



**AIF**  
ASIAN INSTITUTE OF FINANCE

RESEARCH REPORT

# REDEFINING THE ROLE OF HR ACROSS THE FINANCIAL SERVICES INDUSTRY: A NATIONAL IMPERATIVE



A PERSPECTIVE FROM MALAYSIA



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For more information, please contact:

Asian Institute of Finance  
Unit 1B-5, Level 5, Block 1B  
Plaza Sentral  
Jalan Stesen Sentral 5  
KL Sentral  
50470 Kuala Lumpur  
Malaysia  
Tel: +603 2787 1999 Fax: +603 2787 1900  
Email: [research@aif.org.my](mailto:research@aif.org.my)  
Web: [www.aif.org.my](http://www.aif.org.my)

PwC Consulting Services (M) Sdn Bhd (1051603D)  
Level 10  
1 Sentral  
Jalan Rakyat, Kuala Lumpur Sentral  
50470 Wilayah Persekutuan Kuala Lumpur  
Malaysia  
Tel: +603 2173 1188  
Web: [www.pwc.com/my](http://www.pwc.com/my)

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# FOREWORD

The financial services industry (FSI) is at a historic crossroads. Traditional business models in organisations have been shaken by a myriad of socio-economic trends. These range from intensified industry regulations, technology, increased competitiveness, lower growth post financial crisis through to demographic shifts. These mega-trends are likely to intersect and interact in unpredictable ways, with a transformative power to restructure markets, redefine boundaries of industries and reshape the global economic landscape. In particular, digital disruption is posing both challenges and opportunities for the FSI.

Technology is changing the workplace as we know it and not all organisations will be able to catch-up. How does the HR function fit into this picture and are organisations in the FSI in Malaysia seeking to transform their HR functions? Or is the HR function in the FSI leading the transformation agenda and enabling organisations to take advantage of the shake-up ahead?

With the launch of the ASEAN Economic Community (AEC), a regional labour market is emerging. Organisations need to prepare for a changing business landscape with free movement of skilled labour and talent. Malaysian companies are likely to face increasingly fierce competition for top talent from regional competitors. This will be particularly felt across the FSI where a shortage of skilled labour has been identified as one of the top industry challenges. Leaders are urging their management to tap into regional labour markets and explore innovative approaches to increase their competitive edge. The role of HR is therefore particularly crucial to manage human capital effectively.

In this study conducted jointly by AIF and PwC Consulting Services, questions on HR's readiness to transcend its traditional operational role and become a business delivery partner have been explored. We hope that the findings outlined in this report will facilitate the timely need for HR transformation in Malaysia and may provide information for other emerging markets across ASEAN.

**Dr Raymond Madden**

Chief Executive Officer, Asian Institute of Finance

**Kartina Abdul Latif**

Senior Executive Director, PwC Consulting

**Elma Berisha**

General Manager, Strategy, Policy Development and Research, Asian Institute of Finance

# EXECUTIVE SUMMARY

The financial services industry (FSI) is transforming as the structure of the industry and commercial realities are being disrupted by the mega-trends currently reshaping the global economy. Due to regional dynamics, by the end of the decade, the list of market players could be very different to what it is today as smart and agile new entrants leapfrog slower moving competitors. FSI players must be agile, demonstrate strong leadership and have the ability to transform and reinvent themselves.

The economics of the FSI have also reached a tipping point as the industry's traditional routes to market are likely to experience further prudential and conduct regulation, digital disruptors and consumer demands. This, along with longer term demographic shifts, the changing energy landscape and demands for sustainability is driving rapid change. Digital technology is transforming all aspects of FSI, from the redefinition of business and service metrics to new competitive arenas, operating models and cost structures. Thus, the FSI is undergoing a fundamental transformation and business leaders need a clear vision of where their organisations are heading, both to inspire their people and to deliver their strategy. Likewise in the Malaysian FSI context, business leaders need to ask whether current business models will still be relevant in the new global and regional economy?

Since 2013, the concept of HR transformation is experiencing a renaissance. The environment for HR transformation has significantly changed in the last five years. The global economy is emerging from the financial crises and growth strategies are returning to the corporate agenda. However, to what extent has the HR transformation agenda progressed in the FSI in Malaysia and in the ASEAN region as a whole? How is the geopolitics of the region likely to play out? Is HR ahead of the curve in terms of enabling their organisations to transform to compete? How can FSI organisations take advantage of the shake-up ahead?

There has been limited research to date on HR transformation in Malaysia. The Asian Institute of Finance, in collaboration with PwC Consulting Services, conducted a multi-method study to explore some of these questions through discussions with industry representatives and practitioners working across four industry sectors – namely conventional banking, Islamic finance, insurance/takaful and capital markets. Participants included both HR and non-HR leaders at all levels, from both local and international organisations. The methodology was a triangulation of face-to-face interviews with CEOs, focus group discussions with industry practitioners and opinion leaders, as well as an extensive quantitative survey of 550 respondents.

Organisations that are able to develop business models which include people strategies which are in tandem with this ever-changing and dynamic environment stand a good chance of winning. Those that do not may lose out or see their growth stunted. The changing landscape suggests that there will be winners and losers in this transformation. Few companies can afford to ignore the need to transform.

# KEY MESSAGES



## MEGA-TRENDS

Global and regional mega-trends are changing market realities across the Malaysian financial services industry. Regional realignment, new regulations, demographic shifts, technology, talent gaps and succession planning are the top mega-trends holding CEO's attention and creating pressure towards HR transformation.



## DISRUPTORS

Diverse disruptors including FinTech are changing the rules of the game across the financial services industry. The HR function is being impacted on all sides, including changing employee and customer expectations, the reinvention of products and services as well as new rules and regulations.



## THE FUTURE OF WORK

Business models and their parameters are being re-thought in line with the future of work. A change of attitude towards work and life is being mapped out, with many job roles and business structures likely to be transformed. HR is the key driver in any organisation in maximising inputs into designing competitive employee value propositions of the future.



## THE HR TRANSFORMATION AGENDA

The HR function needs to drive the talent agenda. To be truly transformational, HR needs to be agile and constantly scan the horizon, particularly external market realities. Fulfilling the traditional operational role will not be sufficient in an age where talent and succession planning are seen as key strategic differentiators for organisations to succeed.



## WAY FORWARD

It is the final call for HR to rise to the business challenge. The AIF & PwC Consulting Services study indicates that although HR is moving in the right direction, more needs to be accomplished. It is imperative that HR takes the broader view of what it means to transform HR and become a fully-fledged business delivery partner.

# MEGA-TRENDS IMPACTING THE FINANCIAL SERVICES INDUSTRY IN MALAYSIA

Like the rest of the world, Malaysia is seeing the advent of new technologies, disruption of traditional business models, changing customer needs and the need to professionalise the financial services industry further. Traditional business models are getting redefined at an accelerating pace as customers embrace digitally-enabled experiences, while incumbent banks race to innovate.

“Regulations, technology... the key to success of financial institutions today is no longer the size of business but the ability to adapt and respond quickly,” says a CEO of a national bank.

The study found that the future strategic direction of many organisations across the Malaysian FSI is revolving around the exploration of new business models, regionalisation and digitalisation, while continuously adapting to ensure regulatory compliance.

**Figure 1: Key mega-trends based on views from CEO's**



CEOs interviewed in our study agreed that the business environment today is becoming increasingly complex and difficult to predict.

## DISRUPTION IN BANKING IS HAPPENING AS A RESULT OF A NUMBER OF DIFFERENT DEMANDS

1

### REGULATIONS

The introduction of new regulations due to increased need for transparency, good governance and compliance in view of the recent financial crisis is a top concern for business leaders as their businesses need to continuously adapt to ensure regulatory compliance.

