

Salary Trends in Microfinance Industry of Pakistan

By Anum Shakoor

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INTRODUCTION

One consistent trend throughout the microfinance industry is the difficulty of finding right people for the right jobs in the right places at the right times and at the right cost. The term "war for talent" was coined by McKinsey's Steven Hankin in 1997 and popularized by the book of that name in 2001. It refers to "the increasingly fierce competition to attract and retain employees at a time when too few workers are available to replace the baby boomers now departing the workforce in advanced economies".

Competitive salary structures increase the chances of attracting and retaining high-performing employees in the knowledge economies. Organizations with competitive salaries are the first choice of employees both within and across competing industries. But in today's world, high-performing employees are looking for more than compensation packages and benefits. So, the first step in attracting talent is to examine the institution's strengths and determine if employees have benefits to sell. Employees today might move to another job for better compensation, but they are also looking for growing, successful companies which provide them friendly environment where they can participate in the decision-making and be part of the team. This means that organizations need to improve and design better compensation and benefits packages, provide congenial work environments, and ameliorate future career opportunities.

The microfinance sector in Pakistan is on a rapid growth trajectory. The figures quoted by Pakistan Microfinance Report 2017 show that the sector is progressively becoming a specialized industry. It appears to be a healthy sign that microfinance is cogitated to be closely associated with poverty alleviation in the country. In the context of Pakistan, a combination of financial inclusion and social development strategy has mostly been successful. It is therefore imperative to have a financially viable and robust organizations and recruit and retain a good quality human resource for this industry to achieve its dual objectives with efficacy.



This Micro Note is focused particularly on the salary trends in Microfinance Banks (MFBs) and Microfinance Institutions (MFIs). The note is based on the findings of the microfinance sector compensation & benefits survey administered by Pakistan Microfinance Network (PMN). The survey results aim to provide sector's corporate management with reliable information on prevailing Human Resource (HR) practices in the industry. This survey findings present a comparative snapshot of remuneration levels for comparable jobs and job levels. The reported data includes ten (10) job levels of nineteen (19) Microfinance Providers (MFPs), including information from eight (8) Microfinance Banks (MFBs) and eleven (11) Microfinance Institutions (MFIs). All findings are based on the data provided by these organizations. The compensation & benefits is divided into three parameters i.e. Total Guaranteed Cash¹, Total Cash Pay² and Total Remuneration³. The study did not detail the reasons of salary variance in the sector. That could form the basis for future research and help understand salary structures more intimately. A cross-country analysis at the sectoral level is also an important research area for the future.

OBJECTIVE AND KEY FINDINGS

The top-level objective was to understand the various prevalent practices and confronted challenges for the HR of the microfinance sector and recommend measures to improve the situation. While at the tactical level the objectives of the study were to:

- Conduct a comprehensive salary survey and compare the results for the basic salary, allowances, other cash benefits, non-cash benefits (including car and retirement benefits) and variable bonus.
- Conduct an analysis of employee remuneration for ten (10) benchmark job grades comparable for nineteen (19) participating microfinance providers.
- Develop and implement methodologies that results in: comprehensive salary and benefit survey; accurately collects and illustrates comparison factors for each job; and illustrates the high, low, and median range of each comparison factor for each matching position of the microfinance providers.
- Ensure the data collected for each matching position from the employers is reliable, valid, and assertible.

The study has some common findings in both MFBs and MFIs:

- HR practices are evolving along with business expansion, with bigger MFPs having better practices while the others are trying to catch up.
- Compensation and benefits (C&B) system in many of the MFPs is not attractive. The effort should be to match the market standards rather than the minimum wage. The C&B in the microfinance industry have to be scientifically structured and compensated and benchmarked with other related industries like banking, insurance, Asset Management, FMCG etc. It is important at this point of time for the microfinance industry to appreciate the requirement of such a study, and work towards the common cause of its members.

