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Address of J. L. Robertson, Member of

Board of Governors of the Federal Reserve System

before the

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"MEN WHO COUNT"

There is an old French proverb to the effect that the more things change, the more they are the same. Being somewhat of a pragmatist and very much of a skeptic, I was tempted to test this proverb by repeating today the comments I made at your convention in Reno, Nevada, five years ago. It would have been interesting to see the extent to which what I then considered to be timely and appropriate is now out of date. In addition, it would have tickled my warped sense of humor to see whether any of you would have recognized the familiarity of those remarks. But my legal background came to the fore and made me realize that it would be immoral - practically unconstitutional - to place any of you in double jeopardy, to subject you twice to the same punishment.

In deciding on a subject for discussion today, I went over the field of supervisory problems. I knew in advance that my good friend Homer Livingston, the next President of the American Bankers Association, had been plowing the ground of supervisory problems ever since the middle of last summer when he sent a questionnaire to us and to the other federal and state agencies. That questionnaire was really comprehensive - so much so that when I started asking our staff for suggestions for this talk, they almost invariably threw up their hands and said: "But Mr. Livingston covered everything."

However, sometimes adversity creates opportunity, and reflection revealed that Mr. Livingston had been looking - as all of us do most of the time - into the field on the other side of the fence, at the problems in the supervised banks. Consequently he overlooked a subject which is very near to my heart, a subject which lies on our side of the fence rather than his - an internal problem of bank supervision.

The subject is men - a particular group of men, scattered from one end of the country to the other; men who are unable to speak for themselves because you and I keep them so thinly scattered and so downright busy; men who are engaged in a profession just as are lawyers and economists, but who are not treated as such either as to training or compensation. I refer to our bank examiners - a group of chosen men who are devoting their lives to a very difficult job which is not calculated to prepare them for success in a popularity contest; men who for the most part are on the criticizing end of the line and who live out of a suitcase most of the time.

We expect a great deal from these examiners. We expect them to be superior in many respects, to be not a jack of all trades, but a <u>master</u> of them all. We expect them to be able to work independently and constructively with experienced bank officers.

We expect them to possess a great diversity of knowledge. Bankers are frequently specialists in selected fields; examiners must be specialists in all. An examiner is often called upon to visit a bank in an industrial community one week and in a farming community the next. In one bank he may be confronted with an analysis of a large municipal revenue bond account, while on his next assignment he may have to deal tactfully and thoroughly with an overloaned or undercapitalized condition, or perhaps weak management.

We expect of these examiners complete honesty, purposefulness, and sincerity. They must be men with good judgment which they can utilize not only fairly and impartially, but in such manner as will leave no hint of improper invasion of bank management's rights and prerogatives. They must display courage and intelligence, courtesy and imagination.

All of us bank supervisors like to think that the adequacy and quality of our supervisory programs depend primarily on our leadership. Like many generalizations this is partly true, but by and large we are deceiving ourselves. We are not the most important cogs in the supervisory chain. The examiners in the field are the ones who face the problems at first hand and, in fact, solve most of them before we ever hear of them. The best bank supervisor would be impotent without the contributions made by that band of men who travel from bank to bank in every community, today in a small bank with footings of $1,000,000, and tomorrow in the largest bank in the area. It is the work of these men that will ultimately determine whether the supervisory goals of each of us will be reached.

It has always been a source of genuine regret to me that all of us connected with bank supervision have not been more successful in conferring upon our examiners professional status of the sort that dignifies the calling of bankers. Perhaps we have not worked at it hard enough or long enough.

For fifty years the American Institute of Banking has been working along educational lines to strengthen banking as a profession. Steadily its program has been developed until today there are hundreds of banking courses under A.I.B. sponsorship in cities all over the country. Graduate schools of banking are accessible to every region. The problem facing it now seems to be the creation of graduate schools for the graduates of the graduate schools, to accommodate the increasing numbers who have exhausted every other formal program. Colleges and universities have been persuaded to add to their curricula courses in the practical aspects of banking, and before long it will be possible in many schools to obtain a degree with a major in banking.

And yet I expect all of us would agree that even in the field of banking itself enough has not been done in the area of training. Each of us has at some time or other emphasized the need for additional training of future bank officer material, and criticized the lack of it. The personnel problems that our examiners encounter in banks throughout the country today make it clear that bankers must do an even better job than has been done in preparing men to succeed those now in charge. We have urged, as I said, and should continue vigorously to urge banking institutions under our supervision to bolster their managements by providing better training for more personnel. But let's not forget that old saw about people who live in glass houses. Even though we occupy supervisory positions, we are hardly justified in criticizing the banks in this respect unless we have put our own houses in order.