2

### TECHNOLOGY

Technology is transforming customer expectations, lowering barriers to market entry and opening up competition from new entrants. Given the increasingly integral role technology plays across business sectors, the ability to harness it effectively is becoming a key differentiating capability.

3

### DEMOGRAPHIC DYNAMICS

Demographic changes such as generational changes will provide opportunities for growth and require innovation to develop new products and services. Businesses are targeting two core sources of growth: the consumptive power of growing population segments and the innovative potential of a diverse workforce.

4

### REGIONAL REALIGNMENT

The recently established ASEAN Economic Community (AEC) enables regional economic integration across ASEAN that will strengthen its position, economic base, growth potential and investment appeal. Emerging markets will move up the value chain and challenge today's developed markets with the free movement of goods, services, investment and capital including skilled labour and talent.

5

### TALENT GAPS AND SUCCESSION

Talent issues and challenges of succession planning could limit growth across the FSI. The AEC creates a borderless talent landscape and requires organisations to re-strategise and scenario plan for an unpredictable future.

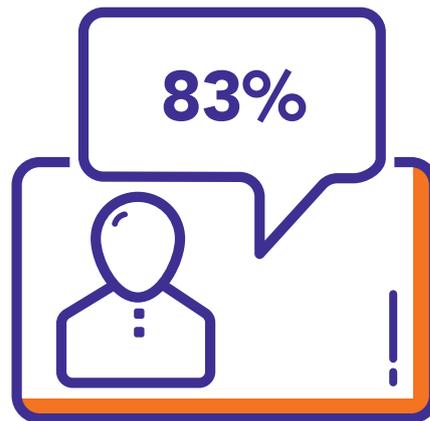
# DISRUPTORS IN THE NEW WORLD OF WORK

From conversations with CEOs, FinTech is one of the key trends keeping them awake at night. FinTech is disrupting the traditional value chain across the FSI by allowing new market entrants to reinvent the rules of the game with their technologically-driven innovations.

New products and services have been introduced by leading players in the market who seek to tap into the FinTech ecosystem in forging the strategic business alliances of the future. FinTech is a dynamic segment at the intersection of the financial services and technology sectors where technology-focused start-ups and new market entrants are innovating new products and services currently provided by the traditional FSI. As such, FinTech is gaining significant momentum and causing disruption to the traditional value chain in the FSI.

## WILL FINANCIAL INSTITUTIONS BE DISRUPTED BY FINTECH?

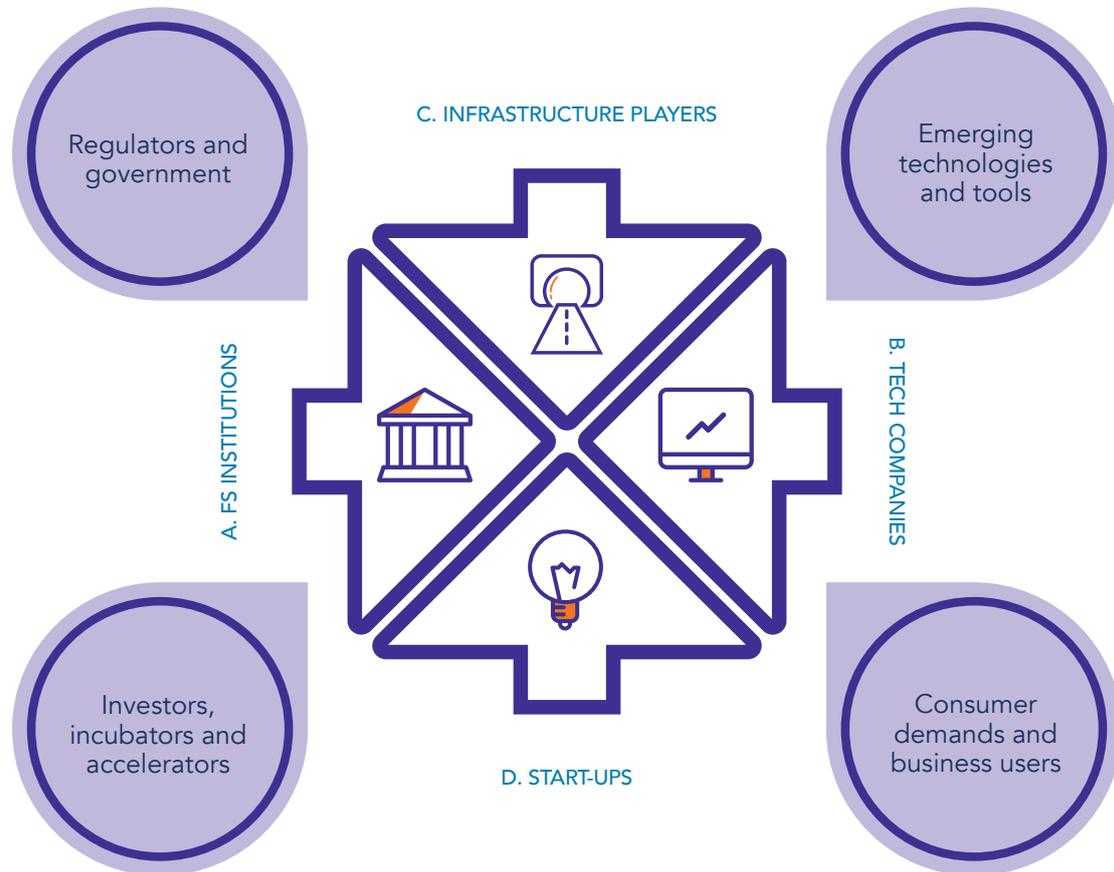
83% of participants surveyed believe that part of their business is at risk of being lost to stand-alone FinTech companies.



Source: PwC Global FinTech Report 2016

Competition is now not only limited to within the sector but the door has also been opened to new entrants and industry disruptions warrant for a re-evaluation of existing strategies. This area has attracted considerable interest from local banks such as Maybank, CIMB and RHB Bank, who are leveraging on FinTech ecosystems to innovate using financial technology such as mobile banking, digital payments and lending, blockchain and the Internet of Things.