¹ The sum of Gross salary and Other Cash Payments

² The sum of Total Guaranteed Cash and Target Variable Pay / Sales Commission

³ This is the sum of Total Cash Pay· Car Benefits· Retirement Benefits· Non·Cash Benefits· giving the Total Remuneration Package of an employee

Other key finding for the MFBSin the survey report are as follows:

- 1.** The growth has also been accompanied by challenges such as higher cost of funds, increase in risks due to geographical concentration, increase in cash carrying costs, unavailability of quality technology solutions, rise in cases of fraud and high churn in human capital employed by these Banks/institutions.
- 2.** To maintain growth and reduce costs while overcoming the challenges, MFBS will have to develop a holistic strategy based on several external and internal factors. Externally, MFBS need to address customer requirements, navigate lenders and investors, build effective partnerships with financial and nonfinancial institutions for sales, and cross-sell and adhere to guidelines issued by regulators and self-regulatory organizations.
- 3.** On the internal front, operations, technology, risk management and human capital together play an integral role in all activities undertaken by MFBS. Institutes need to innovate their operations and develop products to add value to their customers' economic and social conditions while concentrating on unpenetrated markets in Pakistan. Technology needs to be leveraged not just to reduce costs but also to increase geographical reach and, thus, the top line.
- 4.** MFBS also need to adopt HRM best practices, thereby providing tools to help individuals remain highly motivated and contribute to their success.

Whereas, some of the other key findings for the MFIs in the survey report observed are as follows:

- 1.** Most of the MFIs faced high attrition at field-officer level while the larger MFIs faced attrition even at Supervisory and HO level. Some practices that could be reviewed are as follows.
 - a.** The policy of posting staff away from their village/hometown could be reviewed, as staff that was posted in home place was found to be more satisfied than those who were not. To begin with, a few of staff that have been with the MFI for long could be posted near their hometown.
 - b.** Analysis shows that the attrition rate is low in organizations employing more women. To attract and retain women, MFIs need to have enabling policies and processes such as postings in nearby branches, secured accommodation, suitable working hours etc. As a strategy, more women could be posted in those Branch Offices which have reached maturity level and where the major part of the work involves maintaining the clients. Men could be posted in new or expanding Branch Offices or for sales in established Branch Offices.
 - c.** The working hours and timings for the Branch Offices, just as that in Head Office , are defined and adhered to. The use of technology and support staff to take care of data entry, KYC checks, cashiers job etc, could be thought of to reduce the burden of the Field Officers.

d. Attracting professionals at HO level was another challenge faced by the MFIs. But with the industry in a growth trajectory, professionals were finding the Microfinance sector a good option for career development. Initiatives from investors / development agencies for promoting more professionals in the sector would help MFI's to attract professionals and to expand faster.

SALARY TRENDS IN THE SECTOR

The microfinance sector comprises of forty-six (46) institutions. Eleven (11) are regulated by the State Bank of Pakistan and are recognized as MFBs. The remaining are non-profit organizations recognized as Non-Banking Microfinance Companies (NBMFCs). NBMFCs are registered with the Securities and Exchange Commission of Pakistan (SECP). The HR size of the MFPs varies from a minimum of twenty (20) to a maximum of two-thousand (2,000) employees approx.

Salary Comparisons for Microfinance Banks (MFBs): Headline Results

A broad range of salary scales of the MFBs indicated a maximum annual salary of PKR 25 million at the job level 1 and a minimum annual salary of PKR 247,000 at the job level 10. The difference between the highest salaries at level 1 and level 10 is sixty-one times and thirty-one times for the lowest salaries at level 1 and level 10. The standard deviation for level 1 salaries between lowest and highest percentiles is PKR 9 million and for level 10 salaries is PKR 87,000. It was observed that salaries for MFBs at job level 1 is significantly higher than job level 10 when compared to similar job levels of MFIs.

