

# **Global Banking Education Standards Board**

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## **Credit & Lending Education and Training for Professional Bankers**

## OVERVIEW

### Introduction

The Global Banking Education Standards Board (GBESTB) was established in 2017. A voluntary, industry-led initiative established by 25 banking institutes, the GBESTB aims to develop clear, internationally agreed standards for the education of Professional Bankers<sup>1</sup>. The GBESTB's standards will inform the development of national banking education programmes delivered by banking institutes, and others, providing the foundation for high-quality and consistent education of bankers. Credit & Lending being the core area of Banking, global standards set out in this area will contribute to financial stability and facilitate the international mobility of Professional Bankers.

The GBESTB established the Education Standards Committee to develop and publish standards for banking education. The Committee has so far developed three standard documents on the topics of fundamental importance to Professional bankers. Following a consultation exercise the committee has now decided to develop a fourth standard for Credit & Lending as it is fundamental to any banking education.

### Purpose

*Credit & Lending Education and Training for Professional Bankers* is designed to help GBESTB member bodies and others to develop and implement credit & lending programmes for Professional Bankers. Promoting a more consistent approach to the credit & lending education of Professional Bankers worldwide should, in the GBESTB's view, help develop a strong and consistent culture of customer and client-focused, credit & lending professionalism in banking, and contribute to financial stability.

### Scope

*Credit & Lending Education and Training for Professional Bankers* sets out the GBESTB's expectations of and guidance for member bodies in terms of general recommendations, and recommendations for the content, delivery and assessment of credit & lending education programmes for Professional Bankers.

This document is intended to contain high level areas covering key aspects of the subject without going into the details of country-wise flavours in products and delivery. Risk being a key area of credit has found its natural place in this document but a detailed prescription on risk may rightfully be developed locally depending on risk perception and appetite with particular reference to infusion of financial technology in the areas of credit & lending and local regulations.

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<sup>1</sup> Professional Banker" is a term used by the GBESTB to define "an individual who has successfully completed a relevant certification programme accredited or provided by a GBESTB member organization".

The Standard is primarily written for GBESTB member bodies, but may also be helpful to a wide range of stakeholders involved in the education and training of banking professionals, including:

- Banking and financial institutions
- Central banks and financial regulators
- Universities, colleges and business schools
- Training providers
- Government authorities

## **Format**

*Credit & Lending Education and Training for Professional Bankers* contains both recommendations (set out in **bold text**) which it expects all GBESTB member bodies to use their best endeavours to comply with, and guidance (set out in *italic text*) which it expects GBESTB member bodies to consider when implementing the Standard.

## **Translation**

The GBESTB publishes *Credit & Lending Education and Training for Professional Bankers* in English. GBESTB member bodies may, at their expense and with written permission from the GBESTB's Education Standards Committee, translate this Standard into other languages. GBESTB member bodies will ensure that:

- Any translation is accurate and faithful to the original Standard;
- Copyright in original and translated forms remains with the GBESTB;
- No commercial use of the Standard or translation is permitted; and
- In the event of any dispute, the English version of the Standard shall prevail.

## **Effective Date**

*Credit & Lending Education and Training for Professional Bankers* is effective from 1<sup>st</sup> September, 2021, and GBESTB member bodies are expected to take active steps from that date to work towards compliance with this Standard.

## **Review Date**

*Credit & Lending Education and Training for Professional Bankers* will be reviewed on or before 1<sup>st</sup> September, 2024.