Figure 2: FinTech is shaping the FSI from the outside in



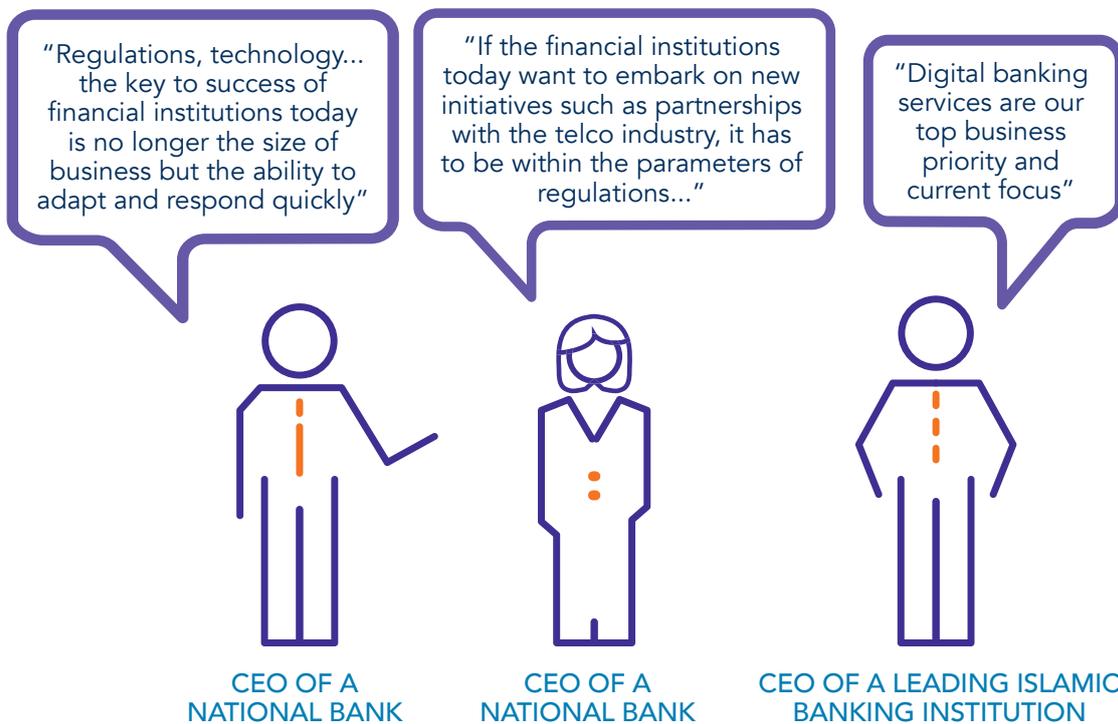
Source: PwC

## CEOs ARE MINDFUL THAT THE WORLD IS VUCA<sup>1</sup>

### Technologies, trends, markets and economies are in a constant state of flux

CEOs interviewed agreed that the business environment today is becoming increasingly complex and difficult to predict. However, they also agreed that today's market shake-ups open up significant opportunities for reinvigorating growth and re-engaging with customers, employees and society as a whole.

<sup>1</sup>VUCA: Volatile, Uncertain, Complex, Ambiguous



## CEO'S VIEWS

- 1 ON FORECAST BUSINESS GROWTH**

Overall, CEO's are cautiously optimistic about growth prospects in the future but also apprehensive due to the uncertainty of the economy and market volatility. Are the incumbents being too complacent? Do they have the right people to drive new business growth?
- 2 ON BUSINESS GROWTH THREATS**

Competition is currently seen as the main threat to growth prospects by traditional financial institutions. Why have they not acted sooner? Are leaders innovating quickly enough?
- 3 ON TOP BUSINESS PRIORITIES**

Top business priorities are to increase business bottom line growth by reducing costs, digitalisation, remaining relevant to consumers and developing an appropriate people strategy. Are CEOs capable of developing a robust strategy to stay relevant?
- 4 ON CHANGING THE ORGANISATIONAL STRATEGY**

The future strategic direction is focused on exploring potential new business models, regionalisation and going digital. Are they prepared for new or evolving market dynamics, e.g. the development of the AEC that is being played out at the same time?

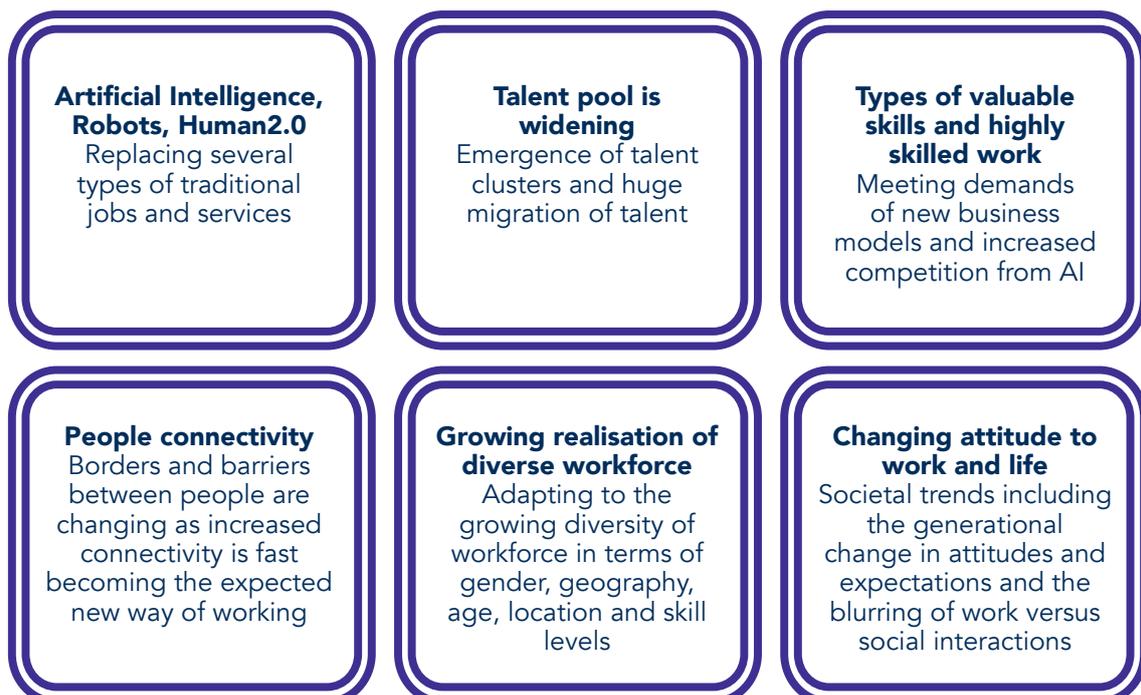
## THE FUTURE OF WORK

### What does the future of work look like and how will this impact HR in managing the ever-evolving workforce? To what extent is HR a business delivery partner and proactively designing the 'future of work' concept and practices?

Tremendous forces are radically re-shaping the world of work. Disruptive innovations, new business models and resource scarcity are impacting all industries, not just the FSI. Talent mobility and succession planning are business imperatives. The emergence of these forces is creating fresh challenges for HR. As generations collide, workforces become more diverse and people are working longer; traditional career models may soon be a thing of the past. Many of tomorrow's roles will be ones we have not even thought of yet.

Organisations are currently grappling with the realities of skills shortages, managing people through change and creating an effective workforce. The radical change in business models will mean that companies will be facing further people related issues. Disruptive innovations are creating new industries and business models, and destroying old ones. So how are these developments going to affect the talent your business needs? How can HR attract, develop, motivate and retain them?

**Figure 3: Emerging forces reshaping the world of work**



# HR TRANSFORMATION: THE CHANGE AGENDA

Time to rethink strategy and how it affects business priorities. Is HR able to support the business amid the disruptors in the new working world?

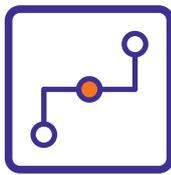
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It is a time for innovation and creative thinking across the FSI as disruptors are changing the game for players. Leaders are urging their management teams to constantly explore new solutions and approaches to increase their competitive edge and drive business performance. Even more pressures are being felt as ASEAN moves towards becoming a region with free movement of goods, services, investment, skilled labour/talent and freer flow of capital.

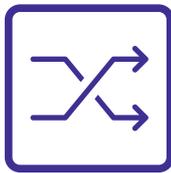
With these changes in mind, HR leaders need to decide whether increased competition and market changes increase the risks of losing key talent, or rather represent an opportunity to leverage the best regional talent for their organisations. HR plays a vital role in the context of delivering business strategies. HR leaders have already been asked to centralise, cut costs and staff, and embrace technology just like their counterparts in other functions. However, are they being effective? Do they have the skills to facilitate the transformation agenda?

In our study CEOs voiced their expectations for HR to play a greater pivotal role in attracting, engaging, developing and retaining the right strategic talent. "HR needs to be alert to the most current technical skill-set requirements in the market" said one of the CEOs representing a local bank. Suggestions included for HR to keep abreast of the right technical skills aligned to the demands of the industry. HR also needs to understand the core business drivers, as well as building the employer brand in the market. "HR needs to lead in establishing a new performance-driven culture in the organisation" said another CEO of a leading Takaful institution.