Figure 1.1: Market Comparison at Total Remuneration (TR) Level– MFBs

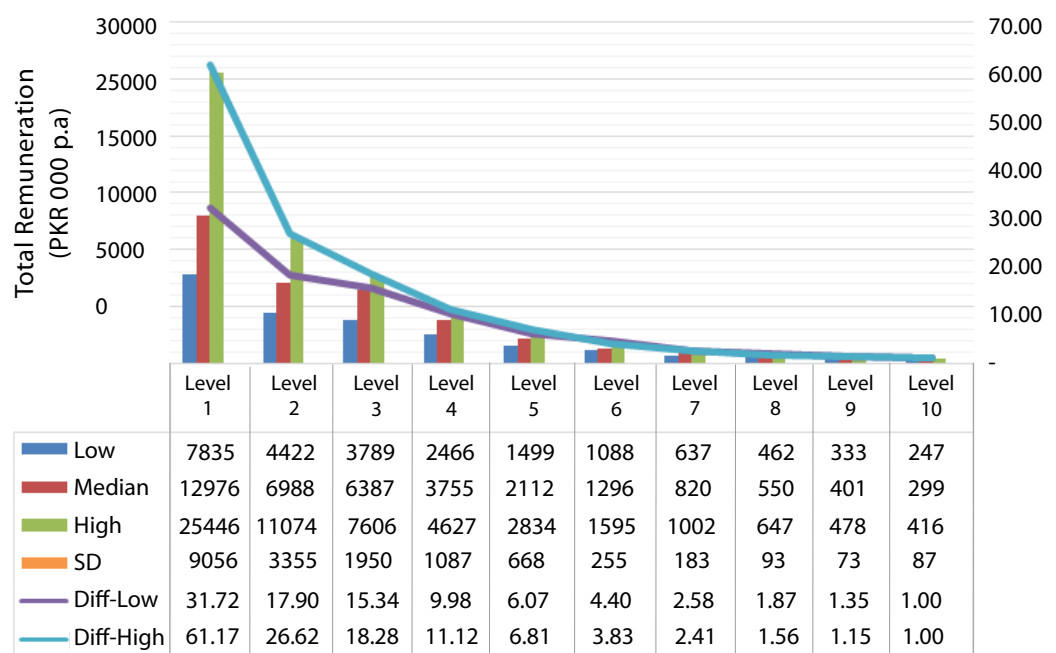


Figure 1.2: Market Comparison at Total Guaranteed Cash (TGC) Level - MFBs

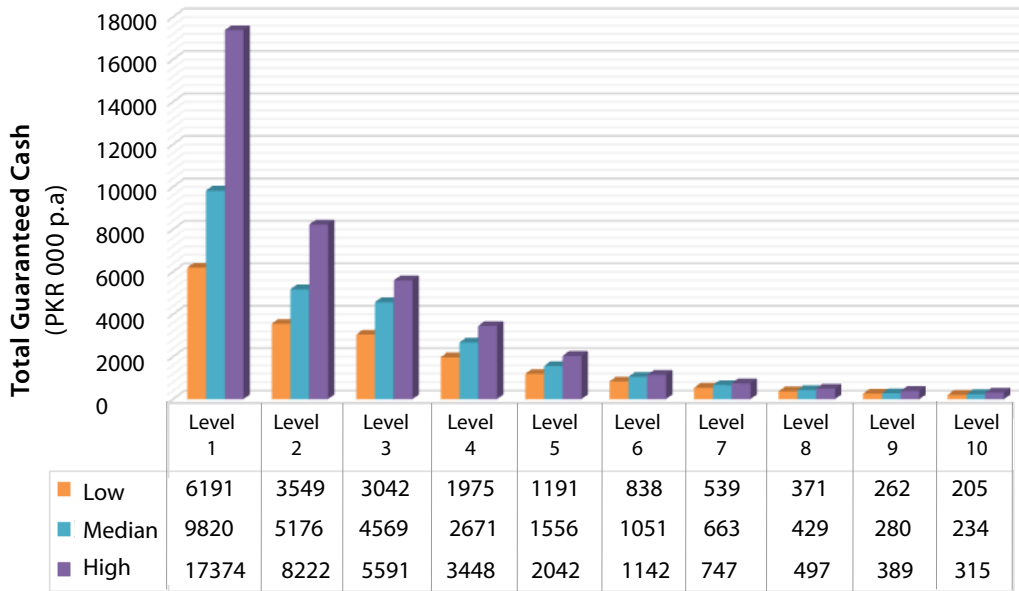
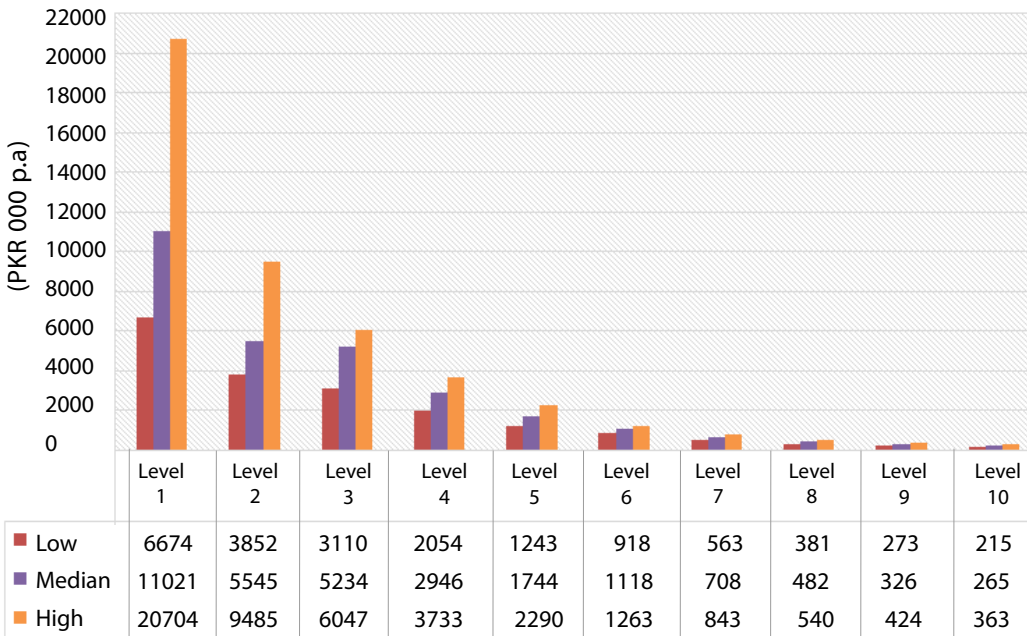


