FROM:
THE AMERICAN BANKERS ASSOCIATION
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ADDRESS OF M. MONROE KIMBREL

President of The American Bankers Association, before the 11th National Agricultural Credit Conference Sponsored by the A.B.A. Agricultural Committee, Sheraton-Fontenelle Hotel, Omaha, Nebraska, Monday Morning, November 12, 1962. Mr. Kimbrel is chairman of the board, First National Bank, Thomson, Georgia.

With your permission, I would like to deviate from your custom of discussing strictly agricultural matters and use these few minutes to discuss two topics which are of interest to banking and the nation.

On October 22, President Kennedy went on television to expose the build-up of offensive missile bases in Cuba. He announced the intention of this country to eliminate the nuclear threat by whatever means were necessary.

He spoke in somber tones. The whole world was grim as it listened. It was apparent that at that time we were closer to war than at any time since the Korean Armistice was signed in 1953.

Russia backed down in the test of strength. Her ships turned back before reaching the blockade. Our ships and planes moved back into position after a temporary suspension of the sea and air surveillance and the missiles were being dismantled. Tensions were slightly eased by Russia's move, but the crisis is not completely eliminated. Moreover, the repercussions of the showdown will be with us for some time; and, I might add, it doesn't require a sixth sense to predict that other crises will spring up between the two great power blocs.

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One of the main questions in the mind of the public, and a question that every banker should have asked himself 19 days ago when the President broke the news, was this: How well are we prepared to sustain a nuclear attack? How well would our banking system function after such an attack?

These questions are not pleasant to consider, but they are vital and realistic.

Banks have played an important part in financing every war this nation has fought, dating back to the Revolutionary War, when Robert Morris and other patriots organized a bank to supply the necessary funds for the young colonies. In a nuclear war--if it should come--our role and responsibilities will be much greater.

When the President took a firm stand, he was supported by nearly all Americans. Yet, wouldn't our support have been more meaningful if we could have assured him that the bankers had taken every precautionary step possible to insure the continued functioning of our banking system?

The subject of preparedness is not new to us. In 1956 the Board of Governors of the Federal Reserve System, with the cooperation of the Treasury, the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and others, was given responsibility for bank preparedness.

At the time, John J. McCloy, who is now heading the committee to see the Cuban negotiations through to completion--was named chairman of an Advisory Committee on Bank Preparedness. A Banking Committee on Emergency Operations was also set up.

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The government's emergency defense plans, which were reviewed recently by the Federal Reserve Banks, call for maximum utilization of available resources. The Federal Reserve emphasizes the fact that this would be possible only if there were a functioning banking system.

It is difficult to overstate the importance that is being placed on the ability of banks to operate. Much has been done at the national level. Emergency financial policies have been formulated, emergency banking regulations have been promulgated, emergency currency supplies are on hand at decentralized locations, and provision has been made for postattack currency distribution, clearance of checks, and extension of credit for essential purposes. The New York Federal Reserve, in a recent letter to banks, points out that "all these accomplishments are dependent on the capability of banks to operate."

I wish I could report that only a small minority of bankers has not taken any steps to prepare for an emergency. I cannot. The fact of the matter is that on June 30, 1962--less than four months ago--examination reports showed that 1,410 banks had preparedness programs. There were 11,935 with either no plans or inadequate preparations. The larger banks, for the most part, had made emergency arrangements. In fact, the 1,410 banks with positive reports represent about 70 per cent of total deposits of all banks.

But the defense plans of this country call for maximum utilization of all available resources--not 70 per cent and just those of the larger banks.

Last week, managers of state bankers associations received a letter from Ralph Stickle, executive manager of the Michigan Bankers

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Association and president of the A.B.A.'s State Association Section. The letter reviewed some of the basic steps involved in emergency preparedness. Here are a few of the points raised.

1. Has your bank provided for a continuation of management and operations in the event of an emergency? This cannot be done at the eleventh hour. It may require action by the board of directors.

2. Have you made arrangements to set up an alternate headquarters? This again takes planning and might also require board approval.

3. Have you arranged for personnel protection? This requires a definite plan of organization for all employees.

4. What arrangements do you have for the preservation of your records, physical assets, currencies, securities, collateral, and documents which cannot be stored at distant points?