## CEO's SHARING ON STATUS QUO OF THE HR FUNCTION



Chief Human Resources Officers (CHRO) generally all have a seat at the boardroom table and report directly to the CEO. All CEOs describe their role as supporting and providing advice on the people agenda. However, there is a consensus that HR should also bring first-rate analytic minds into the function to help companies make sense of their employee data and get the most out of their human capital. Data analytics is able to provide valuable insights to CEOs that will enable more informed decision-making on the people agenda. However, currently not all HR functions analyse human capital data and trends. In this study, only 37% of the respondents reported their HR functions as using technology for data analytics.



Analytics has the potential to be transformative. But HR professionals are finding it difficult to implement analytics at both the strategic and operational levels. Constraints such as investment, leadership understanding and overall HR maturity are holding back development at the strategic level. Meanwhile, at the operational level the implementation of the technology and gaps in analytical skills are holding back its development in the HR function.



Overall, CEOs have high expectations of HR playing a strategic role in order to support business growth. However, CEOs are not fully confident in HR's capability to support business delivery. HR needs to step up and ensure collaboration with the business lines and understand their needs and requirements. This report recommends that HR should play the role of being a key 'business delivery partner'.

However, for HR to transform organisational culture, the HR function itself will need to have undergone its own transformative journey. A transformed HR will have moved away from the traditional role of operational tasks into a more strategic role of driving business impact for the organisation. Are there any success stories in terms of HR transformation among Malaysian financial services institutions? A closer study of some HR-related transformation initiatives analysed during the study is outlined next.

# HR FUNCTION IS NOT YET A STRATEGIC PARTNER TO BUSINESS

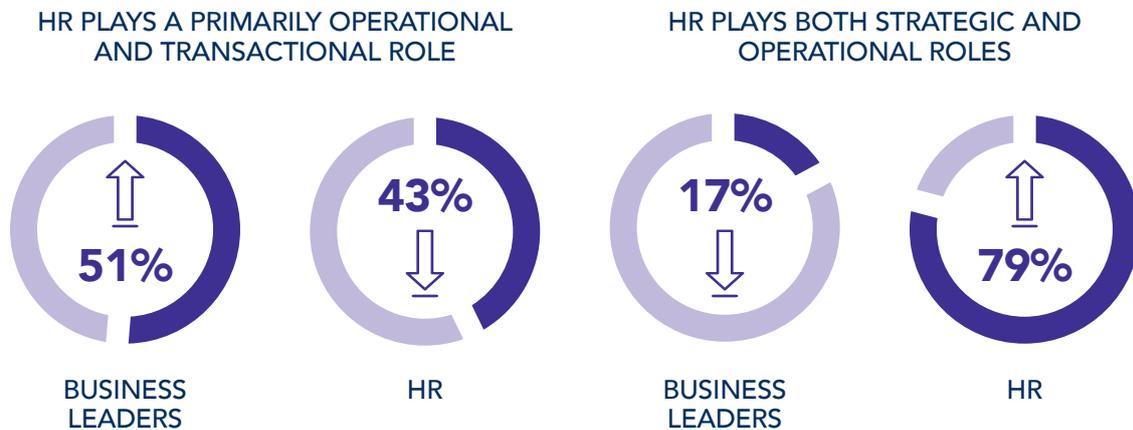
HR leaders across the Malaysian FSI have indicated that HR is eager to move into a strategic 'business delivery partner' role but the function is still overwhelmed with current operational activities.

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Findings from this study suggest that HR is not ready to be a strategic business delivery partner. We know this is the case, despite HR personnel playing their role in supporting their organisations as a whole. 70% of the CEOs interviewed describe the current role of HR as a mix between being an operational and strategic partner and only one of the CEOs interviewed described its current role as having evolved into that of a strategic business delivery partner. Focus group discussions with selected top HR professionals across the Malaysian FSI have indicated that HR personnel are eager to move into a strategic role but are still overwhelmed with the current operational activities. The majority of them (80%) concur that the current HR role is split 80-20 between being operational versus being a fully-fledged business delivery partner. However, only about half of the respondents were satisfied with the status quo which indicates an eagerness to change. Similarly, findings from the quantitative survey with 550 industry practitioners show that HR is still operating conventionally. According to them, only a small part of HR's role is seen as contributing to strategic business delivery.

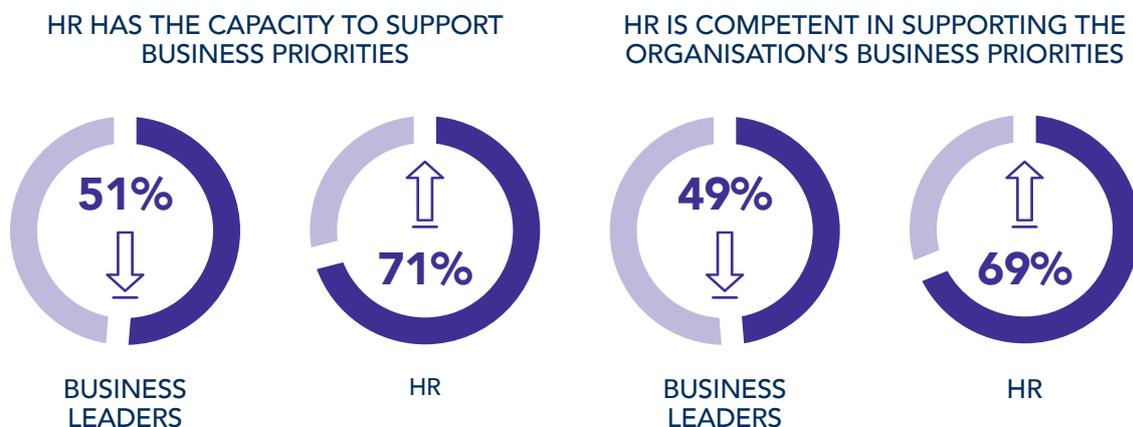
However, there is a perception gap among non-HR senior management on the current HR role and initiatives. Although a majority of HR personnel (79%) claim that the current HR role involves both operational and strategic business delivery partnership tasks, only 17% of non-HR senior management team members agree (Figure 4). More than half of non-HR senior management (51%) still perceive HR personnel as doing operational work and providing a purely transactional contribution to their organisations (Figure 4). This implies that HR personnel are not meeting the expectations of business leaders, but they think they are.

**Figure 4: Current role of HR as perceived by business leaders versus HR leaders**



Findings indicate that business leaders rated HR’s capacity and capability to support business priorities lower. Only 51% agreed that HR has the capacity and 49% agreed that HR has the right competencies to support business priorities (Figure 5). HR’s own-rating on its capacity and capability is higher, with 71% agreeing HR has the capacity and 69% agreeing HR has the capability to support business priorities (Figure 5). This indicates there is a distinctive gap between the expectations of business leaders and the view of HR. The most vocal critics say HR personnel in their organisations focus too much on ‘administrative’ tasks and lack vision and strategic insight.

**Figure 5: Capacity and competency of HR as perceived by business leaders versus HR leaders**



Findings also suggest that business leaders' views about the HR function are more concerned about gaps in HR's understanding of external business realities. Although they feel HR understands well its own organisation's business priorities (72%), only 55% of respondents believe that HR sufficiently understands the external business environment (Figure 6). This gap implies that HR is not being agile enough in responding to the challenges and opportunities driven by mega-trends. HR needs to find a balance between being both internally-focused to ensure it recognises the efforts it needs to upgrade and improve itself and also being externally-focused to understand the changing market realities in order to cater to market demands.