## **RECOMMENDATIONS AND GUIDANCE**

### **GENERAL RECOMMENDATIONS**

- 1. GBESTB member bodies shall ensure that all Professional Bankers undergo credit & lending education and training relevant to their role, function and organisation.**

*GBESTB member bodies should work with employers and educators to seek to ensure that Professional Bankers complete a relevant programme of credit & lending education at an early stage in their career ideally prior to or on joining the banking industry.*

*Such programmes should include education and training in the areas set out in the “Key aspects of Credit and Lending” section of this Standard. While general appreciation of concepts may be good for the elementary level, a deeper understanding of concepts will be a pre-requisite for those who intend to handle the credit desk. An illustrative list of contents that may be covered for the advanced learners are shown under the section “Contents of credit and lending Education and Training Programmes for Advanced learners”.*

- 2. GBESTB member bodies shall provide, or work with others to provide, appropriate credit & lending education and training to support Professional Bankers at all stages of their career.**

*GBESTB member bodies should consider how they, and others, can provide an appropriate range of credit & lending education and training programmes to support the initial and continuing professional development of Professional Bankers. This is likely to include formal qualifications, CPD and credit & lending refresher training and the provision of self-study credit & lending materials such as case studies. GBESTB member bodies are encouraged to consider introducing, where possible, periodical credit & lending training for Professional Bankers.*

*GBESTB member bodies should regularly review the content, delivery and assessment of their education, training and CPD programmes for Professional Bankers, and those delivered by others, to ensure they remain relevant and up-to-date.*

- 3. GBESTB member bodies shall ensure that credit & lending education and training programmes include appropriate assessments to demonstrate that Professional Bankers understand and demonstrate professional competence relevant to their level of expertise and experience.**

*GBESTB member bodies should consider whether there should be an appropriate form of formal assessment for Professional Bankers at an early stage in their career.*

*GBESTB member bodies should consider which forms of assessment might be most suitable for Professional Bankers with greater expertise and experience.*

*GBESTB member bodies may consider working with employers and others to assess the application of professional competence throughout Professional Bankers' careers.*

## **KEY ASPECTS OF CREDIT & LENDING FOR PROFESSIONAL BANKERS**

- 4. GBESTB member bodies shall prescribe and promote a set of key aspects of credit & lending for Professional Bankers, consistent with those below, and ensuring these are aligned with relevant governing laws and regulations as far as possible.**

*This is important for the Professional Bankers as their job profile involves structuring and executing loans, understanding the market in respect of suppliers and creditors, managing business risks and implementing Know Your Customer (KYC) policy. This is to ensure compliance to regulatory requirements of Banks, policies in lending along with commercial aspects of products and businesses.*

- 5. GBESTB member bodies shall ensure that credit & lending education programmes for Professional Bankers include appropriate coverage of the following aspects of credit & lending, and assess Professional Bankers' ability to understand and apply these in a range of familiar banking contexts:**

### ***Principles of sound Lending: Safety, Liquidity, Profitability, Purpose of Loan and Diversification of Risk***

- Professional Bankers as custodian of public money shall abide by sound principles of lending. These are as under:
  - Ensuring safety of funds, by assessing character, capital and capacity of borrower. Appropriate product suitability combined with appropriate security and undertaking due diligence play a critical role for both bank and customer, especially when handling various types of complex transactions.
  - Safeguarding liquidity of bank advances by ensuring that the assets of the borrower are readily realizable so that timely repayment can take place in order to avoid credit defaults.
  - Protecting the profitability of the Bank, by maintaining a suitable return on capital reflecting the level of risks.

- Making sure that the lending is for a lawful purpose within the regulatory guidelines of the portfolio exposure and any other restrictions;
- Diversification of risk across different business activities, sectors and geographies to minimize loss and how to utilise credit risk mitigation tools to achieve the same effect

### ***Types of borrowers and types of credit facilities***

- Professional Bankers shall develop and maintain the relevant legal knowledge of and treatment of different categories of borrowers e.g., Individuals, small businesses, incorporated entities including private and public companies, groups and Government controlled entities etc.
- Professional Bankers shall be conversant with different kinds of credit facilities like retail loans, cash credit, overdrafts, demand loan, purchase and discounting of bills, term loan, bridging loans, composite loan, non-fund based credit facilities etc for facilitating customers to avail right kind of products, conducting due diligence as per their requirements and safeguarding the interest of the Bank with facility letters and documentation.

