Designing the reward model in banking industry: an integrated ISM-DEMATEL approach

Diseño del modelo de recompensas en la industria bancaria: un enfoque integrado de ISM-DEMATEL

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Abstract

Banks are constantly looking for a pattern for reward that can be used as a scientific and documentary guidance. Since novel models of rewards have common concepts that refer to the sum of financial and non-financial payments, the way of interacting financial and non-financial rewards are one of the most sensitive and discussable issues in service organizations such as banks. The purpose of this study is designing an appropriate reward model with an emphasis on all its aspects as a cohesive unity. Ranking the factors and prioritizing each of the components related to reward would beneficially help to recognize the employees' desires and would be accessible for banks as a scientific and documentary guidance. The utilized method for prioritizing the factors was interpretive structural modeling and DEMATEL method has been used to quantitatively analyze the relationships and interactions among factors. The results indicate that performance-based payment is the most influential factor, and affiliation reward has been most influenced by the other factors.

Resumen

Los bancos siempre buscan un modelo de recompensa que se puede utilizar como guía científica y probatoria. Porque los nuevos modelos de recompensa tienen conceptos en común que se refieren a la suma de pagos financieros y no financieros, la forma en que interactúan las recompensas financieras y no financieras es uno de los temas más sensibles y controvertidos en las organizaciones de servicios, incluso los bancos. El estudio de propósito tiene como objetivo diseñar un modelo de recompensa apropiado con énfasis en todos sus aspectos como un todo coherente. La categorización dimensional y la priorización de cada uno de los componentes relacionados con las recompensas ayudan a identificar las demandas de los empleados y se proporciona los bancos como una guía científica y probatoria. El método utilizado para priorizar factores es el modelado estructural interpretativo y el método DEMATEL se ha utilizado para el análisis cuantitativo de relaciones e interacción entre factores. Los resultados muestran que el pago basado en el desempeño ha sido identificado como el más efectivo y la recompensa por dependencia del trabajo como el factor más efectivo.

Reward, Compensation, Financial payment, Non-financial payment

Recompensa, Compensación, Pago financiero, Pago no financiero

Citation: MIRHOSSEINI-VAKILI, Atena, SALAJEGHEH, Sanjar, SAYADI, Saeed and POURKIANI, Masoud. Designing the reward model in banking industry: an integrated ISM-DEMATEL approach. ECORFAN Journal-Mexico. 2020. 11-25:36-46.

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Introduction

Private sector organizations have more flexibility in designing rewards programs. Therefore, they had better use rewards as a tool to gain the benefits of having committed and engaged employees (Ghosh et 26 al., 2016). Designing and implementing appropriate reward systems can not only influence employee motivation, but also improve safety, quality, creativity, innovation and many other important consequences (Gupta & Shaw, 2014).

Human capital in the banking system, like other institutions, is a priority, so one of the challenges for banks is the design of a payment system. Since modern models of total rewards have common concepts that apply to the sum of financial and non-financial payments, and proportional rewards have the characteristics of adequacy, equilibrium and competitiveness. So how to allocate financial and non-financial rewards is one of the most sensitive and controversial issues in service organizations including banks. A successful model of total rewards focuses on the needs of employees, with the goal of providing a flexible mix of rewards offered by choosing and using rewards to create a distinctive employer brand when adopting a long-term incremental approach (Prouska et al., 2016). Therefore, the main question of the research is to find out what is the reward model of the bank employees with the combined approach of ISM and DEMATEL?

Literature Review

Direct financial reward includes payments that a person receives in the form of wages, salaries, commissions and bonuses. Indirect financial reward (employee benefits) consists of all financial rewards that are not included in the direct financial reward. Non-financial rewards include the personal satisfaction that one receives from the job itself or from the psychological conditions in which the person works. Employers may opt for non-financial rewards to complete employee compensation, especially when it is difficult to obtain higher salaries due to the economic crisis (Mondy & Martocchio, 2016).

Following are some classification of rewards. Gulyani & Sharma (2018) divided rewards into three major categories, namely, financial rewards, material rewards, and psychological rewards.