Figure 1.3: Market Comparison at Total Cash Pay (TCP) Level- MFBs



Salary Comparisons for Microfinance Institutions (MFIs): Headline Results

When comparing with the MFBs salary scale, most NBMFCs do not offer the same salaries as they are the non-profit entities. However, some large NBMFCs are offering relatively good salaries to retain their employees. The data for MFIs salary comprises from job level 2 to job level 10 as the information for job level 1 was not available. Looking at the salary trends for the MFIs, maximum annual salary is PKR10 million at the job level 2 and a minimum annual salary is PKR199,000 at the job level 10. The difference between the highest salaries at level 2 and level 10 is thirty-five times and sixteen times for the lowest salaries at level 2 and level 10. The standard deviation for level 2 salaries between lowest and highest percentiles PKR 3.4 million and for level 10 salaries is PKR 44,000. Smaller MFIs have very low salary structures and are not able to compete with larger MFIs.

Figure 2.1: Market comparison at Total Remuneration (TR) Level- MFIs

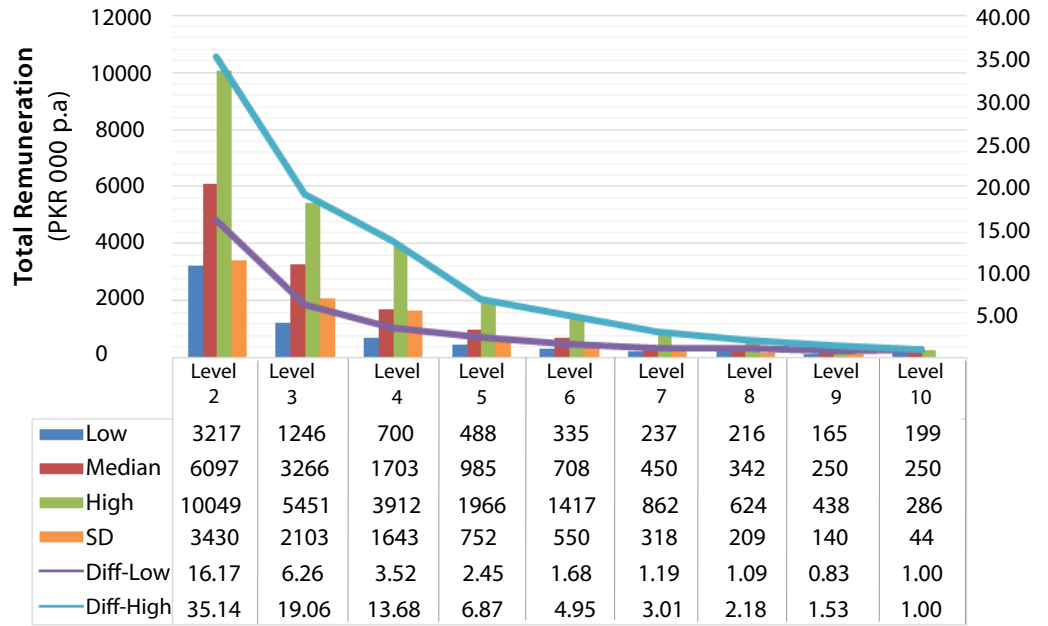


Figure 2.2: Market comparison at Total Guaranteed Cash (TGC) Level - MFIs

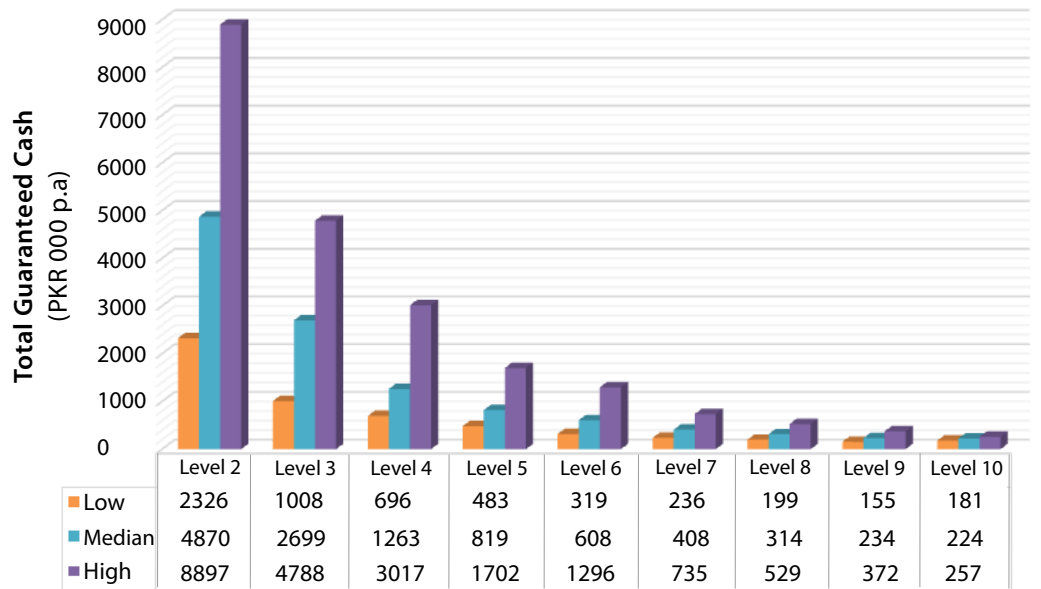
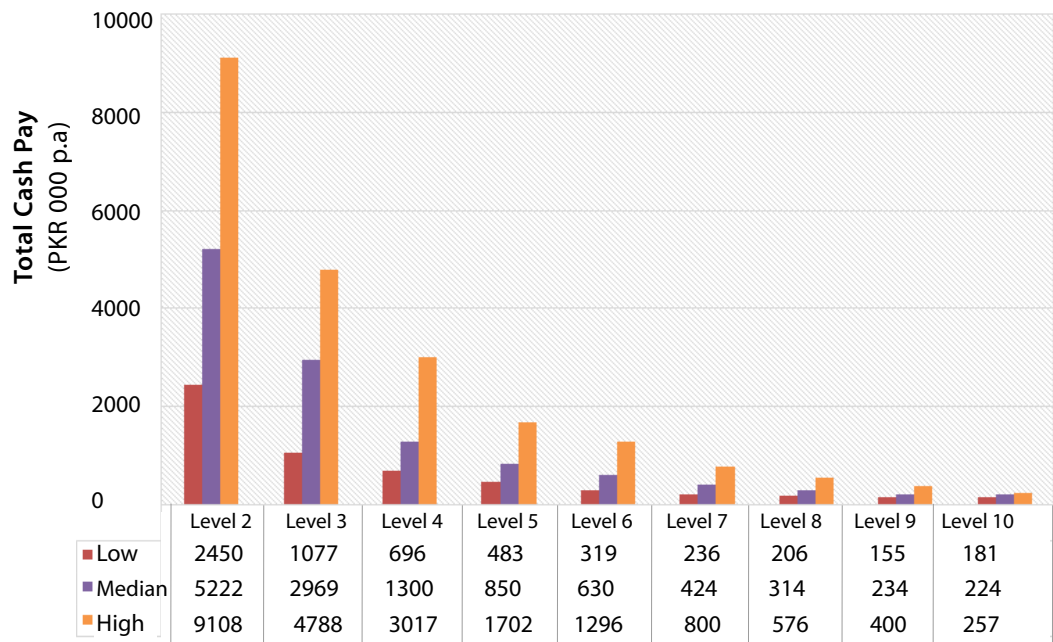