### ***Assessing and determining a credit proposition including assessing and managing credit risk***

- Professional Bankers shall pay due regard to creditworthiness of the proponent/ borrower by ascertaining purpose of loan, assessment of Principal and Collateral security, verification of cash flows and sources of repayment. Credit Appraisal is based on financial statements by assessing key performance and financial ratios, prospect of the product in the market, economic viability of the business and technical feasibility of the borrowing entity. Systematic approach facilitates objective assessment of credit risk and also the quality of credit.
- Professional Banker shall be conscious about the credit risk or the probability of default by the borrower. It is generally ascertained by using Risk rating exercise which takes into account Management capability / quality, financial soundness, Market standing for the product, Entrepreneur's stake / involvement, its strength to absorb unforeseen losses in future and the risks arising out of legal, regulatory and reputational issues. Risk rating can be done through internal system or by external agencies. Risk rating scores indicate the health of the entity and accordingly the Professional Banker can quantify and measure risk, price it in a scientific manner and

take an informed decision to monitor, mitigate and control risk.

### ***Monitoring, Supervision/Follow up & Management of impaired assets***

- Professional Bankers shall ensure execution of written record of agreement/s between the Bank and the borrower identifying therein the borrower/ guarantor, facility details, terms and conditions, repayment process, security, nature of charge etc. This document may have to be stamped and registered and periodically renewed as per the legal framework of the country so that it is acceptable as evidence in a court of law.
- Professional Banker shall create appropriate charge (Pledge, Hypothecation, Mortgage, lien, Set-off, Appropriation, assignment) legally on tangible asset of borrower so that the asset is available as cover for the loan.
- Professional Banker shall put in place a system of continuous evaluation of quality of loan to mitigate and minimize risk. Maintaining effective contact with the borrower on an ongoing basis is a key to meaningful supervision. Early identification of stress and timely initiation of remedial measures are critical in preventing rating migration. It is important for the professional banker to be mindful of diversion of funds, misuse of funds, ambitious financial projections etc and guard against extending inadequate credit. The Professional Banker shall also understand the value of timely remedial action of a distressed credit or restructuring of account wherever found necessary and viable, which is often very effective in the management of impaired assets.

### ***Regulation, legislation and industry codes***

- Professional Bankers shall make themselves conversant with the regulation/s, legislation/s and industry code of country/ies of their operation in order to ensure proper administration, supervision and resolution of credit related issues to protect the interest of the bank as well as the customers.
- Also be aware of the banks risk appetite in relation to its credit policies and procedures and the impact of un-expected losses on the stability of the bank

## **CONTENTS OF CREDIT & LENDING EDUCATION AND TRAINING PROGRAMMES FOR ADVANCED LEARNERS**

**6.** *GBESTB member bodies may also consider including some or all of the following additional topics in credit & lending education and training programmes for Advanced Learners of Professional Bankers, where appropriate and relevant:*

- In order to achieve uniformity in approach by all concerned, a credit policy covering Regulatory standards, Internal Risk profiles, quality of credit portfolio. Risk adjusted return – Pricing, credit delivery, monitoring and control etc is formulated and this becomes the first reference point for an experienced Professional Banker:
- For appropriate credit delivery, the appreciation of intricacies relating to various channels of Finance e.g., Sole Banking, Multiple banking, Consortium lending, Loan syndication etc becomes useful to a Professional Banker;
- Knowledge relating to Project/Term Loan Appraisal, Capital budgeting, Techno Economic Viability studies, External commercial borrowings, various methods of Working capital/investment assessment, appraisal of non-fund facilities is required by the Professional Banker to meet the specialised needs of borrowers;
- Export finance is an important aspect of an economy and an advanced professional Banker shall develop expertise to fulfil the requirements of exporters;
- Making investment decisions with Net Present value and Internal Rate of Return;
- Various kinds of debt instruments and their usage in corporate credit;
- Financing and operational leasing – its utility and valuation
- Fixed vs. Floating rate loans, use of derivatives to structure loans, equity linked loans, use of financial options;
- Portfolio risk management, provisioning, write-offs, distressed debts, netting agreements, stress-testing;
- Environment Social Governance and Green Financing;
- Foreign Exchange market with particular reference to currency risk, exchange risk, translation risk and International Investment decisions;
- Mergers, acquisitions and management buy-outs; Corporate restructuring , Private equity and Insolvency;