**Figure 6: HR is lagging behind in understanding market dynamics**



**POTENTIAL ROOT CAUSES OF BLEAK PORTRAYALS PAINTED FOR HR FUNCTION**

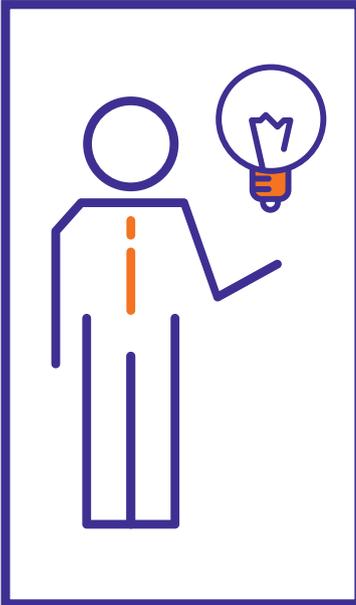
<p><b>HR fails to scan the horizon</b> Changing market trends and demands calls for HR to be agile in order to respond fast and effectively. Currently, within business lines there is a tendency to think that there is a gap in HR understanding of the external business and market environment.</p>	<p><b>HR initiatives not aligned to strategy to deliver value for customers</b> To be truly efficient and provide value to its customers, HR needs to strategise and align its processes, work plans and practices with the business strategy. Currently, there is a gap based on the needs and expectations of its internal customers and external checking.</p>
<p><b>HR's level of competency is not up to par</b> It is evident that there is a need to upskill and upgrade HR staff. Findings across the business lines suggest that HR's capability is not up to expectations in terms of delivery based on today's needs where HR is expected to address more complex areas, such as business change, analytics and regionalisation, as well as being able to scan the business environment.</p>	<p><b>HR does not leverage data analytics</b> HR is in a position where they are able to provide objective measures of human capital performance and provide business-case evidence for changes through workforce analytics. This ultimately allows for business-strategy alignment. Currently, HR is not fully optimising this opportunity.</p>

## BUILDING SUCCESS STORIES IN HR TRANSFORMATION

Malaysian financial services institutions are gearing towards transformation but few real success stories exist.

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### HEADING IN THE RIGHT DIRECTION BUT FREQUENT CROSSROADS ACT AS A DETRACTOR



Our findings identified several key HR review exercises currently being implemented:

- Rethinking the people strategy
- Re-organising the HR function structure
- Setting up of HR Centres of Excellence
- Streamlining HR operational processes
- Revamping HR policies
- Re-training of HR staff
- Focusing on leadership development and succession planning

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Some HR personnel may have overclaimed their change in processes as being “HR transformation”. Yet, often what has been done is little more than update technology or shift services to a shared services centre.

## BANKING SECTOR

There have been major organisation-wide transformational initiatives seen in recent years in the local banking industry. This is in line with the regional expansion of several of the local banks. This expansion calls for new and challenging changes such as digital transformation which requires HR to help organisations to be digitally ready by building a smart workforce. HR also needs to ensure workforce structures and job roles are designed according to new business models and are able to attract and retain a highly productive workforce.

As banks continue to grow and fend off competitive market pressures as well as comply with regulatory demands, there is a critical need to ensure strategic and operational excellence. HR plays an integral part in managing talent especially in key areas such as learning and development, leadership development, succession planning, engagement and the overall retention strategy.



### LEADING LOCAL BANK WITH REGIONAL ASPIRATIONS

#### **A re-organisation exercise has been undertaken in order to:**

- Create a new regional commercial and SME banking division
- Integrate wholesale banking division by combining treasury markets and corporate banking to optimise internal synergies and sharpen corporate client interface
- Create a regional consumer banking division to drive consistency and further efficiencies
- Develop 'digital banking' capability for an organisation of 40,000 employees in over 16 countries
- Implement a range of initiatives designed to drive down cost-to-income ratio below 50% in 2018.

In order to accomplish the above, various efforts are being implemented including HR-related initiatives specifically relating to organisational culture, performance management and manpower planning.

#### **Performance Management**

- In 2014, the Talent Review Council was established. This included the infrastructure set-up and preparation of the HR team
- In 2015, Talent Review was incorporated into HR's KPI.

#### **Organisational Culture**

- Aiming to build a collaborative environment
- Initiative includes engagement activities rolled-out with all reporting levels including top management such as 'Breakfast with the CEO'
- 70% of top management are relatively new. Tone at the top needs to permeate the entire organisation to enhance productivity.

#### **Manpower Planning**

As 80% of purchases were not being done in branches (e.g. online) this called for manpower planning which involved activities such as branch rationalisation and automation. Currently HR, Strategy and Finance are working very closely together to deliver this.

## INSURANCE SECTOR

Some of the HR-related activities discussed in the insurance sector include setting up HR shared services to reduce operational work and deliver cost-effective, quick solutions for the business. Meanwhile, for other institutions which are currently undergoing merger and acquisitions, they are still in the midst of completing the related due diligence and the main focus moving forward is to harmonise processes to ensure full integration.

The recent change of regulations under the Financial Services Act 2013 and Islamic Financial Services Act 2013 segregates life and general insurance businesses under separate licences. Under these Acts, insurers and Takaful players have been given until 2018 by the Central Bank of Malaysia to comply with the requirements. HR is expected to play its role in achieving compliance which includes ensuring operational processes are streamlined, looking into organisational design and building a talent pool that understands and meets the business requirements.



### LEADING GLOBAL INSURANCE COMPANY IN MALAYSIA

- This case study is another illustration of how HR is being affected by ongoing market dynamics. Profiled here is an insurance company that offers innovative solutions to the changing needs of individuals and corporate clients. The range of products and services offered is extensive, including car, property, travel, health and identity theft insurance products; as well as deep insurance claims expertise and excellent financial strength
- They have a global network of approximately 65,000 people in more than 100 countries and jurisdictions
- They have served the Malaysian community for over 60 years. The company operates out of 15 offices nationwide and is supported by a professional network of agents, brokers and schemes
- The company recently set up a shared services centre as a strategic step in enabling greater nation-wide efficiency for HR.

#### **Q What is the current staff strength?**

**A** 339 employees

#### **Q What was the response of HR personnel at the planning stage of setting up the shared services?**

**A** Generally, they were anxious on how the shared services team would be able to address employees' needs centrally. This was a concern for them as many employees were used to having a dedicated on-site HR team.

#### **Q What were the key challenges in setting up shared services? How were they addressed?**

**A** The key challenge was to standardise HR processes as each entity had been operating with their own specific processes. After the processes were standardised we also had to identify what needed to be maintained and what we had to stop doing. The focus was to have the processes in place first for the legal and business requirements.

#### **Q Were there any layoffs that were required once the shared services was set up?**

**A** No. However, some vacant positions were not replaced as they went to shared services.

#### **Q How much cost savings were predicted over the next 3 years by setting up the shared services?**

**A** Worldwide, savings of more than USD\$16M are expected over five years through retirement of legacy systems. A reduced HR cost per employee is predicted by half over the next 10 years.

# MOVING FORWARD: CHALLENGES AND OPPORTUNITIES

## AN ENLIGHTENED ATTITUDE BUT A LONG WAY TO GO

The AIF and PwC Consulting study found a welcoming attitude towards the HR transformation agenda particularly among HR practitioners in the industry. Our engagement sessions with the industry indicate that HR practitioners in Malaysia have an understanding of what it takes for HR to be transformed. Themes or associations occurring top of mind with 'HR transformation' among HR practitioners were ensuring trust and empowerment from the board to become a change agent and drive the transformation ahead, while at the same time enhancing the current levels of HR capabilities, competency and relevancy to the business ecosystem.