Figure 2.3: Market comparison at Total Cash Pay (TCP) Level- MFIs



CONCLUSION AND WAY FORWARD

Over the past couple of years, the microfinance sector has not only grown at a steady rate, it is becoming an increasingly sophisticated industry. To ensure that the industry remains socially responsible and competitive to attract good resource, concentrated efforts are needed at the sectoral level. Having skilled HR is the embodiment of this commitment. Pakistan Microfinance Network is committed to assist its members in achieving their triple bottom line objective. Overall, the compensation and benefits system play an important role in the total human resource management function. It is one of the basic factors which attracts' candidates to the organization. Compensation should be commensurate with the employees' efforts, fair and adequate.

The compensation & benefit system should be structured and interlinked with many factors and cannot be looked at in isolation. The factors influencing salary structure in the industry are as follows and looking into these will result in a series of benefits for the MFPs:

1- Supply & Demand of Manpower: While planning the manpower required to run and achieve the business objectives also forecast the future manpower requirement based on sales budget, workloads analysis, workforce analysis, estimated absenteeism & turnover.

2- Prevailing Market rate: Compensation package must be designed at prevailing market rate to attract quality human resource and ensure their commitment towards achieving organizational goals.

3- Cost of living: Cost of living in some geography, especially big cities should be considered while designing salary packages.

4- Legal framework: Legal framework in terms of employment contract, labor laws and regulations, dispute resolution, and arbitrations should be considered while designing HR policies.

5- Bargaining power, job requirements, psychological & social factors: Psychological and social factors also influence the salary structure in MFPs.

6- Institutions ability to pay: During the study we have come across cases/ incidents where the MFPs are struggling with grievances of anomalies in salary fixation. It is observed that the staff compares a Designation of a Field/ Operation staff with the Designation of Head Office Staff, whose salary is higher than the salary of the Field/Operation staff.

7- Productivity parameters: Employers should take the responsibility of employee development. It can be difficult for employers to swallow the costs associated with employee professional development, but ultimately the company benefits when its employees have the capacity to embrace change and innovate. Organizations that understand the true value of professional development, culture, innovation and creativity also recognize the value of continuously educating their employee base. These organizations are the ones that will be better positioned to adapt to the rapidly changing demands of today's work environment.

In order to attract and retain quality human resource in this industry MFPs may look into the following:

- Employees Stock Option Plan (ESOP) is recommended for the industry. ESOP can increase employee motivation, promote staff loyalty and improve staff retention to a great extent.
- Improve systems and procedures rather than cutting salaries. Efficiency in operation will save money. Saving through staff salary is short term and will be ineffective in the long-term.
- Ensure that the reward is aligned with the strategy and culture. Promote a comprehensive reward approach that also includes intangible components, and help employees understand that the reward offer consists of more than money.
- Communicate reward policies effectively.
- Focus on execution. Good design is not enough.

It is also important to understand that salary surveys should not be considered as one-off exercise. On the contrary, it is recommended to make these surveys a part of MFP's HR development program. Much like financial audits are conducted on an annual basis, compensation & benefits should also be conducted on two years periodic intervals to assess the industry's current state and to explore new avenues in achieving the growth target of 10 million active clients.

Annexures:

