**Remarks**
**by**
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**before**
**the**
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This is the first time that I -- as FDIC Chairman -- have addressed a group of corporate directors. We have a lot in common. All of us share a deep interest in the quality of corporate management -- you, because your role as a corporate director is to assure that senior management does what it needs to do -- and me because, if bank management errs and a bank fails, it ultimately costs the FDIC insurance fund.

In fact, one of the five qualities that our bank examiners rate quantitatively when assessing the condition of banks is management -- the other four are capital, asset quality, earnings and liquidity. It will not surprise you to learn that management is viewed as the most important of the five and the most difficult to grade.

I am also deeply interested in management because I am the chief executive officer of a government agency, but one that differs from most others in that we are funded -- not by tax dollars -- but by premium assessments on the institutions we insure.

From those assessments, we manage two insurance funds -- the Bank Insurance Fund (known as the "BIF") and the Savings Association Insurance (known as the "SAIF"). Today the bank fund is fully capitalized at $26 billion, but the savings association fund is nearly $5 billion short of the required capitalization and is structurally flawed because of heavy geographic and institutional concentrations. Legislation is pending in Congress to shore up the savings association fund as a final payment on the savings and loan crisis of the 1980s and to establish the framework for a merger of the two insurance funds, but only two weeks remain in the Congressional session.

I doubt if any of you know whether your bank deposits are insured by the BIF or the SAIF -- you know that they are insured by the FDIC. It is the FDIC's strong commitment to financial stability that we must preserve with the legislation. As a Los Angeles Times editorial said earlier this week, passage of this legislation is critically important to the

FDIC and to the nation. In fact, the Times said: "The cause is right, the time is now." I agree!

I want to talk with you today about two issues: one, why we are trying to manage the FDIC like a business, and, two, what the differences are between a Federal government agency and a private sector business that add complexities to managing the FDIC like a business.

Businesses are successful only as long as they are effective in responding to change. As Peter Drucker, the mavin of management, spent a career pointing out, businesses do two things: they produce goods or services, and they change in response to their customers' demands.

Most of the time, these demands are not explicitly stated -- rather, they are telegraphed by marketplace decisions -- by what customers buy and what they do not buy. This sensitivity to change makes business an instrument of change, Drucker has said. In fact, he argues that "of all social institutions, it is the only one created for the express purpose of making and managing change." Successful businesses are also efficient. Profits and losses provide business with a test of performance.

The iron discipline of profit and loss has two consequences: Successful businesses constantly seek efficiencies in the way they do things and they constantly plan for the future -- planning for more than the next quarter or the next year.

Like a business, the FDIC also provides a service. It is a public service. The FDIC seeks to assure a stable financial system by providing insurance on bank and thrift deposits.

Providing a public service -- as directed by statute -- is what government agencies do. The FDIC was created during the Great Depression to restore and maintain stability in the financial system. The rate of bank failures declined dramatically after the FDIC began operations -- from 4,000 failures in 1933 to nine insured bank failures in 1934. More recently, we provided similar stability during the failure of more than 1,400 banks -- with combined assets of $235 billion -- in the 1980s and early 1990s. The great film "It's a Wonderful Life" shows what the impact of a bank or thrift failure -- or near failure -- would be on a community if there were no FDIC -- a picture not far from the truth.

Unlike a business, however, the FDIC does not operate in a marketplace where change is telegraphed by every dollar -- or lira or yen -- that changes hands. We also do not have the test of performance that profits and losses provide. We can, however, through thoughtful analysis and strong attention to weighing the costs and benefits of everything

we do, achieve a responsiveness to change and a discipline that the marketplace provides businesses.

Since I became FDIC Chairman two years ago, we have been analyzing everything we do and trying to figure out how to do it better. As a result of that analysis, we are making changes. I have had two goals throughout this effort: First, that the FDIC should monitor and assess risks in the banking industry where change is constantly occurring so that we can anticipate future problems for the industry rather than simply react when problems occur -- in other words, focus our efforts on keeping banks open and serving their customers and communities, rather than on closing them as we did in significant numbers -- and at great cost -- from 1982 to 1994.