According to Hulkko-Nyman et al. (2012) total rewards divided to monetary, material and non-monetary rewards. Pregnolato (2010) classified reward elements into five broad categories: Remuneration, benefits, work-life balance, performance and cognition, career advancement, and learning. Azasu (2012) states that reward includes five components: compensation, benefits, work-life balance, performance and recognition, development, and job opportunities.

In this study, 12 key factors of employee rewards have been identified through reviewing and investigating some of the conducted studies and researches (Table 1).

S. No.	Factors	Author (Year)
1 (C1)	Performance-based payment	Yeh et al. (2009), Belle (2010), Wickramasinghe and Wickramasinghe (2016), Forth et al. (2016), Hur (2018)
2 (C2)	Individual-based payment	Eugene Hughes (2003), Mitra et al. (2016)
3 (C3)	Job related payment	Georgantzis and Vasileiou (2014), Mitra et al. (2016)
4 (C4) & 5 (C5)	Constant benefits & Inconstant benefits	Manas and Graham (2003), Carraher et al. (2003), Towers Perrin (2007), WorldatWork (2007), Hay Group (2009), Hellerigl & Slocum (2011), Towers Watson (2012), Milkovich Et al. (2014), Vidal-Salazar et al. (2016), Martocchio (2017), Chinyio et al. (2018)
6 (C6)	Social reward	Williamson et al. (2009), Newmaand and Sheikh (2012), Ramirez-Marin and Shafa (2018)
7 (C7)	Developmental reward	Zingheim and Schuster (2000), Tropman (2001), Manas & Graham (2003), Towers perrin (2007), Towers Watson (2012), Azasu (2012), Sibson (2014), Schlechter et al. (2015), WorldatWork (2015), Peluso et al,2017
8 (C8)	Environmental reward	Zingheim and Schuster (2000), Towers Perrin (2007), Janakiraman et al. (2011), Azasu (2012), Towers Watson (2012), Peluso et al. (2017)
9 (C9)	Work-life balance	Towers Perrin (2007), WorldatWork (2007), IDS (2008), Towers Watson (2012)
10 (C10)	Job content reward	Tropman (2001), Newman and Sheikh (2012), Giancola (2014)
11 (C11)	Affiliation reward	Manas & Graham's (2003), Sibson (2016)
12 (C12)	Self-determined reward	Hellriegel and Slocum (2011), Koch et al. (2014), Brown et al. (2018)

Table 1 Reward factors recognized through research literature

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Performance-based Payment

Today, performance-based pay systems, also known as variable pay systems, are commonly implemented in workplaces as a business strategy to improve employees' performance and reduce costs (Yeh *et al*., 2009).

Variable payment is the payment of cash to individuals in addition to the base pay. These payments are not part of the payment and are not a basic payment. Thus, the variable pay recognizes the performance of individuals or the performance of their team or organization (Wickramasinghe & Wickramasinghe, 2016).

Proponents of performance-based payment plans use expectation and reinforcement theories. Expectancy theory assumes that if people expect to be rewarded with high performance, they are likely to work harder. Reinforcement theory states that individual behavior is a function of its consequences. This approach shows that an organization can influence the behavior of its employees through incentives or penalties. Thus, according to this theory, rewarding high performance with financial incentives enhances employee orientation to results (Belle, 2010; Hur, 2018).

Individual-based Payment

Individual-based payment refers to payment based on staff competencies and capabilities. Skill-based payment systems reward employees for the set of skills they have acquired or the number of different jobs they can do. Two people who do the same job can have very different pay levels because one has more skills than the other, an approach that is fundamentally different from paying a job (Mitra *et al*.,2016).

The purpose of the skill-based reward system is to recognize and pay for the skill, competence, and knowledge necessary to perform an employee assigned task (Eugene Hughes, 2003).

Job-based Payment

The most traditional compensation is a job-based payment system that rewards people for the work they do. Internal equality (through job evaluation) and external equality (through wage and benefits) are taken into account in these systems (Mitra *et al*., 2016). The Mercer pattern is the quantitative method and somehow a combination of the method score and compare factors. The Job Evaluation System (IPE) is used to rank and determine the organization's jobs. This system evaluates the organization's jobs in five factors: impact, communication, innovation, knowledge, risk.

