Remarks by
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California Independent Bankers

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Thank you.

In just a few days, I will have been Chairman of the Federal Deposit Insurance Corporation for a year. I was recently asked what I thought had been the major events at FDIC during my term so far. I said that there were two. One was being able to lower the deposit insurance premiums that the best managed and best capitalized banks -- more than nine out of ten banks in America -- pay to four cents for every $100 in insured deposits. This will help banks be more competitive and will put more money back into the economy. The other was being able to return a billion and a half dollars in assessments with interest to the banking industry -- I hope you got your refund, and if you didn't, let me know. Both actions will allow bankers to serve their stockholders, their customers, and their communities better.

I enjoyed being able to stamp on your assessments: return to sender. Let me ask you: When was the last time that any money you sent to Washington was returned, with interest, and at the same rate that the government agency earned?

It has been a good year.

I am also pleased to be able to celebrate my anniversary as Chairman here with you in California -- and particularly in Napa Valley -- an inspiring place, in more ways than one.

Napa -- and Sonoma -- are blessed with excellent soil and an extraordinary climate for making wine. It wasn't just the land and the annual days of sunshine, however, that elevated Napa to the level of Bordeaux and Burgundy in just a few short years -- that turned the United States into a world-class wine producing country.

Soil and weather were necessary -- but not sufficient. What was also needed was the human element -- men and women who were independent and visionary -- people who knew you did not have to be big to think big. People who epitomize everything that is most exciting about the California state of mind -- tremendous innovativeness. All of you understand that it is not necessary -- and it may be counterproductive -- to have a giant operation in order to have a place -- an important place -- in the world.

At the FDIC these days we are also thinking big -- we are examining all the ways we need to adapt to a changing financial industry and economy. The FDIC has a distinguished history of assuring the stability of the financial system for 60 years. If we are to continue to serve the nation by maintaining public confidence in the banking system, we must adapt to changing circumstances.

I became FDIC Chairman a year ago with the intention of retooling and repositioning the organization. I knew that our focus could not be largely on liquidating failed banks -- our major role not too many years ago. It is far better to keep failures from happening -- so we have to find ways to help banks stay open, operating safely and soundly, and serving your customers and communities.

At the same time, I wanted to run the FDIC the way a business operates -- by striving for greater productivity and enhanced performance, by using rigorous cost/benefit analysis, by relying on up-to-date management concepts.

I also knew when I became FDIC Chairman that virtually everything we do translates into a cost for insurance fund members. A biographer of my fellow Tennessean Andrew Jackson wrote of him: "he believed government is best which spends least." It must be something in the Tennessee soil, but I believe that too.

Consequently, I have spent the last year looking at ways for the organization to become more efficient in terms of getting greater productivity and more return for every dollar spent in day-to-day operations. To a great extent, efficiency means using the resources of the FDIC more effectively. We are reviewing everything we do -- as supervisor, insurer, liquidator -- to increase the efficiency of the FDIC as an organization -- and thereby reduce costs.

Initially, I knew that to succeed, we had to set a new direction for the organization formally and to make sure that necessary, specific initiatives were undertaken to move the organization in that new direction. In business, these objectives are often achieved through the use of a strategic plan, an operating plan, and a reorganization. Together, these three elements form a foundation for change. Those were three elements that I spent much time in my first year as Chairman defining, designing and initiating.

We developed and adopted a strategic plan -- for the first time in the 60-year history of the FDIC. There is an old saying: "If you don't know where you are going, any road will take you there." With the strategic plan as a guide, everyone at the FDIC knows where the organization should be going. We are transforming the FDIC into an organization dedicated to identifying, monitoring, and addressing risks to which depository institutions -- and their insurance funds -- are exposed.

Our mission is just the same today as it was when Congress created us in 1933: to maintain stability and public confidence in the nation's banking system. It is, however, the way in which we are accomplishing that mission that is changing.

We put together an operating plan -- the specific initiatives that will get us to where we want to go. As of now, approximately 150 projects are in the works under that operating plan.

One of those projects is to define the FDIC's "core" staffing level -- that is to say, the number of people we will need to operate the organization once we have liquidated the remaining assets from the bank and thrift failures of the late 1980s and early 1990s. I cannot say today precisely what that number of staff will be, but it will be far less than the number of staff we now have.

Finally, we reorganized the FDIC, first, by establishing a management team to supervise the projects in the operating plan and to assure that all parts of the FDIC work together, and, second, by creating a Division of Insurance to monitor risks and recommend responses to problems, so that you will have information on risks to banks early enough to do something about it.