When I arrived at the FDIC two years ago, I asked two questions: why were we not better at predicting those bank failures and how can we assure strong insurance funds in the future? We had a treasury of data on banks and thrifts that we and other bank regulators developed -- data that gave us the big picture on the industry. At the same time, our examiners assess the financial condition of individual banks. However, the regulators had never been particularly successful at combining the big picture with the individual assessment. To bridge the gap between the macro-perspective of one and the micro-perspective of the other, I created a Division of Insurance. It analyses economic data and supervisory reports to look for early warning signs for the banking industry.

My second goal was to provide the highest quality service to the public at the lowest cost. To that end, I hired a chief financial officer from the private sector to bring modern financial management tools and internal controls into the 63-year old government agency. He has searched for greater efficiency in all of our activities -- from lessening the cost to our insurance funds from bank failures to establishing a Board level audit committee and a unit to assess ongoing adherence to internal controls.

In short, we have business goals: responding to marketplace changes and improving value. To accomplish these goals, for the first time in our 63-year history the FDIC is operating under a strategic plan, a plan that defines -- as our business -- identifying and addressing potential problems within the financial industry that may cause losses to the insurance funds. The strategic plan will guide the agency in developing and evaluating our policies and programs for the remainder of the decade. Last year, implementing the strategic plan generated approximately 150 projects under a corporate-wide operating plan intended to place the Corporation on a business footing while dealing with emerging risks.

One of those projects was to define 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 managerial reforms to make the organization more efficient. At its peak in 1993, the Corporation had 15,611 employees. When I came on board nearly two years ago we had 12,115. In addition, as required by law, we absorbed more than two thousand employees from the Resolution Trust Corporation (RTC) when it closed at the end of 1995. Today staff size is 9,971 employees, a reduction of 29% in two years, counting the returning RTC employees. According to our analysis of the FDIC's workload after we dispose of the remaining $12.7 billion in assets of failed banks and thrifts, we expect to reduce the number of staff positions to approximately 6,500, based on current analysis, within the next two to three years.

No one welcomes these painful reductions, which affect people who have devoted years of service to the FDIC and to the nation, but a voluntary buyout program in 1995 gave employees an opportunity to receive a cash payment to help them transition to other careers or to retirement. The response to the offer was extremely positive with 940 employees accepting it.

We are at present working on a second buyout program, in anticipating -- and we hope, lessening the effects of -- a reduction- in-force next year. The term "reduction-in-force" is how the government says "lay-off," which is what the private sector used to say before "downsizing" and "rightsizing" became the terms of art.

In light of these necessities, a discussion of our workforce and our personnel policies will starkly illuminate the differences between managing a government agency and managing a business. I will illustrate the point with three such differences -- where the constraints and restraints that come with being a government agency mean that making changes in our workforce will be neither quick nor easy. The three are: (1) the culture of government employment, (2) the culture of government operations, and (3) the culture of Washington.

First, the culture of government employment. No one goes to work for the government for the money -- or rather, just for the money. For many people, the attraction is job security. For others, government work offers the less tangible attraction of serving the public and making important public policy decisions -- you may call it doing good, or not, depending upon your perspective, and California is known for widely different views in this area, but I do believe the FDIC does perform an important public function.

Additional motivations, as well -- such as family tradition and opportunity to advance --

also sometimes come into play. I doubt that one motivation is ever exclusive.

I never liked the expression "it is good enough for government work." To my mind, nothing but the best is good enough for government work and for Americans affected by it. The men and women with whom I serve at the FDIC today did their best when just a few years ago they worked to stabilize the financial system under severe stress. They sacrificed -- not out of desire for personal gain but out of dedication -- by moving across the country, again and again following rolling regional recessions, and by working eighty- and ninety-hour weeks under the stress of trying to prevent or address a bank failure.