5. Do you have alternate records that you could use to reconstruct and ultimately do business? Alternate records, of course, should be stored some distance away from the bank.

6. Are you prepared to collect checks and other items during an emergency? It is not an easy task; but, if banks cannot perform this function, our money and credit system would come to a standstill. Plans for this function should be coordinated with your Federal Reserve Bank.

7. Does your bank have enough cash on hand to meet local needs in an emergency?

I would make one other point. Most of us here today represent smaller banks, which for the most part are in semiremote areas. If an attack should come, the prime targets would be the larger cities. But this is, in effect, one of the main reasons why the smaller banks should be prepared. If banks in industrial centers are damaged, the smaller banks will have to meet the responsibility of quickly establishing banking services.

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I have touched just briefly on some of the major points. These subjects are covered in detail in a series of booklets published by the Banking Committee on Emergency Operations. These booklets are available through the A.B.A. The seven titles are:

1. Organization and Administration of the Program in Your Bank
2. Personnel Protection
3. Continuity of Management and Alternate Headquarters
4. Physical Properties
5. Duplicate or Alternate Records
6. Collection of Cash Items and Noncash Items
7. Emergency Currency Distribution

The price for each booklet is 50 cents. If you have not read them and initiated plans in your bank, I urge you to do so now.

It is not an enjoyable task to face up to the possibility of nuclear attack. But it would be even grimmer, in the event of attack, to realize that we neglected our duties to our country by not taking every possible measure of preparedness.

The second point that I want to discuss with you is, in some respects, related to the first. It is perhaps the biggest single problem facing the medium- and smaller-sized banks across the nation. It is the problem of recruiting, training, and developing qualified leaders to insure the continuous and successful operation of your bank.

I say this is related to emergency preparedness because it is also a subject on which many bank leaders procrastinate. We tend to postpone present actions that are necessary to provide sound management for the future.

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This problem is not new. In 1954, Homer Livingston of the First National Bank of Chicago, was president of the A.B.A. He wrote to state and national supervisory authorities asking them to evaluate the soundness and capacity of bank management.

In reporting the results he said, "The examining agencies seemed to be of one mind in agreeing that one of the biggest problems confronting bank management today is the matter of successor management. Over 92 per cent expressed this view in their replies."

One supervisor with 15 years of experience reported that his greatest disappointment was his inability to persuade the managing officers and directors that they should train young men to step into management's shoes when the time comes.

These points were covered in the book, "Executive Development in Banking," which was published by the A.B.A. in 1955. But judging from conversations I have had with bankers across the country in the past two years, I would say the situation has grown even more critical. I would not be speaking honestly if I said I thought the situation would improve in the immediate future.

Look at the trends. In my home state of Georgia 20 years ago, one-third of the total labor force was engaged in agriculture. Today about eight out of every 100 workers in Georgia are engaged in farming. These figures are just about the same nationwide. It is an indication of the superiority of the American farmer and the American industries which supply modern chemicals and equipment to the farmers. In Russia it takes 35 farmers out of every 100 workers to feed the population. They have 65 men left out of each 100 to serve in the army, work in factories, and perform all other essential functions of their economy. We have 93 men out of each 100 free to perform nonfarm

duties. As a result, we have the widest possible selection of foods at the lowest possible cost, and the farmer has, in addition to equipment and materials necessary to run his farm, many luxuries that are unknown on farms throughout many parts of the world.

But as you well know, this efficiency has brought problems with it. The problems are working in two ways: First, while the number of farms has decreased, the size of the farms has increased. Larger farms have increased the farmers' need for credit and other bank services. This, in turn, has imposed additional credit demands on banks in rural areas.

The other problem is just as serious. In my area, for example, while the number of people engaged in agriculture was decreasing, there was a corresponding increase in the number of light industries. The number of professional people also showed an increase. These industries and progressions have different banking needs than the farmer.

I would venture to guess that many of you in this audience have found yourselves confronted with these problems. If the trends continue, and there is no reason to believe they will not, the problems will grow more intense.