According to the theory of compensating wage differentials (CWDs), the wage of a person in a particular job should offset the effort and other psychological costs that result from the overall job characteristics (Georgantzis & Vasileiou, 2014).

Benefit

Benefits are supplementary payments to cover certain conditions such as retirement, lack of health care and transfer of services (Chinyio et al., 2018).

In addition, previous literature has shown how benefits can support some businesses and HR strategies, to the extent that they are valued by staff and are an important determinant of employee job satisfaction. As a consequence, the benefits have been considered an effective tool to increase firms' attraction and retention capacity (Vidal-Salazar et al., 2016).

Each organization offers different benefits depending on its goals. In Iran, benefits are classified into two categories: constant and inconstant benefits:

Constant benefits (cash and non-cash): There are cases where workers are paid several months in a row with basic salaries and are usually referred to as individual salaries. Such as, child and spouse allowance, housing allowance, household consumption allowance, transportation allowance, etc.

Inconstant Benefits (Cash and Non-Cash): There are cases where there are no fixed payment procedures and may be paid to workers every few months. Such as: Deposits for religious services, clothing allowances, scholarships, sports allowances, etc.

Benefits are inseparable from reward models and are usually expressed as indirect rewards. Manas & Graham (2003), Towers Perrin (2007), WorldatWork (2007), Hay Group (2009), Hellerigl & Slocum (2011), Towers Watson (2012), Milkovich et al. (2014), Martocchio (2017), etc. pointed to the benefits in the reward models.

Social Reward

Social rewards are defined as actions and expressions that specifically reflect respect, courtesy, social praise, and benevolence. Respect and politeness centered around showing independence and proper politeness in social interactions, which does not necessarily have to be positive, but is about recognizing and considering one's position within the group (Buttny and Williams, 2000; Ramirez-Marin & Shafa, 2018).

Social rewards come from interacting with other people in the job and may include having supportive relationships with the supervisor and co-workers (Newman & Sheikh, 2012).

Developmental Reward

Previous research has shown that adopting HRM practices in training and development, maximizing positive employees' emotional reactions in the workplace and increasing their overall satisfaction leads to better quality of work-life for employees (Peluso et al., 2017).

Manas & Graham (2003), Zingheim & Schuster (2000), Sibson (2016), Towers Watson (2012), WorldatWork (2015), Towers Perrin (2007) and Tropman (2001) pointed to developmental rewards.

Environmental Reward

People choose an organization that provides care and supportive work environments. There is evidence that characteristics of the workplace and physical environment have a positive effect on employee commitment. It is expected that there will be an understanding of a positive work environment - such as a place with good physical and mental health as well as opportunities for work-life balance that will bring out the best in employees and increase their commitment and performance (Peluso *et al.*, 2017).

Zngheim and Schuster (2000), Towers Perrin (2007) and Towers Watson (2012), have also mentioned environmental rewards in reward models.

Work-life Balance

WLB is defined as "an individual's subjective appraisal of the accord between his/her work and non work activities and life" (Brough *et al.*, 2014; Gravador and Teng-Calleja, 2018).

The concept of work-life balance is based on the idea that work and personal life complement each other in achieving perfection in one's life. At the same time, the literature indicates that HR policies endeavoring to improve employee work-life balances have been related to positive consequences. Chatrakul Na Ayudhya et al. (2015) state that work-life balance can be a viable alternative for traditional financial rewards in times of economic crisis.

Towers Watson (2012), IDS (2008), Towers Perrin (2007), WorldatWork (2007) pointed to work-life balance in designing a reward model.

Job Content Reward

Giancola (2014) states that job characteristics are an effective factor in employee motivation and have been referred to in many theories. The most well-known theories are job Characteristics theory and self determination theory. Giancola regards job-related reward as internal reward. Opportunities to use skills and abilities, the work itself, autonomy and independence, sense of meaningfulness, variety of work are examples of job rewards.

Newman and Sheikh (2012) have included independence and freedom at work as internal rewards.