As a government agency, however, FDIC employees have not escaped the belief of employees throughout the Federal workforce that they hold their jobs for life -- although it was never stated explicitly as a condition of employment. Downsizing our workforce under these circumstances requires sensitivity and delicacy, in part because of the dedication of employees who thought they signed on for more than a paycheck -- to serve the public good -- and who deserve fairness and humane treatment, and in part because we want to maintain for the future the dedication of the FDIC's staff to the public interest, which has been the mark of our organization for more than six decades. We have been working through this challenge for the past two years and we probably face three more years of challenge while our workload -- disposing of those $12.7 billion in failed bank and thrift assets -- continues to decline.

The concept of lifetime employment arose from the second way the FDIC differs from a business, and that is the culture of a governmental agency. If business is market driven, government agencies are process driven. We must follow procedures that are often detailed and complex. None of these procedures were established to promote efficiency. Most often, they were established to promote fairness, or honesty, or responsiveness to the public -- all worthy goals, and goals that add complexity and time to decision-making in internal administration.

As managers we still can get where we need to go, but must cover more ground and take more time getting there than private sector managers do.

The third way we differ from a business is that we have to operate in what a colleague of mine refers to as the "national aquarium" -- Washington, D.C. -- where everyone's actions are visible to all, and particularly to Congress and to the news media.

We do not change what we do in response to this visibility. We are, however, sensitive to making sure that our actions -- and motives for them -- are not misunderstood -- and

that reality and perception are the same.

That can be difficult in a highly politicized environment. Practically, this means that we spend a lot of time planning what we do and explaining why we are doing it. Last year, I testified before Congress 18 times and this year I have already testified 6 times on issues ranging from conditions in the consumer credit market to the problems of the savings association insurance fund to why bank regulators prohibited Daiwa Bank of Japan from continuing to operate in this country to our efforts to integrate the functions and staff of the RTC into the FDIC.

We must, of course, work with Congress -- and Congress has an important job to do -- but that also adds complexities. For example, by law Congress mandated that the FDIC would have to employ 2,000 RTC employees after the RTC went out of business at the end of last year -- at the same time the FDIC is downsizing.

There was a good reason for this requirement -- to assist the RTC in attracting quality staff -- but this statutory requirement is an example of how an agency working in Washington has less freedom sometimes than a business does because of other -- often worthy -- goals.

Given these differences between the FDIC and a business, we can never be as efficient as a successful private sector business can -- but we can find ways to improve our efficiency and our effectiveness and to face the new millennium with up-to-date operational and financial management techniques.

In managing the FDIC like a business, I often remind myself that companies must struggle to remain successful and that the market allows no one to rest on his or her laurels. Companies as well as government agencies also have a tendency to become trapped in the past -- to become prisoners of their own success.

The FDIC's chief operating officer, Dennis Geer, a native of Iowa, has frequently reminded me of the fate of the Hoag Duster Company in his home state. From a small town east of Des Moines, the Hoag company at the turn of the century produced close to half the world's supply of feather dusters -- by far the largest market share of any company in the business -- and it exported its product to Europe and South America.

The mass-produced vacuum cleaners that became available in the 1920s doomed the company's product -- but for fifty years Hoag kept on producing feather dusters for an ever shrinking market until it went out of business in 1974.

Most government agencies do not go out of business. Those that continue operating, however, can lose their edge as an instrument of policy, reacting to events instead of planning for the future and becoming less effective in accomplishing the day-to-day mission they were created to perform because they lack effective and efficient management.

Peter Drucker has pointed out that the first duty of management is to answer the question: "What is our business?" and then to shape the course of the organization around that answer.

As a government agency, we are given a mission -- in our case, to maintain the stability of the banking system. We could do that by cleaning up bank failures -- or we could do it by helping banks avoid failure. We have chosen -- as our business -- to help banks avoid failure. We are building an organization that aims to accomplish that. Despite the complexities that come with being a government agency, we are managing and leading our organization in that direction in the most cost-effective and humane way possible, and, in doing so, we are adapting to the changing marketplace in which we operate.

Thank you.

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