However, reinvigorating the function of HR and taking it to the next level will require more than just attitude readiness and commitment from HR. It also necessitates a mandate and support from the top management to pursue the transformation agenda. It has been challenging for HR to focus effectively on operational change activities as well as act strategically. Constraints such as insufficient investment and resources and lukewarm support by top management are holding HR back. While operationally HR still lacks technology-enablement and the right analytical tools, in certain organisations digital illiteracy or lack of digital savviness among the senior ranks of employees also poses a challenge to automation processes.

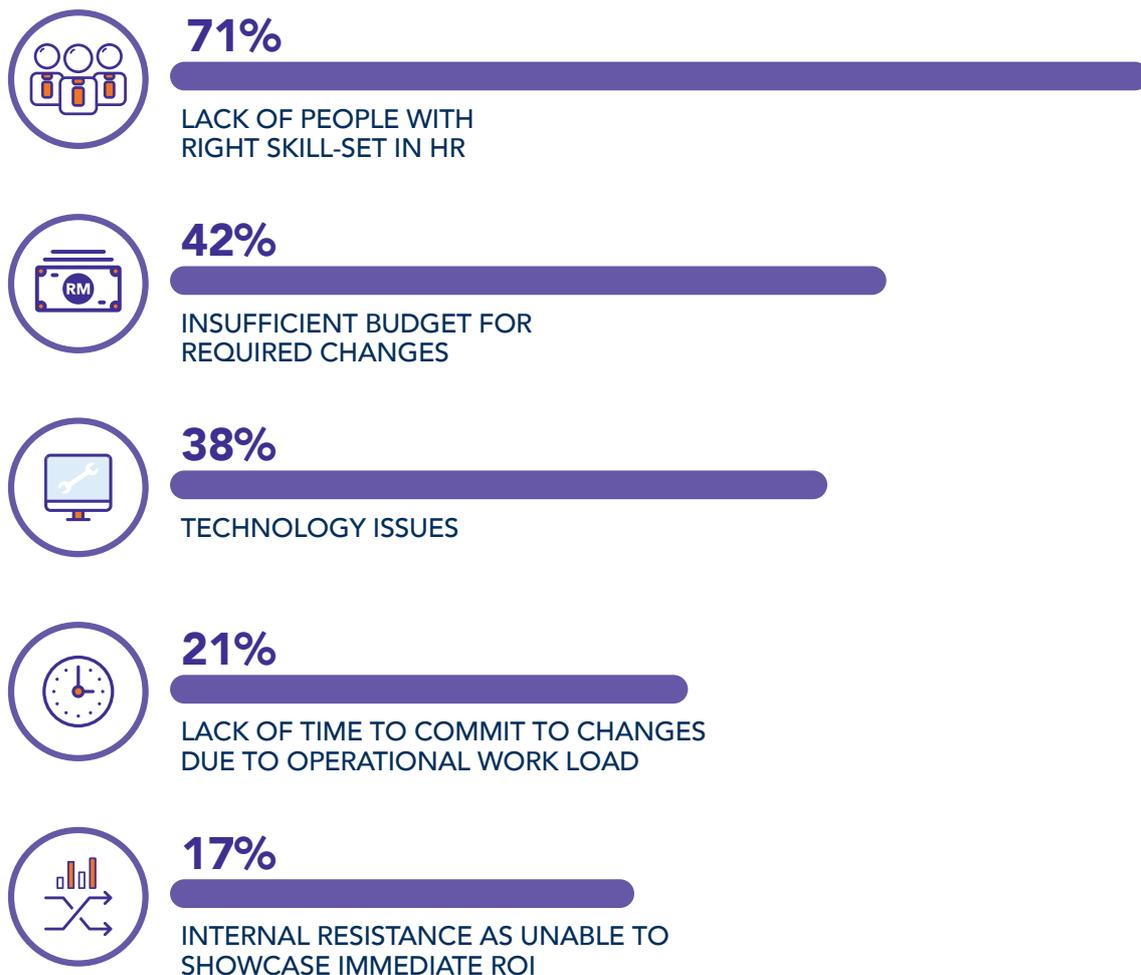
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Themes or associations occurring top of mind with 'HR transformation' among HR practitioners were ensuring trust and empowerment from the board to become a change agent and drive the transformation ahead.

HR leaders across the Malaysian FSI suggest that the HR function is eager to move into a strategic business delivery partnership role but currently they are lacking people with the right skill-sets.

The top challenge that HR practitioners have reported in implementing change is a lack of trained people with the required skill-sets (Figure 7). This is consistent with the findings from the AIF Report “Skills Gaps in the Financial Service Industry”<sup>3</sup> which reveals that skills gaps are likely to hinder the performance of organisations in the industry.

Figure 7: Top challenges for HR transformation as ranked by HR personnel

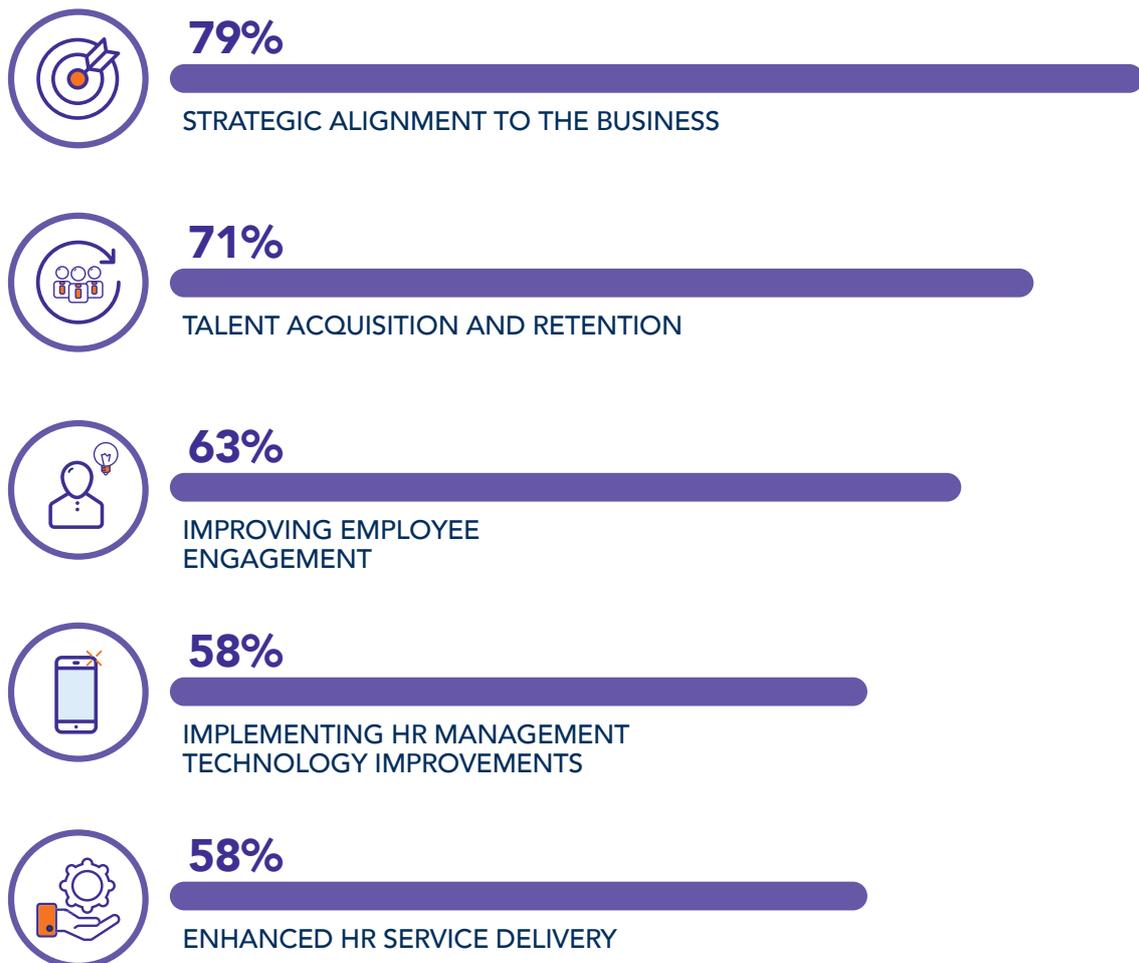


<sup>3</sup>See AIF research report 2015 by Raymond Madden and Wan Nursofiza Wan Azmi, ‘Skills Gaps in the Financial Services Industry in Malaysia’, Kuala Lumpur, Asian Institute of Finance, 2015