**GBESTB member bodies shall ensure that all Professional Bankers demonstrate AT LEAST an understanding of the key topics set out above**

*For Professional Bankers with experience in banking and financial services, GBESTB member bodies may consider seeking to ensure they demonstrate an ability to analyse and apply the topics set out above.*

*For Professional Bankers at senior levels, GBESTB member bodies may consider seeking to ensure they demonstrate the ability to critically reflect on the topics set out above.*



## **DELIVERY OF CREDIT & LENDING EDUCATION AND TRAINING PROGRAMMES**

**7. GBESTB member bodies shall ensure that credit & lending education and training programmes use appropriate delivery methodologies that will help Professional Bankers develop and demonstrate an understanding of the key topics set out above.**

*A wide range of structured assessment methodologies may be appropriate, depending on context, but may include some or all of:*

- Formal study of one or more standalone credit & lending modules as part of a wider programme of banking education;
- The integration of ethics into technical banking modules (e.g. considering ethical aspects when making a credit decision)
- Classroom-based credit & lending training;
- E-learning and/or blended learning;
- Supported or unsupported distance-learning; and
- Seminars, workshops and similar events organised by GBESTB member bodies, employers, training providers and others.

*In addition, the delivery of credit & lending education and training to Professional Bankers may include:*

- Discussing case studies and similar materials, either in classroom/online or via employer-led study groups;
- Participating in role-plays or simulations where different credit & lending decisions lead to different outcomes for organisations;
- Discussing real-life credit & lending issues and conflicts of interest with professional colleagues and others;
- Using credit & lending decision-making models to analyze real-life situations
- Retrospective analysis of ending examples arising in the workplace;
- Coaching and mentoring; and
- Self-reflection on personal and professional experiences where credit & lending and conflicts of interest have occurred.

**8. GBESTB member bodies shall establish suitable quality assurance mechanisms to ensure that credit & lending education and training programmes achieve the objective of helping Professional Bankers develop and demonstrate an understanding of the key topics set out above.**

*GBESTB member bodies should consider regularly obtaining and acting upon feedback from Professional Bankers undertaking credit & lending education programmes, their employers and from other interested parties.*

*GBESTB member bodies may want to set criteria to ensure that credit & lending education and training programmes are delivered by suitably qualified educators and training providers with relevant expertise and experience.*

## **ASSESSMENT OF CREDIT & LENDING EDUCATION AND TRAINING PROGRAMMES**

**9. GBESTB member bodies shall ensure that all Professional Bankers undergoing credit & lending education and training programmes are assessed, at least at appropriate stages in their career, in order to demonstrate an understanding of the key topics set out above.**

*GBESTB member bodies should consider and apply appropriate forms of formative and summative assessment which may include some or all of:*

- *Objective testing (although this may not be suitable for assessing all aspects of credit & lending education);*
- *Traditional “long-answer” examinations;*
- *Reflective essays and journals;*
- *Work-based projects and assignments;*
- *Facilitated and assessed group discussions, and other groupwork;*
- *Case studies (either completed individually, or as a group).*

*GBESTB member bodies may consider regular assessment of credit & lending education and training for Professional Bankers (e.g. annually) as part of CPD or other recommendations or regular training programmes*

## **IMPACT ASSESSMENT**

**10. GBESTB member bodies shall develop a set of indicators that enable the monitoring of the impact of this Standard across their operations. This measurement should validate the degree of adherence to the standard and assist the GBESTB to identify and address any gaps.**

*GBESTB member bodies should use customer or employee satisfaction surveys or other suitable mechanisms to gather feedback on whether and how this Standard is being implemented.*

## **PUBLIC DECLARATION**

- 11. GBESTB member bodies shall publicly endorse and, when implemented, declare their alignment with this Standard, identifying and explaining any areas where they have not been able to fully implement the Standard.**

*The GBESTB retains the right to withdraw or refute any form of endorsement or declaration by any member body who has failed to adhere to this Standard.*