And what about our houses? To put it as mildly as possible, in this particular respect we have been a little slow. It is true that realizing the need for a formalized educational program to supplement the practical experience obtained in the field, many of our bank supervisory agencies have encouraged participation by bank examiners in A.I.B. correspondence courses and provided for the attendance by some of them in the graduate banking schools. Those courses and schools have been helpful, but let's not forget that they were set up for the education of bankers, not examiners.

It was only two years ago that the Inter-Agency School to provide special training in bank examination work was organized under the joint sponsorship of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Federal Reserve System. Each State Banking Department was invited to send representatives to participate in this program and several have done so; hence, some of you know more about the school than I can tell you here.

The school was established to improve training procedure, expedite the training process, and develop better examiners. It is a workshop through which better examination procedures can be developed and a more thorough system of analysis of bank policies and practices can be devised. In this school we are not trying to impart our own opinions, but rather to furnish facts and kindle minds, with the view of contributing toward the further development of broad-gauged examining forces, equal to their demanding tasks.

Since this program began, intensive training over five week periods has been provided for approximately 225 men who have attended the school for assistant examiners, which is devoted primarily to training newly appointed men in their basic duties.

One year ago a second program at a considerably higher level was launched for experienced men who are under consideration for examiner's commissions and those who have recently attained that status. The next session of this more advanced school, which begins in a week or so, will bring the total of its alumni to nearly 100.

Cooperation by the three federal agencies, Bankers Associations, and bankers and specialists from all over the country who have contributed their time and talents, has made it possible to set up an educational program which would have been almost impossible for any one agency to organize on its own. I trust that as time goes on the names of more and more state examiners will appear on the roster, and that members of this organization will serve as lecturers and panel members.

This school is far from perfect. It must be constantly improved. Not unlikely it needs to be supplemented by a school for fully seasoned examiners in order to give them quick refresher courses and enable them to keep current with new developments, and abreast of changing methods and procedures and types of financing. But it is, at least, evidence of our efforts to meet our obligations to develop well-trained forces of examiners.

I know there are many who are luke-warm about examiners' schools because they believe there is no substitute for "on the job" training in bank examination work, and I would be the first to agree that a great deal can be learned in that fashion and in no other. Practical experience is essential, but it is not the exclusive avenue to examining competence. Banking itself is not static. It must grow with the economy. Hence as our economy becomes more intricate, examiners must cope with dozens of new problems that literally would take years to master by the hard road of experience alone.

Furthermore, the rapid expansion of loan volume in recent years has substantially extended the amount of work involved in examining each bank. Examiners are under pressure to complete increasingly heavy work loads and this further restricts the opportunity for adequate "on the job" training of new men. Not long ago an examiner told me that during their first year, and sometimes longer, his new assistants have no assignments other than counting cash, taking trial balances, and checking collateral. That this is by no means an exceptional practice has been confirmed in my talks with many assistant examiners. There is a very natural tendency to assign new men to the duties with which they are most familiar, especially when the examiner is under pressure to complete examinations. A man with previous accounting experience will often be detailed to reviews of earnings and expenses and the checking of official reports. A man with securities experience will work on investment portfolios in bank after bank, and the same is true for other phases of the examination process.

Years ago it was common practice in some professions to train by the apprenticeship method. Biographies of outstanding lawyers often used to state: "He 'read law' in such-and-such firm before being admitted to the Bar". Today when someone is admitted to the Bar on this kind of self-instruction, it often rates a human interest story in the press. An increasing number of jurisdictions has ruled out this method entirely. I am not advocating that we go that far in prescribing education for bank examiners, but in view of the increasing complexity of supervisory problems, we cannot afford to overlook any approach which will speed up, intensify and diversify the training of our examining staffs.

Speaking to a group, every member of which is as familiar with this subject as I am, and probably more competent to discuss it, I do not have to prove my point. But I suspect each of us can recall cases where bank losses could have been averted if the examiner had been better informed and therefore more alert. Certainly examiners are not the bankers' keepers, but just as certainly they have an obligation to be familiar with the pitfalls of all types of bank financing. Bank examiners cannot prevent embezzlement in banks, and neither can they prevent bankers from making unsound loans. But an examiner with the essential qualities I mentioned at the outset, who is properly trained, can exercise a healthy influence in steering bankers along the proper path, the path of sound banking principles geared to changing times and requirements.