Annex A – Benchmark Levels for MFBs

Benchmark Level	Benchmark Job - MFIs
LEVEL 1	Chief Operating Officer (L/M), Chief Financial Officer
LEVEL 2	Chief Operating Officer (S), Head of Operations (L/M), Head of Compliance & Internal Control (L/M), Head MER, Head Internal Audit, Head of Finance, Head IT, Head of HR, Company Secretary
LEVEL 3	Head of Operations (S), Regional Sales Manager/Area Manager (L/M), Head of Credit & Risk Management (S), Head of Compliance & Internal Control (S), Financial Controller, Head of Administration & Security
LEVEL 4	Branch Operations Manager (L/M), Regional Sales Manager/Area Manager (S), Deputy Manager MER, Manager Marketing & Communication, Head Product/Program Development, Senior Manager Internal Audit (Branchless Banking), Unit Head (Finance/Accounts/ Planning/ Budget & Costing/ Taxation), Senior Manager IT
LEVEL 5	Branch Manager (L/M), Manager Operations Risk, Regional Compliance Controller, Program Manager, Manager Internal Audit (Branchless Banking), Manager Centralized Operations, Head IT Software Maintenance, Unit Head (Talent Acquisition, Training, Comp. & Benefits, Employee Relation), Manager Administration & Security, Manager Legal
LEVEL 6	Branch Manager (S), Relationship Manager, Customer Service Manager, Risk Officer, Team Lead-Credit Officer, Team Leader-Compliance, Team Lead Program, Team Lead Internal Audit, Section in charge (Finance/Accounts/Planning/Budget & Costing/ Taxation), AM Central Operations, PMO & Digitization, Senior T24 Developer, Project Manager IT Software Development, Team Lead Data Reporting & Reconciliation, HR Business Partner, Assistant Manager Administration
LEVEL 7	Assistant Branch Managers/Area Coordinators (L/M), Senior Credit/ Loan/Field Risk Officer, Assistant Operations Manager, Senior Program Officer, Manager Taxation, Senior Executive, Manager IT Infrastructure & Networking, Assistant Manager Data Center, System Administrator, HR Specialist, Legal Executive/Officer, Personal Assistant to CEO/MD
LEVEL 8	Assistant Branch Managers/Area Coordinators (S), Credit/Loan/ Field Risk Officer, Area Verification Officer, Associate MER, Program Officer, Social Organizer, IS Auditor, Audit Officer, Financial Reporting Officer, Executive, Senior Programmer IT Software Development, Supervisor IT Software, Officer IS, HR Executive, Admin Executive
LEVEL 9	Junior Loan Officer/Teller, Branch Support Officer, Credit Risk Officer, Compliance Officer, Officer Internal Controls, Regulatory Compliance Officer, Officer, Network Officer, Officer IT Infrastructure & Networking, HR Officer, Admin Officer, Manager Trainee, Entry Level MBA
LEVEL 10	Assistant, Operator Help Desk & Support, Complaints Management Officer, HR Assistant, Admin Assistant, Receptionist

Annexures:

Annex B – Benchmark Levels for MFIs

Benchmark Level	Benchmark Job - MFIs
LEVEL 1	Chief Operating Officer (L/M), Chief Financial Officer
LEVEL 2	Chief Operating Officer (S), Head of Operations (L/M), Head of Branchless Banking, Head of Credit & Risk Management (L/M), Head of Compliance & Internal Control (L/M), Head of Branchless Banking, Head Internal Audit, Head of Finance, Head IT, Head of HR, Company Secretary, Head of Legal.
LEVEL 3	Head of Operations (S), Regional Sales Manager/Area Manager (L/M), Head of Credit & Risk Management (S), Head of Compliance & Internal Control (S), Financial Controller, Head PMO & Digitization, Head of Administration & Security
LEVEL 4	Branch Operation Manager (L/M), Recovery Manager, Regional Sales Manager/ Area Manager (S), Area Managers, Manager Market Risk, Manager Credit Risk, Manager Marketing & Communication, Head Product/Product Development, Senior Manager Strategy & Planning, Manager DFS Tech Implementation (Branchless), Unit Head Branchless Banking, Sr. Manager Internal Audit (Branch Banking), Sr. Manager Internal Audit (Branchless Banking), Sr. Manager IS Audit, Unit Head (Finance/Accounts/Planning/Budget & Costing/Taxation), Sr. Manager Central Operations & Digital Acquisition, Sr. Manager IT, Unit Head (Talent Acquisition/Training/Comp. & Ben./Employee Relations)
LEVEL 5	Branch Operation Manager (S), Branch Manager (L/M), Area Managers, Risk Analyst, Manager Operations Risk, Regional Compliance Officer, Manager BB Compliance, Manager Internal Controls, Regulatory Compliance Manager, Product Development Manager, Program Manager, Manager Branchless Banking, Manager Internal Audit (Branch Banking), Manager Internal Audit (Branchless Banking), Manager Service Quality, Manager Centralized Operations, Head IT Software Development, Head IT Security, Head IT Infrastructure & Networking, Manager Data Center, Manager Systems, Manager Administration & Security, Manager Corporate Affairs, Manager Legal
LEVEL 6	Branch Manager (S), Relationship Manager, Customer Service Manager, Assistant Manager Recovery, Risk Coordinator, Risk Officer, Team Lead-Credit Officer, Team Leader-Compliance, Team Leader-Internal Controls, Team Lead Program, Team Lead Branchless Banking, Team Lead Internal Audit, Section in Charge (Finance/Accounts/Planning/Budget & Costing), AM Central Operations, PMO & Digitization, Sr. T24 Developer, Project Manager IT Software Development, Manager IT Security, Manager IT Governance, Team Lead Data Reporting & Reconciliation, Specialist Service Delivery, Database Specialist, HR Business Partner, Assistant Manager Administration
LEVEL 7	Assistant Branch Manager/Area Coordinator (L/M), Senior Credit/Loan/Field Risk Officer, Senior Credit Officer, Fraud Analyst, AML Analyst, Senior Program Officer, Manager Treasury, Manager Taxation, Senior Executive, Section Head-Help Desk & Support, Manager IT Infrastructure & Networking, Assistant Manager Data Center, System Administrator, AM Quality Assurance & Operations, HR Specialist, Personal Assistant to CEO/MD