The banker serving agriculture will have to be sophisticated to keep up with the increased technology of farming. His customers may be men who learned farming by growing up on a farm, but chances are there will be a good smattering of bachelors and masters' degrees in agriculture represented by his customers. This is not only true of farmers but also of those engaged in agriculturally related businesses. In short, your customers will know more about credit

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facilities available than they ever did before. Will your bank have the competent leadership to maintain commercial banks as the leading institutional lender to agriculture?

In areas where nonfarm interests are increasing, the banker also is going to have to know a lot more about a wider range of commerce. As semiurban areas develop, the customer will not be limited in his selection of banks. If you cannot provide the services he needs, he will simply go to another bank that can. Competition is getting back to normal after the pent-up demands following the depression and the war have been eliminated.

As competition increases, so will the need for sound and capable bank management increase. It may not be any consolation, but almost all industries are facing the same profit squeeze that we are. Forecasts for 1963 predict a drop in aggregate corporate profits from $51-billion to about $43- to $45-billion. As businesses across the nation strive to increase their efficiency, they will be recruiting fewer people but on a much more selective basis. This means that competition for good men will become more intense. Are we prepared to pay the salaries necessary to attract the caliber of people we must have to do the job? If we are not, there will be little point in worrying about other aspects of management development. Progress will pass us by.

Once we have selected the men we want, it is imperative that we give them as much training as possible so they have the foundation on which to build.

Fortunately, the banking industry has more extensive educational facilities than any other industry in America. The American

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Institute of Banking--the largest adult education program in the world sponsored by an industry--gives our people the basic fundamentals of banking. Recently, a study team program for correspondence students was initiated for those in areas that do not have enough students to form a chapter of A.I.B.

There are numerous state and regional banking schools in addition to the A.B.A.'s Stonier Graduate School of Banking. There are also many conferences, seminars, and workshops designed to help you with your training programs. With the increased need for developing competent leadership in banking, the A.B.A.'s Banking Education Committee has launched a concerted drive to coordinate the efforts of the various banking educational groups.

It is not a question of available facilities; it is a question of bankers getting the most out of the facilities that exist. When you are considering possible candidates for banking schools, make sure that (1) the candidate has the capacity to benefit from the training, and (2) he has the necessary background to assimilate the material.

If you have young officers who would benefit from specialized training that is not offered in a banking education facility, you might do well to check the programs at area universities to see if they will fit the individual's particular needs.

In a small bank like mine, it is difficult to free a man for educational activities. The young personnel know it. However, we found that the cost and inconvenience to the bank are more than worthwhile; they make the most of the opportunity because they prize it so highly.

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But training through educational programs is only the foundation. The only way to develop men capable of assuming greater responsibilities is to give them additional responsibilities as soon as they indicate the ability to handle them.

In the survey which I quoted earlier, the results showed that 6 per cent of the presidents of smaller banks didn't feel that they had anyone in their banks who could take over the duties of chief executive officer. What happens if the chief executive gets involved in an automobile accident? The bank might close voluntarily. A merger might be arranged, as is often the case. But any chief executive officer who finds himself without a successor has neglected his duties to the public, to his stockholders, and to his employees.

As is the case with emergency preparedness, when the crisis comes, it is too late to start planning.

Ideally, we should all have definite programs for succession. We should have not only candidate number one to take over the reins, we should have candidates numbers two, three, and four coming along behind him. The various stages of development should be planned in advance, reviewed frequently, and adjusted to meet circumstances. It can't be hit-and-miss. I had originally intended to develop this subject more completely. However, the urgency of the times required that attention be given to the other matter.

So, in the interest of brevity, I have condensed my remarks. However, I hope I have at least pointed out an area that deserves your constant attention.

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In summing up, let me make two observations. First, emergency preparedness programs for banks are now on a voluntary basis. This may not always be the case. It would be a sad day indeed for banking if we had to be told outright that compulsory action is necessary to insure the proper functioning of our economy in the event of an emergency. I am sure that bankers have a greater sense of national responsibility than the June statistics show. Now is the time for us to demonstrate our desire and capacity to accept this responsibility.

My second and final point is this. Management succession plans are just as vital in the longrun as the emergency preparedness measures are in the shortrun. Banks are chartered in perpetuity. Continuity of a sound banking system demands that we continue to develop sound bankers.

In both cases, we cannot start programs when it is convenient. We must start when it is necessary. I believe that time is now.

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