Therefore, I hope you will all agree with me that the development and extensive use of better educational and training facilities for the members of our staffs is a task deserving of our best endeavor, and one we must not shirk. We owe it to the examiners; we owe it to the banking system; we owe it to the people of the United States.

It matters not one whit whether the school I have described is used for this purpose or some other and better device is utilized. But somehow or other we must see to it that while we are urging the banks of this country to do a better job of training their employees, we are not open to a similar criticism with respect to our own organizations. Lack of funds to provide the training is not a legitimate excuse. It is merely a reflection of our own shortcomings in failing to bring the needs of the situation to the attention of bankers and legislators in a sufficiently persuasive manner.

I would not leave you with the belief that in my opinion better training alone is the solution for everything. Each of us has had to deal with the problem of rapid personnel turnover. Down through the years some of our best examiners have left us to become bank officers. That situation will continue, and perhaps be accentuated as our training programs become better, but it should not discourage us in our improvement efforts, for when a sound examiner goes into a bank, sound banking principles go with him, and hence bank management as a whole is strengthened.

But too high a rate of turnover, even if it adds to the quality of bank management, makes the job of the supervisor very difficult. Consequently we should pinch ourselves once in a while, if that is necessary, to make us recall that a prime requisite for a satisfied staff, and hence a minimum of turnover, is an adequate salary schedule.

When I speak on behalf of higher salaries for bank examiners, I am sure that none of you will think that I believe they should be measured by the highest salaries paid to bank officers. Most bank examiners realize that in the public service part of their compensation must be found in the satisfaction derived from taking a vital part in maintaining an effective banking system, and a public-spirited interest in the success of this system is essential to a first-rate examiner. However, we should spare no effort to see that our men are compensated adequately for their services, if we expect to maintain the high standards so obviously necessary for the efficient operation of our organizations.

We must stop limiting the salaries of our top men in an effort to prevent the average pay in the composite pay roll from increasing too rapidly. We must adopt a broader pay-range and a program for basing salary increases primarily on merit rather than longevity. We must stop comparing examiners' salaries with those of men who are able to enjoy daily the comforts of home and family, denied to the examiner by his roving role. We must stop comparing the examiner's pay with that of nonprofessional employees.

Talk about the necessity for adequate salaries for examiners is not news to any of you. What may be news, however, is the extent to which salaries for examiners are constantly falling further and further behind the salaries of bank officers.

During the past nine years - 1945 through 1953 - the average salaries of officers in insured commercial banks rose 73% while those of federal examiners moved up 56% and State examiners only 41%.* Examiners' salaries have not only lagged behind the advance of bank salaries but are

* It was not possible to get complete information for all of the State Departments, but data were available for thirty-one different states and covered the vast majority of state examiners. Data for the federal agencies and the insured commercial banks were complete.

hardly up to the rise in the cost of living, which over the same period was 51%. In other words, the "real" compensation of some of our examiners, too low to begin with, has failed even to maintain that unsatisfactory level. It is amazing, under these circumstances, that it has been possible to retain and recruit so many good men as we have.

To state the problem is easy enough; to remedy it takes more doing. For some, this requires legislative action. The job, therefore, is to convince the legislators that higher salaries for examiners are in the public interest. But this should not be too difficult, for no one, I think, will deny that a sound banking system is a bulwark of a sound economy; and in turn, a sound economy is the foundation of our free enterprise capitalist system. This truth is just as applicable to the smallest hamlet as it is to New York City, and to every state as to the nation as a whole.

The bankers themselves, through their State Associations, ought to back up solidly a recommendation for more adequate salaries for examiners. It should be perfectly obvious that more adequate bank supervision made possible by a well-paid competent staff of examiners is in the best interest of bank management and directorates. They must rely in no small measure on an objective and independent appraisal of their operations by examiners. The better the examination, the better they ought to like it. (This is particularly true for the smaller banks. With the current emphasis on mergers and absorptions - almost bigness for its own sake - sometimes we forget that three in every four banks in this country have deposits of less than $5,000,000, and almost half have deposits of under $2,000,000.)

Your own interest in the matter is self-evident. I need not dwell on it. But if you are behind it, if the banks are behind it, and if it is so clearly in the public interest, then it ought to be possible to improve bank supervision through better training and better salaries for examiners.

Edmund Burke once said: "The only thing essential for the triumph of evil is for good men to do nothing." The problem before us is so important that we cannot afford to "do nothing". Its solution is dependent upon us and demands the exercise of all the ingenuity and determination we possess.