Part of this new direction is reviewing supervision and examinations. I want to reduce the burden of regulation that falls disproportionately on smaller banks. One way to do that is to eliminate or reduce requirements that are not essential to doing our job. With 41 complete regulations and 76 written policy statements with many subparts that is no small task, but we are looking at every one of them. Another way to reduce the burden is to get our examiners in and out of your banks faster, while still assuring the completeness of our examinations.

I want to spend a few minutes describing our efforts to do just that.

On the safety and soundness side, we have already made a solid start. In the first eight months of 1995, we reduced hours for FDIC safety and soundness examinations on average by almost 10 percent. That is a solid start, but only a start.

We are investigating and introducing less intrusive examination techniques, primarily through the use of computers. Off-site supervision can never replace on-site examination, but it can complement it and reduce the time spent on-site. In doing so, we can make the examination less burdensome for you.

We will soon field test an automated loan review program. This initiative will reduce the amount of time examiners spend evaluating loan quality while at the same time assuring a thorough review. The program will capture relevant loan data in a standardized electronic format from a bank's EDP servicer. It will then import these records into an automated loan review package. This method of evaluating the loan function will reduce the number of specialized loan reports requested by the field examiner from you.

The examiner will be able to use the data captured from the bank's loan data base to generate the reports needed for the examination without having to make additional requests of the bank. We are also looking at how to integrate this program into a larger automated examination tool.

Because the electronic record would be analyzed away from the bank, these measures would reduce on-site examination time and regulatory burden and the bank would have fewer pre-exam documentation requirements. The FDIC is working with the other regulators to identify the most commonly requested loan data, so banks and their servicers can anticipate the needs of an examiner. This concept can be expanded to other areas of the examination.

Further, we are investigating the use of the Internet to permit electronic submission of applications -- and to make available research materials, such as Financial Institution Letters, our examination manuals, and our rules and regulations. We were the first banking agency to receive comments on proposed rules via the Internet. We have been putting our Quarterly Banking Profile statistics on banks and thrifts on the Internet since early this year so you have access to that information.

On the compliance and CRA side, we have also been working since the beginning of the year to reduce the average number of hours for our examinations -- and have made measurable progress. As of mid-year, we had cut 10 hours off the average compliance examination and more than five hours off of the average CRA exam. Not enough yet, but a start in the right direction.

To put our averages in perspective, however, we need to compare them to those of others. Measuring our numbers against the averages of the Office of the Comptroller of the Currency, we found that, for CRA exams, on average the OCC spent about twice as long as we did in banks with assets of less than $500 million.

We know, however, there is still lots of room for us to improve.

We will continue to reduce on-site examination hours in this area, again through use of automation and through pre-exam planning. In our pre-exam planning, we will rely more on demographic data, and in particular mapping software, to streamline the examination process. The mapping software we are beginning to use combines census demographic data with a bank's loan portfolio, which allows an examiner to analyze lending activities comprehensively -- off-site in FDIC field offices.

I also want to emphasize that we put a great deal of stress on communications during the examination process. Examinations should not be games of "gotcha." Management is always free to come to us to talk -- and if we find major issues, we talk to management instead of waiting until the end. We also stress communications in the exit meeting.

You can see, I have had a busy year.

In our manual of examination policy, we tell our examiners: "The quality of management is probably the single most important element in the successful operation of a bank."

I <u>also</u> believe that the quality of management is probably the single most important element in the success of a <u>bank supervisor</u> -- and I have no doubt that the quality of management is the single most important element in the success of a deposit insurer.

Management, however, is not a static concept.

As Alfred Chandler and Peter Drucker have discussed so eloquently, business management has experienced two revolutions in the concept and structure of organizations. The first took place around the turn of the century. It distinguished management from ownership and defined management as a function. It started when Georg Siemans at Deutsche Bank threatened to cut off the bank's loans to an electrical apparatus company his cousin founded unless the owners turned the floundering company over to professional managers. The second took place in the 1920s with the introduction of command-and-control organization -- the organization of departments and divisions -- throughout American corporations.

We are now entering a third period of change -- the shift from command-and-control organizations -- where the executive vice president managed the senior vice presidents who managed the vice presidents, and so on down the line -- to one in which everyone is connected through information technology. Quite often, the product of the organization will be information.

Communication is important. For the FDIC, good communication inside and outside the agency is what we strive for.

No one can say exactly what is to come from this shift -- as Yogi Berra observed, "the future isn't what it used to be" -- but it seems to me that the people and organizations who are innovative, and visionary, and independent have what it takes to manage the change successfully. I intend for the FDIC be among them.

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