These types of rewards are mentioned in the Towers Watson, Sibson, and WorldatWork reward models. Tropman in the reward equation, which has shown 10 variables, brings the job content into the psychological rewards variable.

Affiliation Reward

There is little research on affiliation in reward models. Sibson (2016), in the reward model, refers to the affiliation and defines it as: "Employee feeling of belonging to the organization is called affiliation and is measurable with the components of organizational commitment, citizenship behavior and trust ".

Also, in Manas & Graham's (2003) total reward Model, they have incorporated affiliation into the category of intrinsic non-financial rewards, stating that organizational belonging to the individual creates value just as an individual feels at home. An organization can also create value for employees from the time they are hired to the time they leave the organization.

Self-determined Reward

In designing the reward model, Hellriegel and Slocum (2011) mentioned six types of rewards, one of which is self-determined rewards, including the components of self-congratulation, self-recognition, self praise, self-development through expanded knowledge/skills, and greater sense of self-worth. Self administered rewards act as motivation for individual achievements and are widely recommended for personal motivation.

Since the self-reward is under the control of the individual, it is applied to overcome some of the limitations of extrinsic rewards. (A) It's more acceptable than extrinsic reward; (B) less likely to weaken intrinsic motivation; C) more likely to result in favorable behavior change than extrinsic incentives (Brown *et al*., 2018).

Methodology

The purpose of this method was the classification of the factors and identification of the relationships between the criteria. It was a qualitative-quantitative approach widely used in various sciences.

The study was applied-developmental in terms of purpose and descriptive in terms of data collection method. Data collection method in the study was designing and distributing the questionnaires among expert groups. Two questionnaires were designed in the study, one of which was used to collect the required data for ISM analysis and the other to collect data for DEMATEL analysis.

Two groups of experts from academia and industry were selected based on purposive sampling. There is not any consensus on the number of specialists for ISM. This number varies from 8 to 42 (Mahajan et al., 2016). In the questionnaire that was designed for the ISM method, the experts were asked to determine the kind of relationship between the factors in question in terms of effecting and being effected, and they were asked to specify the intensity of factors affecting each other quantitatively in the questionnaire designed for DEMATEl method. The flow of the study has been given in Figure 1.
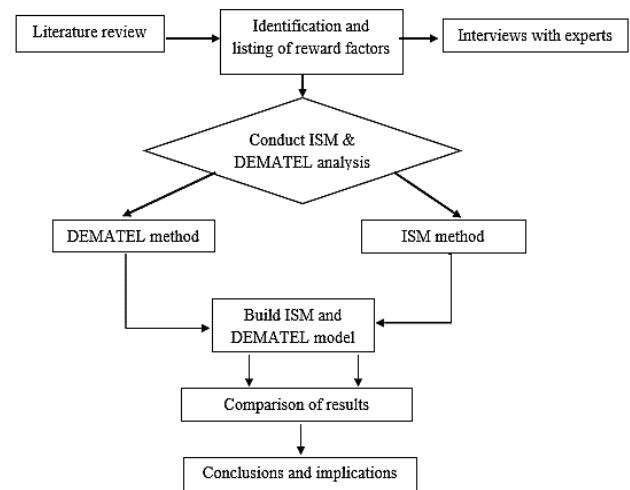

Figure 1 Flow of the study

Results

Interpretive Structural Modeling (ISM)

The ISM can serve as a tool for establishing order and orientation in complex relationships between variables. ISM depends on the opinion of experts. ISM methodology is interpretive due to the fact that judgment of the group decides whether and how the variables are related.

It is structural too, as on the basis of obtained relationship, an overall structure about a complex set of variables is generated.

Final reachability is derived by incorporating the transitivity in the matrix. Table 2 contains the dependence power (represented by row) and driving power (represented by column) of each factor. The calculation of dependence power and driving factors is based on the development of reachability matrix.