LEVEL 8	Assistant Branch Manager/Area Coordinator (S), Credit/Loan/Field Risk Officer, Assistant Ops Manager, Field Risk Officer, Recovery Officer, Credit Risk Officer, Compliance Officer, Program Officer, Social Organizer, IS Auditor, Financial Reporting Officer, Executive, Sr. Programmer IT Software Development, Supervisor IT Software Maintenance, Officer IS, HR Executive, Admin Executive, Corporate Affairs Executive/Officer, Legal Executive/Officer, Secretary to Division/Function Head
LEVEL 9	Junior Loan Officer/Teller, Branch Support Officer, Customer Service Officer, Area Verification Officer, Officer Internal Controls, Regulatory Compliance Officer, Associate MER, Operations Officer (Branchless), Audit Officer, Service Quality Officer, Officer, Network Officer, Software Engineer/Programmer IT Software Development, Officer IT Applications Maintenance, Officer IT Infrastructure & Networking, HR Officer, Admin Officer, Management Trainee
LEVEL 10	Assistant, Operator Help Desk & Support, Complaints Management Officer, HR Assistant, Admin Assistant, Receptionist

Annex C – Compensation Parameters

The survey has been carried on the Total Remuneration concept, thus covering all cash and non-cash components of employee remuneration. For analytical purposes the total remuneration is classified and presented under the following sub-groups in the report:

- **Gross Salary:** Includes basic salary, house rent allowance, conveyance and utilities allowances, and any other monthly cash allowances given as part of salary.
- **Other Cash Payments:** Include benefits such as house maintenance, security guards/system, utilities and telephone reimbursements, fuel or any other cash reimbursements given. Also includes fixed bonus, LFA, furnishing cash, any other cash payments given, driver salary given as allowance and driver salary given as reimbursement.
- **Total Guaranteed Cash:** The sum of Gross salary and Other Cash Payments
- **Target Variable Pay / Sales Commission:** is the Variable Pay that would be paid to an individual on full achievement of targets in the previous year.
- **Total Cash Pay:** The sum of Total Guaranteed Cash and Target Variable Pay / Sales Commission.
 - 1- Car Benefit: Includes the value of car, petrol, maintenance, insurance, driver and buyback option given to the employee to buy the old vehicle at below market value. Monetized value of car given as cash is also shown here.
 - 2- Retirement Benefits: Include the estimated funding cost of provident fund, gratuity and pension.
 - 3- Non-Cash Benefits: include LFA given as tickets or accommodation, appliances, housing facility, loan subsidy, premium on group life insurance, average cost of medical cover, club subscriptions, meal subsidy, credit card subscriptions and other non-cash benefit that may be given.
- **Total Remuneration:** This is the sum of Total Cash Pay, Car Benefits, Retirement Benefits, Non-Cash Benefits, giving the Total Remuneration Package of an employee.

*All remuneration figures are mentioned on annual basis.

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Authored by Anum Shakoor

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Tel: +92 51 2266214 - 17, Fax: +92 51 226 6218, Email: info@pmn.org.pk

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