number of employees with higher education (including master's and doctor's degrees) has grown by 16 percent.
- On the background of common tendencies for reduction in number of personnel the commercial banks experience both the excess of labour force and deficit of qualified staff in the profile of individual activities.

- In current situation the biggest excess of labour resources is observed in the sphere of mortgage loaning. At the same time, Latvia's banks experience deficits of qualified lawyers, financial analysts and IT employees.
- The identified *differences between educational institutions* in the level of preparation of students for working at a bank can be explained by a varying level of specialization of education. In higher educational institutions, where specialized programs exist, the level of preparation of the students is significantly higher than in the institutions, where specialized banking programs are lacking.

Based on the research and the conclusions made, the authors have developed the following proposals.

1) Due to the changing demands of the banking business higher educational institutions providing educational programs for banking specialists should increase the amount of tuition hours for such learning courses as *„Financial analysis and control in banks"*, *„Financial markets"* and *„Information technology"*.

2) In order for the students to acquire more practical skills, it is necessary to enhance the study process by developing *the virtual* professionally oriented programs based on modern software and technology, in order to "immerse" the student in the environment of his future professional work. The software "Virtual Bank" can be an example of the usage of this technology with conducting real bank operations.

3) Due to the fact, that banks believe the ability to find a fair solution to a problematic situation and analytical thinking to be the most important characteristic of their employees, it is necessary to focus on *interactive forms* of teaching, such as business games, in the study process.

4) Educational institutions should create specialized courses and organize specialized seminars in order to *retrain* banking personnel according to the new demands of the banking industry.

5) In order to enhance the quality of education for banking specialities, educational institutions should organize *guest lectures*, inviting specialists from commercial banks, the Finance and Capital Market Commission, the Bank of Latvia, the Association of Latvian Commercial Banks, etc.

6) Taking into account the changing demands of clients, commercial banks have to bolster *in-house education* of their personnel by creating study centers in their structural divisions.

7) Latvian commercial banks, which are characterized by high level of employees' turnover, have to focus a particular attention on *more efficient approaches* towards assessing and selecting human resources, enhancing motivation system and labor practices, and implementing new methods and forms for professional training of their personnel.

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