FDIC
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FDIC STAFF AND EXPENSES TO DROP SHARPLY, CHAIRMAN HELFER TELLS AMERICAN BANKERS ASSOCIATION CONVENTION

The staff of the Federal Deposit Insurance Corporation will decline by about a seventh this year and the expenses of the agency will be cut by about a fifth, FDIC Chairman Ricki Helfer announced Tuesday.

"That means that, by the end of the year, FDIC staff will be down more than a third from its peak of 15,611 in mid-1993," Chairman Helfer told a meeting of the American Bankers Association in San Francisco. "There is more we need to do to reduce staff and expenses as the remaining assets of failed banks and thrift institutions are disposed of -- and we will do it."

Chairman Helfer described her managerial approach as "retooling and repositioning the FDIC," which includes a drive toward greater internal efficiency and a shift of the organization's focus to monitoring, assessing and addressing risks to depository institutions. Reviewing her first year as FDIC Chairman, she noted that the FDIC had implemented the first strategic plan in its 60-year history; under its first operating plan, the agency had initiated 150 projects; the agency is assessing the number of staff that it needs now and once it has liquidated the assets of banks and thrift institutions that failed in the 1980s and the early 1990s; and the agency is introducing

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more computer technology to make sure bank examinations are more thorough, but less intrusive.

"I seek to run the FDIC the way a business operates," Chairman Helfer said, "by striving for greater productivity and enhanced performance, by using rigorous cost/benefit analysis, and by relying on up-to-date management concepts and technology."

A copy of Chairman Helfer's text is attached.

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Retooling and Repositioning the FDIC

Remarks by
Ricki Helfer
Chairman
Federal Deposit Insurance Corporation

Before the
American Bankers Association

San Francisco, CA
October 10, 1995

One year ago, I was sworn in as Chairman of the Federal Deposit Insurance Corporation. Recently, I was asked what I thought had been the two major events thus far during my term. I replied that one was being able to lower the deposit insurance premiums that the best managed and best capitalized banks pay to four cents for every $100 in insured deposits. Nine out of every ten banks in America are paying that four-cent premium. This reduction will help banks be more competitive and will put more money back into the economy. The second event was being able to return a billion and a half dollars in assessments with interest to the banking industry. I trust you received your refund. If you did not, I am sure you would have let me know. Both actions will allow you to serve your stockholders, customers, and 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 pleased to be able to celebrate my first anniversary as Chairman here with you in California.

Someone once said that -- to be creative -- you have to view the familiar as if you have never seen it before. California has certainly been blessed with creative people -- with visionary and innovative men and women. From computers to wine-making to entertainment to research, California has contributed greatly to making our economy the world leader.

That, however, is not news. Consider Henry J. Kaiser, who, in the early 1940s and under the demands of war, revolutionized shipbuilding by welding together prefabricated parts on assembly lines in San Francisco, Stockton, Napa and elsewhere. Ships rolled out in record times, often in less than two weeks for total construction. One ship appeared in four-and-a-half days. Over four years, his shipyards turned out an astounding 1,500 ships -- an even more impressive number when you take into account that there were no merchant shipbuilding yards in the state when he started up -- and when you realize that he had never built a ship before 1942. He had to look at shipbuilding as if he had never seen it before because, in fact, he had not.

At the FDIC these days we also are viewing the familiar as if we had never seen it before. 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. We know, however, that 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 seek 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 and technology. Incidentally, that was the way we approached setting deposit insurance premiums several weeks ago -- on the basis of fact, giving great weight to the condition of the industry and its outlook for the coming months. For an industry that continues to make record profits, that analytical approach portends well for your premium costs in the future.

And we are quite aware that premiums are a cost for you. In fact, I know that virtually everything we do translates into a cost for insurance fund members. A biographer of my fellow Tennessean Andrew Jackson wrote: "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, and employer -- to increase the efficiency of the FDIC as an organization -- and to reduce costs.

Initially, I knew that to succeed, we had to set a new direction for the organization 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 have devoted considerable time to defining and initiating.

We developed and implemented 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 enhancing the FDIC's skills at identifying, monitoring, and addressing risks to which depository institutions -- and their insurance funds -- are exposed, while at the same time finding ways to increase productivity, efficiency, and cost savings.

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 must go. As of now, we have initiated approximately 150 projects 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 and instituted management reforms to make the organization more efficient. I cannot say today precisely what the core 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 before there are losses to the insurance funds.

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 thoroughness 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 examinations, but it can complement them 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 from you by the field examiner and will reduce on-site examination time because the electronic record will be analyzed away from the bank.

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 through the Internet. We have been putting statistics on banks and thrifts in our Quarterly Banking Profile 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 the average CRA exam. Not enough yet, but a start in the right direction.

We will continue to reduce on-site examination hours in this area, again through the use of automation and through pre-examination 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 with banks. Examinations should not be games of "gotcha." We all benefit from having an open dialogue that identifies and addresses problems.

You can see, we have had a busy year at the FDIC. Two measures show just how busy. This year, I will reduce the FDIC staff by about one-seventh and FDIC expenses by about one-fifth. That means that, by the end of the year, FDIC staff will be down more than a third from its peak of 15,611 in mid-1993. There is more we need to do to reduce staff and expenses as the remaining assets of failed banks and thrift institutions are disposed of -- and we will do it. In addition, I want to note here that one of my first actions as Chairman was to eliminate the bonus program for FDIC executives, with the result that no executive bonuses have been paid since 1993.

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 also believe that the quality of management is probably the single most important element in the success of a bank supervisor -- 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.

The analysts tell us that we are now well into a third period of change: The shift from command-and-control organizations to one in which everyone is connected through information technology. With computer networks linking all employees to top management, we are experiencing a transformation in what management means -- from command to coordination, from hierarchy to team building.

No one can say exactly what is to come from this shift. As my favorite philosopher Yogi Berra observed, "the future isn't what it used to be." It seems to me, however, that the people and organizations who are innovative, visionary, and creative -- who look at what they do with fresh eyes and an open mind -- have what it takes to manage change successfully. I intend for the FDIC be among them.

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