From the New Deal to the New Millennium
Remarks by
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Boston is as charming and as graceful a city as one could wish, in large part because of those sections of the city built in -- and for -- an earlier time. It is a city built in the 1700s and 1800s, which today must serve late twentieth century populations and traffic. Demands on cities change -- just as demands on institutions change. In both cases, we have to find ways to accommodate change.

Of course, that message is nothing new for savings banks, and savings and loan associations. I am not talking about the last 15 years alone. Savings banks were originally created in the early nineteenth century as thrift institutions to teach the poor how to save -- but they soon went beyond that original purpose when savings bank managers found that -- in order to survive -- they would have to diversify and build a larger depositor base. Savings and loans have their origins in building and loan societies. These were cooperative ventures to finance -- and construct -- housing for members. That limited purpose, too, was expanded when S&Ls found that, to survive, they had to grow and become more of a financial institution than a self-help organization.

In changing, savings banks and S&Ls responded to demands -- demands for multi-family housing in Brooklyn and Queens, demands for family homes from Cape Cod to my hometown of Murfreesboro, Tennessee, to San Diego. In responding to demand, from the 1940s on, you financed much of the building of suburban America. You made it possible for tens of millions of Americans to purchase homes. That might not have happened had not savings banks and S&Ls broadened their horizons.

At the FDIC these days, we are broadening our horizons. We are examining all the ways we need to adapt to a changing financial industry and economy. In doing so, we are viewing the familiar as if we had never seen it before. I believe that perspective is necessary to manage change effectively.

As you know, we were created in 1933 to restore and maintain confidence in the nation's financial system. For 60 years, we did that in a number of ways: examining banks and mutual savings banks for weaknesses, liquidating failed banks in ways that would be least disruptive to markets, and most of all, insuring deposits. No one has ever lost a penny in an FDIC-insured deposit -- no one.

We will continue to provide financial stability to the banking system, but we know that if we are to continue to serve the nation by maintaining public confidence in that system,

we must adapt to changing circumstances. We must move from the New Deal into the new millennium.

I became FDIC Chairman a year ago with the intention of retooling and repositioning the organization for the 21st century -- in part by increasing efficiency, reducing bureaucracy, and cutting costs. 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, and by relying on up-to-date management concepts and technology.

I knew that our focus cannot be largely on liquidating failed banks -- our major role only a few 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 customers and communities.

We are quite aware that deposit insurance 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 also believe that government should spend only as much as necessary to get the job done.

Consequently, I have spent the last year looking for ways to make the FDIC more efficient, to get greater productivity and more return for every dollar spent -- and I will continue to do that. This means using the resources of the FDIC more effectively and reviewing everything we do -- as supervisor, insurer, liquidator, and employer -- to increase the efficiency of the FDIC -- and to reduce costs.

From the outset, 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 institutions. 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 banks faster, while still assuring the thoroughness of our examinations.

I want to spend a minute describing our efforts to do 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.

On the compliance and CRA side, we have also been working since the beginning of the year to reduce the average number of on-site 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.

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 positions by about one-seventh and FDIC expenses by about one-fifth. That means that, by the end of the year, FDIC staff positions will be down more than a third from the peak of 15,611 in mid-1993. There is more we need to do to reduce positions and expenses as the remaining assets of failed banks and thrift

institutions are disposed of -- and we will do it.

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 -- the kind of people who transformed savings banks and S&Ls from self-help organizations into financial institutions -- have what it takes to manage change successfully. I intend for the people of the FDIC to be among them.

I started this morning by talking about public confidence and, to close the circle, I will finish by talking about confidence, too -- in particular, confidence in relation to the FDIC's efforts to assure a safe and sound Savings Association Insurance Fund.

I do not have to tell you how many times I have warned that the undercapitalization of the SAIF is not just a thrift problem, it is a problem for the entire financial system. The safety net for our financial system rests ultimately on confidence. Confidence in government's backing for the safety net was a major reason that the financial troubles of the 1980s and early 1990s did not lead to widespread panic and economic disarray. That confidence could be damaged if government is perceived as no longer willing to support one or more components of the safety net. Deposit insurance is essential to the fabric of that safety net. Bank customers and thrift customers do not know the difference between the Bank Insurance Fund (BIF) and SAIF. Indeed, Congress insisted that the

SAIF become "FDIC-insured" precisely to assure confidence in its future.

Legislation that would capitalize SAIF may at this moment be under consideration in Congress. Therefore, there is no better time to remind ourselves that the failure of the SAIF would undermine the confidence Americans have in the FDIC as a source of stability for the financial system and would call into question the government safety net for financial institutions. The problems of the SAIF are the residue of the S&L crisis of 1980s and early 1990s. The time has come to put the past behind us.

I am strongly committed to implementing a solution to the SAIF's problems as soon as possible and to a merger of the BIF and the SAIF as soon as practicable -- but by a date certain. I favor this approach because it would assure the immediate soundness of the SAIF, the confidence of the public in the safety net, and the stability of the financial system. The sooner this solution is in place, the better for all of us.

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