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Item	1	2	3	4	5	6	7	8	9	10	11	12	Driving power
C1	1	0	0	0	1	1	1	1	1	1	1	1	10
C2	0	1	0	0	1	0	0	0	1	0	1	1	6
C3	0	0	1	0	0	0	0	1	1	1	1	1	7
C4	0	0	0	1	0	0	0	0	1	0	1	1	5
C5	0	0	0	0	1	0	0	0	1	0	1	1	5
C6	0	0	1	0	0	1	1	1	1	1	1	1	9
C7	0	0	1	0	0	0	1	0	1	1	1	1	7
C8	0	0	1	0	0	0	0	1	1	1	1	1	7
C9	0	0	0	0	0	0	0	0	1	0	1	1	4
C10	0	0	1	0	0	0	0	1	1	1	1	1	7
C11	0	0	0	0	0	0	0	0	0	0	1	0	2
C12	0	0	0	0	0	0	0	0	1	0	1	1	4
Dependence	1	1	5	1	3	2	3	5	11	6	12	11	

Table 2 Final reachability matrix

From table 3, it is observed that affiliation reward is placed at level-I in the ISM based hierarchal model. It also implies that work-life balance and self-determined reward are positioned at level-II in the ISM hierarchy. Pay for job, constant benefits, inconstant benefits, environmental reward and job content reward are placed at level-III ; pay for individual and developmental reward are placed at level-IV; social reward is placed at level-V and finally pay for performance is placed at level-VI .

Factors	Reachability set	Antecedent set	Intersection set	Level
C1	1	1,5,6,7,8,9,10,11,12	1	VI
C2	2	2,5,9,11,12	2	IV
C3	3,6,7,8,10	3,8,9,10,11,12	3,8,10	III
C4	4	4,9,11,12	4	III
C5	1,2,5	5,9,11,12	5	III
C6	1,6	3,6,7,8,9,10,11,12	6	V
C7	1,6,7	3,7,9,10,11,12	7	IV
C8	1,3,6,8,10	3,8,9,10,11,12	3,8,10	III
C9	1,2,3,4,5,6,7,8,9,10,12	9,11,12	9,12	II
C10	1,3,6,7,8,10	3,8,9,10,11,12	3,8,10	III
C11	1,2,3,4,5,6,7,8,9,10,11,12	11	11	I
C12	1,2,3,4,5,6,7,8,9,10,12	9,11,12	9,12	II

Table 3 Determination of level and priorities of variables

The ISM model in Figure 2 shows that pay for performance is the most significant factor for reward, as it forms the base of the hierarchy. Then comes social reward which lies at the second level of the hierarchy. Social reward influences developmental reward which lie at level three. Developmental reward act as enablers for job content reward and pay for individual acts as enablers for inconstant benefits which lie at level 4 of the ISM model.

Job content reward, environmental reward, inconstant benefits, constant benefits and pay for job significantly contributed to reach work-life balance and self-determined reward at level 5. Affiliation reward occupies the top level in the ISM hierarchy. It clearly indicates that all other reward factors should act in unison in order to make employees feel more affiliated.

The research model indicates that affiliation reward, which is related to a sense of belonging, commitment, trust and organizational citizenship behavior, is the result of other financial and non-financial rewards. From among financial rewards, performance-based payment and from among non-financial rewards, social reward are viewed as the most influential factors.
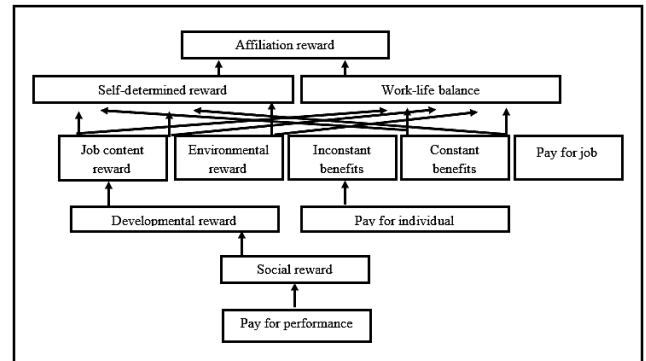

Figure 2 The ISM model for employees' reward

MICMAC analysis

Figure 3 shows that the second, fourth, and fifth factors (C2, C4, C5) are in the first cluster. These factors have the least degree of effect and the least degree of dependency in the designed model. The realization of these factors is not conditional on the realization of the other factors (other 10 factors) and their realization does not drastically affect the realization or non-realization of other factors.