## CALIBRATING THE FOCUS

Although Malaysian FSI institutions are gearing up towards transforming HR, there are few success stories across the industry. However, is the role of HR and its impact on business value in organisations really being transformed? Not yet. When senior industry HR practitioners were asked about the top areas that HR was ‘targeting for improvements in 2016’, ‘strategic alignment to the business’ came first (Figure 8), which suggests that they recognise much work is still to be done. This is a task which involves many analytical, financial, marketing and risk management skills to turn around the conventional culture and take a firm grip on the future talent pipeline and succession planning.

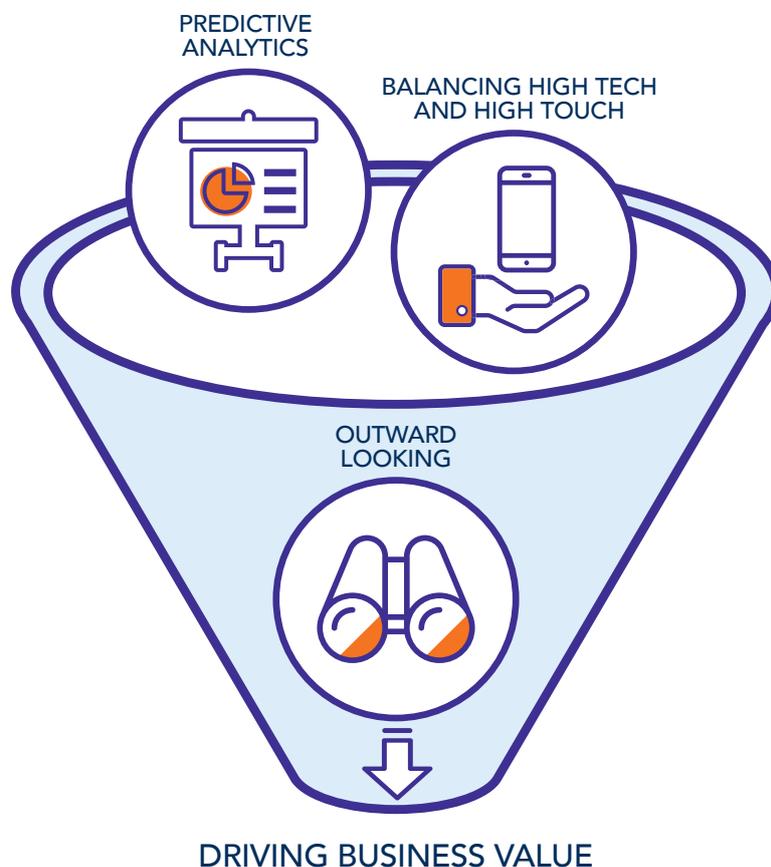
**Figure 8: Top areas of HR targeted improvement in 2016 as ranked by HR personnel**



Digital technology is changing the workplace and business models, and the impact on the financial services sector is potentially huge. This has not made people less important; it has made having the right people doing the right job absolutely essential. That does not just mean people with digital skills – although clearly that is important – but having a collection of people who think innovatively and can adapt instantly to give the company a competitive edge. It also means managing people well and, as technology develops, creating the right mix of automation and productivity. The organisations that have hit the heights of success in the digital world are not those that have followed the conventional ways of thinking; it is those that have forged a new path. These organisations have a people strategy that delivers vital skill sets, new approaches and better collaboration - across lines of business and geographies – all in a much more transparent and data-driven environment. They embrace tech-savvy strategies, create a culture where innovation and productivity thrives, understand the value of true diversity in conceiving new ideas, and rethink their investment in people. What companies need is not just a digital strategy; it is both a people strategy for the digital age and HR professionals who can lead this change (Figure 9).

New digital technologies enable greater integration and flexibility allowing employees to have a greater share of voice and the ability to create their own work experiences. We need a HR function that is able to embrace this and change its role to be a vanguard driving this rather than passively following the direction set by the rest of business.

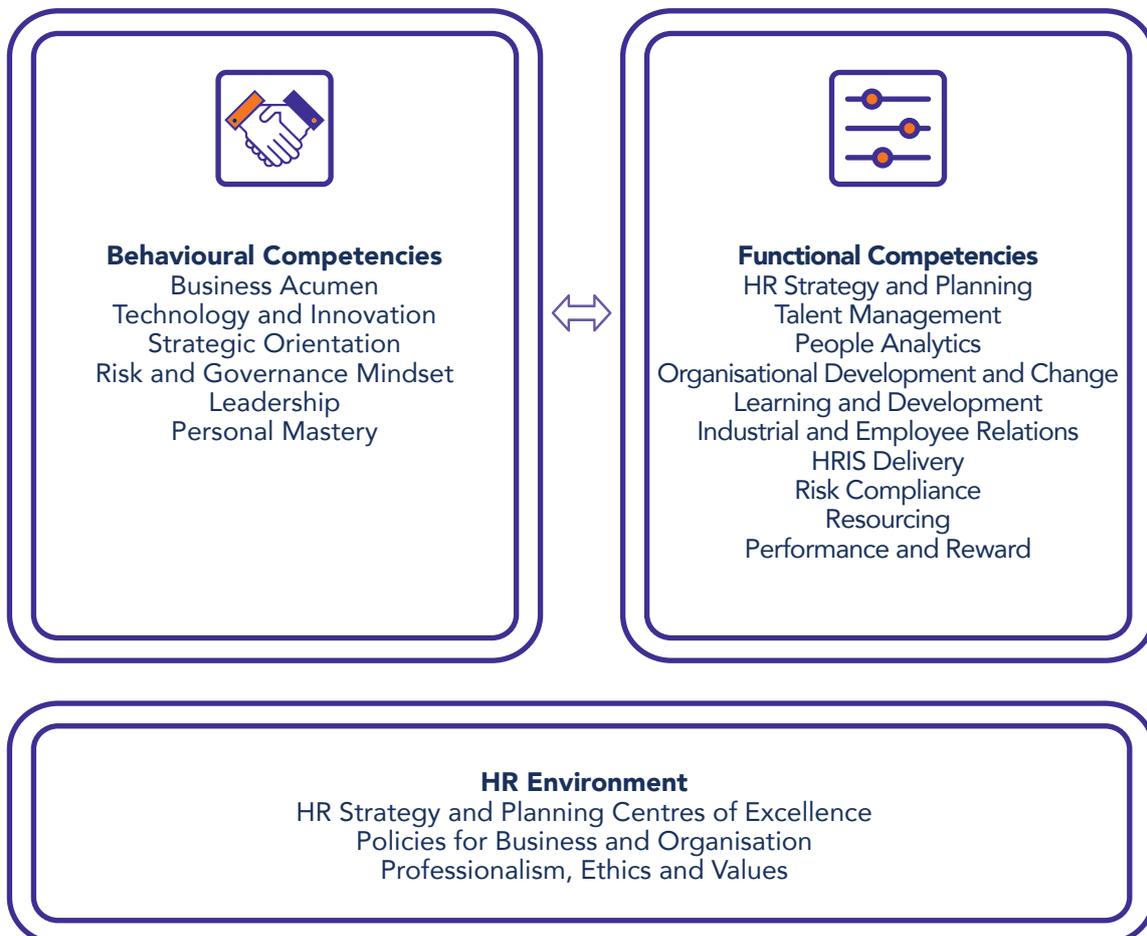
**Figure 9: Driving HR to become a strategic business delivery partner**