The ninth, eleventh, and twelfth factors (C9, C11, C12) are in the second cluster. These factors have the least degree of effect and the most degree of dependency in the designed model. Their realization depends on other factors.

No reward criteria fall under the third cluster of linkage criteria which have strong driving power as well as strong dependence. The criteria in this group can be relatively unstable as any action on these criteria will have an impact on others and also a feedback influence on itself.

The first, third, sixth, seventh, eighth and tenth factors (C1, C3, C6, C7, C8, C10) are in the third cluster. These factors have the most degree of effect and the least degree of dependency in the designed model. These factors have a role in the realization of other influential factors in the reward system; however, their realization does not depend on other factors.
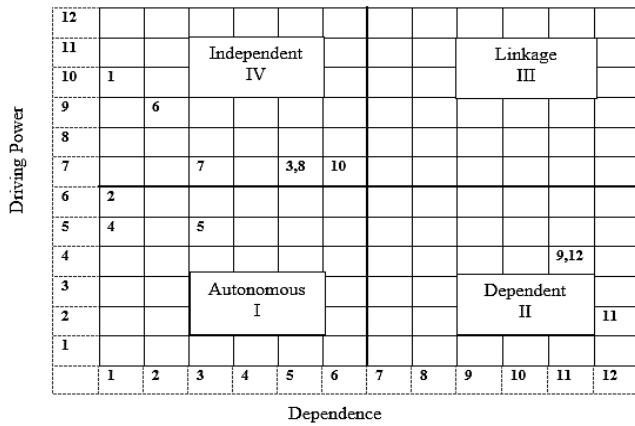
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Figure 3 Driving power and dependence diagram for rewards

DEMATEL

The decision making trial and evaluation laboratory (DEMATEL) method was developed by the Geneva Research Centre of the Battelle Memorial Institute between 1972 and 1976 (Kumar and Dixit, 2018). This method creates the interrelationship between factors to build a network relationship map. (D + R) and (D-R) represent the so called prominences and relations, respectively. Based on the (D+R) values, the preference or relative importance order for these identified factors is given as affiliation reward (C11) > self-determined reward (C12) > work-life balance (C9) > pay for job (C3) > job content reward (C10) > social reward (C6) > pay for performance (C1) > pay for individual (C2) > constant benefits (C4) > developmental reward (C7) > environmental reward (C8) > inconstant benefits (C5) as shown in Table 4. In contrast to the importance of each factor, affiliation reward (C11), self-determined reward (C12) and work-life balance (C9) are ranked first, second, and third with the highest (D+R) values. Likewise, the 'relation' values (i.e. D-R) categorize the factors into cause and effect groups depending on the positive (net cause) and negative (net receive) values attained in the total relationship matrix (Table 4).

	D	**R**	**D+R**	**D-R**	**Co-ordinates**
C1	4.455	4.415	7.870	0.040	P1(7.870,0.040)
C2	3.926	3.890	7.815	0.036	P2(7.815,0.036)
C3	4.124	4.093	8.216	0.031	P3(8.216,0.031)
C4	3.703	3.679	7.382	0.023	P4(7.382,0.023)
C5	3.101	3.154	6.255	-0.053	P5(6.255,-0.053)
C6	4.018	3.959	7.977	0.059	P6(7.977,0.059)
C7	3.700	3.622	7.322	0.078	P7(7.322,0.078)
C8	3.483	3.453	6.935	0.030	P8(6.935,0.030)
C9	4.072	4.161	8.233	-0.089	P9(8.233,-0.089)
C10	4.107	4.007	8.114	0.100	P10(8.114,0.100)
C11	4.565	4.708	9.272	-0.143	P11(9.272,-0.143)
C12	4.332	4.304	8.636	0.028	P12(8.636,0.028)