## AN HR COMPETENCY FRAMEWORK

In its efforts to support the industry in its HR transformation journey, the Asian Institute of Finance (AIF) is currently developing a HR capability framework comprising competencies (skills, knowledge and behaviours) that are relevant to HR and its critical functions. This framework will form the reference for the design of a HR accreditation programme for HR professionals across the FSI which will align HR competencies and capabilities within the various HR functions along the career and pathways of HR professionals. It differentiates between core competencies across the HR professional continuum on one side and the specialised competencies respective to levels and positions, on the other. With this, HR will not only be able to better consolidate its functions and manage its people, but it will also be in a better position to navigate the way forward in terms of strengthening the people and business delivery agenda. It is imperative that HR is able to align the people strategy with the business objectives, develop metrics that will enhance HR performance in managing talent and establish a culture of partnership and adding business value.

**Figure 10: Developing a HR Competency Framework Model**



# CONCLUSION

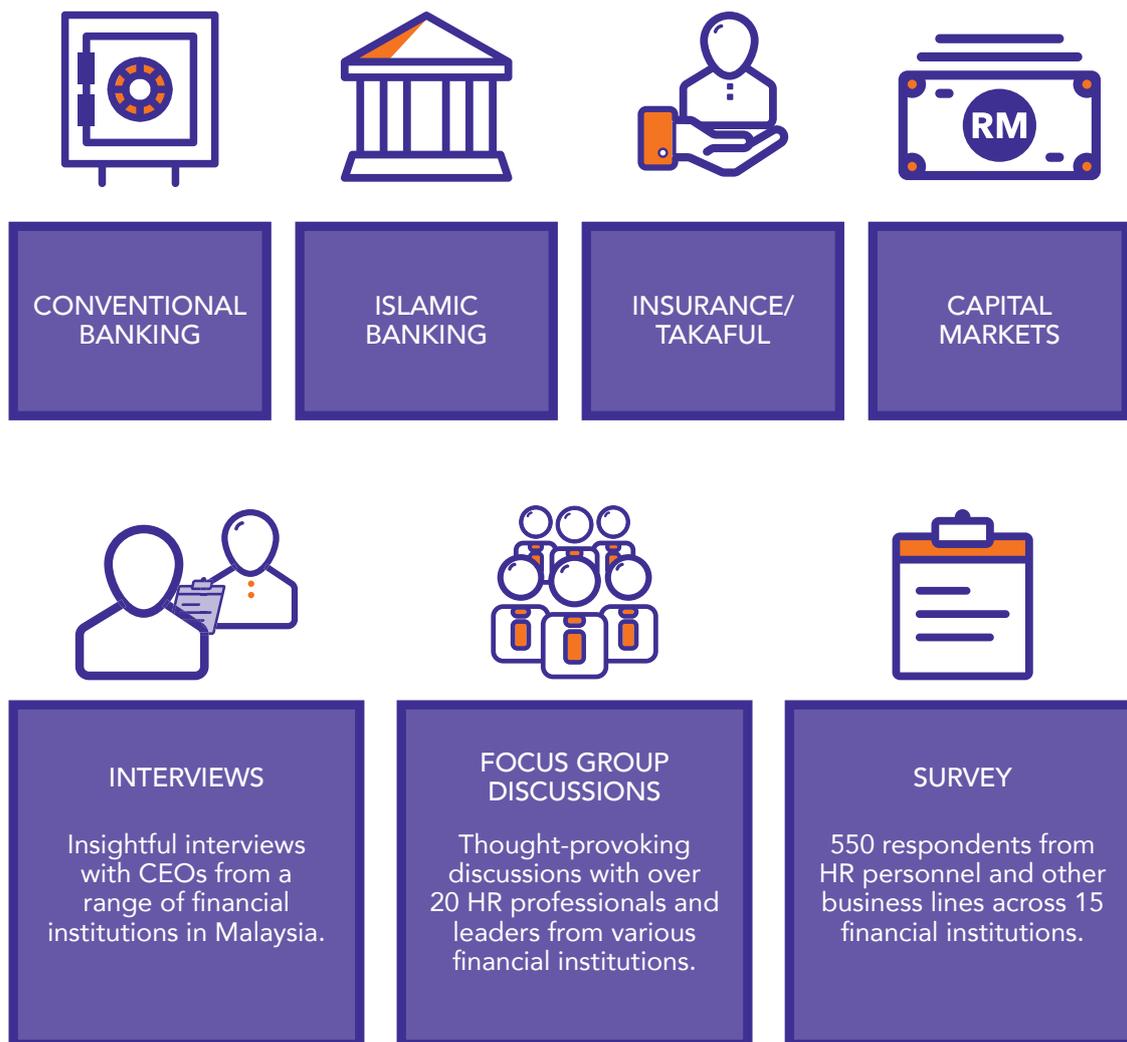
The reality check for HR is that it needs to be a critical enabler for business. The business world is changing and HR needs to adapt accordingly. The “new normal” in business is real and is here to stay. The new realities of the world will have deep implications for the HR function. This study indicates that HR is moving in the right direction, although more needs to be done.

Organisations are at different stages of transformation in general as well as in relation to HR support. The HR profession needs to continue evolving and focus on the business contributions it can make to the organisation. In line with this, we define in this study the capabilities required for the HR function to operate effectively.

It is imperative that HR takes a broader view of what it means to transform HR and become a business delivery partner. Although efficiency, effectiveness and compliance are still important transformation goals, they now represent the bare minimum that HR is expected to deliver. What businesses really need are HR capabilities and measurable competencies that do not just support the business strategy, but enable the business to design and execute strategic priorities that capitalise on HR's capabilities, rather than being limited by them. It's a powerful combination to align HR with the business, improve organisational and HR performance and establish a culture focused on adding business value. This is what the new generation HR is about.

# PROFILE OF RESPONDENTS

This study used a multi-approach methodology to understand the different perspectives and ensure a bird’s-eye view of the HR landscape across the Malaysian FSI. Across the industry, various types of organisations were approached including local and international banks, insurance firms and asset management companies. Participants included HR and non-HR leaders at all levels; namely top management, middle-management, executives and non-executives.



**Contributors:**

Dr Raymond Madden  
Elma Berisha  
Kartina Abdul Latif  
Jaya Kohli  
Natasha Abdul Ghani  
Siti Khadijah Nekmat

**ASIAN INSTITUTE OF FINANCE** (838740P)

Unit 1B-05, Level 5 Block 1B, Plaza Sentral, Jalan Stesen Sentral 5, 50470 Kuala Lumpur.  
Tel: +603 2787 1999 Fax: +603 2787 1900 Email: [enquiry@aif.org.my](mailto:enquiry@aif.org.my)

[www.aif.org.my](http://www.aif.org.my)

**PwC Consulting Services** (M) Sdn Bhd (1051603D)

Level 10, 1 Sentral, Jalan Rakyat, Kuala Lumpur Sentral, 50470 Wilayah Persekutuan Kuala Lumpur, Malaysia  
Tel: +603 2173 1188

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