Table 4 Degree of influence

According to Figure 4, factors such as performance-based pay, job-based pay, individual-based pay, constant benefits, social reward, developmental reward, environmental reward, job content reward, and self-determined reward with positive values have been identified as cause factors. Factors such as the inconstant benefits, work-life balance, and the affiliation reward with negative values have been identified as effect factors. In addition, the intensity and effectiveness of each factor are calculated quantitatively. Finally, we found that the C10, C7, C6, C1, and C2 are the first, second, third, fourth, and fifth are the most influential factors respectively.
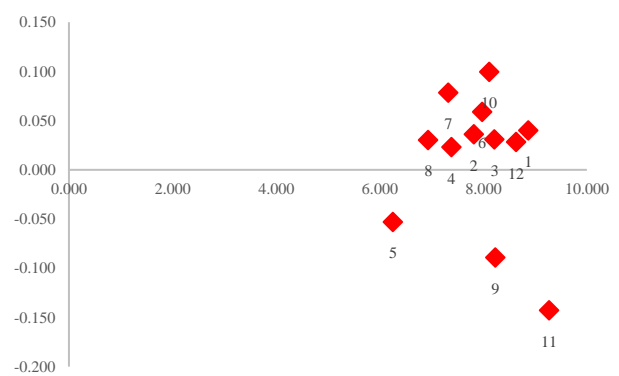

Figure 4 DEMATEL causal diagram

Conclusions and Recommendations

Reward is an attractive and at the same time highly varied aspect in human resources management. Nowadays, one of the main functions of human resources managers is attracting, keeping and improving beneficiary human capitals in the organization; in this regard, regulating and designing an appropriate reward system is one of the most important factors.

Since in this study, performance-based payment was the most influential factor, it is suggested that managers of the organizations constantly support the establishment of performance-based payment system; Top managers` commitment, as the organization`s leaders in administering performance-based payment or any system that is going to be administered in the organization, would act as an administrative support for low-level managers. Appraising a proper performance is seen one of the main and the determining principles in shaping a mentality of justice in the organization.

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Therefore, developing performance appraisal and training managers to effectively use this tool should be included in the main programs, while an appropriate and fair performance appraisal system should be designed upon which rewards are paid. As well, the way the performance-based payment is made should be clearly and unambiguously specified for all the employees.

Social reward is an effective reward that as a motive power, makes individuals improve their skills and use them in the future. Managers should encourage and appreciate employees privately or preferably in public. The encouragement could be material, verbal or via offering a letter of appreciation.

It is recommended that managers pay more attention to the learning opportunities and personal developments of their employees in their jobs; in this regard, holding constant and frequent educational courses with the aim of increasing professional as well as life skills can be beneficial. Moreover, it is suggested that those employees who use their trainings in their jobs, be financially encouraged, which improves the satisfaction from financial rewards.

Work environment should have primary facilities, for example, it should be appropriate in terms of light, ventilation, being away from environmental noise and etc. and primary tools and appropriate work instrument be accessible for employees. The appropriateness of physical conditions of the working environment is among primary prerequisites of increasing one` efficiency.

Managers can delegate authority, freedom and decision-making right to the individuals in their jobs, especially for those employees having sufficient experience that due to reasons, their improvement has not been made possible in the organization. This issue is essential for younger capable employees that have the related proficiencies.

Furthermore, managers should have proper job evaluation methods and behave fairly while making payments. These issues result in employees` satisfaction.

Using flexible benefit package for employees is a good strategy to increase their satisfaction regarding the financial and non-financial rewards.

To improve self-administered rewards, managers should behave employees in a way that they feel themselves as important person both in the organization and while reaching to the purposes of the organization. Improving the feeling of identity and being value increases individuals` motivation and leads them comprehend that managers highly regard their position in the organization and their little effort to reach the organization`s purposes is of utmost importance; therefore, they do self-development through developing their knowledge and skills.

As a summary and regarding various presented models in the area of reward, it could be stated that no rewards, whether financial or non-financial can be best and ideal for all organizations; in other words, designing a reward system and the way of its administration by managers, should follow a contingent decision-making pattern. Therefore, in designing a reward system, differences should be taken into consideration. The presented model in this study, can be utilized as a basis for prioritizing factors and various forms of rewards in banks.

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