Remarks by Donald Powell, Chairman, Federal Deposit Insurance Corporation, Before the Exchequer Club, Washington, D.C. May 19, 2004

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I could talk about a lot of things this afternoon – developing a two-tiered bank supervisory system, the ten percent deposit cap, the Basel capital accord, deposit insurance reform, or corporate governance issues. I could talk about preemption, too big to fail, regulatory restructuring, taxing the credit unions, the relevance of the FDIC, the mixing of banking and commerce, the treatment of trust preferred securities for capital purposes, or regulatory relief. These are all hot topics, worthy of discussion. It is my hope that I can add value to the discussion on each of these and on many other issues. In many ways that would make me proud of my time at the FDIC.

Yet I would like to talk about something else. I am sure that each person who has the privilege of serving as Chairman of the FDIC wonders – fundamentally – did I add value to the organization? Is the organization better equipped to handle not just the issues of the day, but all of the issues that are surely to come? Is the organization better suited to serve the public and the industry by being able to manage itself effectively and efficiently?

As a newcomer to the federal government, I knew there would be some noticeable differences from my experiences in the private sector. For example, I knew that the motivation of public service would be substituted for a profit motive. I knew that there would be well-established programs and practices used by the Corporation over many years. At the same time, there were things I didn't expect, some positive and some negative. On the positive side I was pleased to find such a high level of competence, dedication, and a wealth of experience on the part of most of the employees of the FDIC. On the negative side, I didn't expect that implementing necessary changes in how we manage the workforce would be so difficult.

Change affects government just as it does the private sector. To use the FDIC as an example, we insure deposits, supervise banks and handle bank failures. Each of these business lines is affected by our rapidly changing financial industry. Globalization, evolving technology, growing complexity, consolidation and the increased use of non-traditional banking business lines are just some examples of the outside forces that dramatically impact how we should do our business. The FDIC needs to be able to move quickly and responsibly in order to do its job effectively. In this respect, we are no different than the private sector.

Our needs are not completely unique. Studies of the federal government at large all point to the need for personnel reform. In testimony before Chairman Paul Volcker and Members of the National Commission on the Public Service, David M. Walker, Comptroller General of the United States, acknowledged that we are in a period of profound transition for our world, our country and the government. He cited key trends that are shaping the changing nature of our economy and “the long range challenges that have no boundaries.” He argued for a comprehensive review and reassessment of how the government operates. He said, and I quote, “The status quo is simply unacceptable.” (July 2002)

Yet, after years of study and a general acknowledgment that our nation’s business environment has changed, that the workforce itself is changing dramatically, that technological advances impact every aspect of our life – the way that the government manages its workforce has not really changed since the days of the Great Depression. Unlike the private sector, there is little flexibility in the government’s personnel rules. Longevity is paramount – merit must wait its turn.

These rules were crafted to protect federal workers from political influence, and unfair and arbitrary treatment – all necessary principles. However, a change in the rules does not necessarily mean an end to such protections or that these goals should be compromised. For example: a streamlined hiring process does not compromise these protections; the ability to hire experts, consultants and federal retirees does not compromise these protections; changes to the rules governing how you reduce your workforce to give greater weight to job performance than to seniority does not compromise these protections; and the ability to promote employees purely on merit and not on an archaic formula of years in service does not compromise these protections.

In some ways, the FDIC has been an innovator in its human resources policies. We have implemented programs that take our existing authorities nearly to their limit. Last year we began a program where we recognize only the top third of our employees by giving them an additional salary increase. This is in contrast to prior programs where no meaningful distinctions in pay were made and all employees received the same reward irrespective of their performance. We overhauled the executive and manager pay programs to align pay with achievement of established corporate goals. Although we have gained some flexibility through these programs, it is not enough.

Most people in the private sector would be surprised to learn that although the Board of Directors of the FDIC has a statutory responsibility to manage the deposit insurance funds effectively, it cannot control its hiring process or employee compensation – some two-thirds of its annual budget. That is because the FDIC must follow general government hiring procedures and must negotiate pay and benefits for the overwhelming majority of its employees. If agreement is not reached on pay and benefits the final decision is made by a third party with no statutory responsibility to the insurance funds.

The inability to effectively manage our human resources has been among my greatest frustrations as Chairman.

In my testimony on March 4, 2004, before Congress I promised Chairman Oxley that I would be sending a package to the Hill within 30 days describing the legislative changes that I believe would provide those flexibilities that the FDIC needs to prepare for the future. For reasons I will discuss, that timeframe proved too optimistic.

In many respects this is much like deposit insurance reform. The FDIC is an insurance agency that does not have the flexibility to price its deposit insurance in a manner that would best prepare it for the risks it faces. That is not a good position to be in. Well, the most important resource any organization has is its people, and the FDIC does not have the flexibility it needs to manage the resources most critical to its future success. I would not be doing the FDIC justice if I did not push for meaningful legislative reform in these two areas that are the most critical to the agency's future success.

Whenever someone talks about providing more flexibility in personnel policies, it can be viewed as an attack against the existing workforce. It also can be viewed as a threat to ideals and principles that have formed the basis for the federal personnel system for decades. The most visible example of this is with the Department of Defense. Late last year, Congress gave DOD broad authority to set up the National Security Personnel System. There was an immediate ground swell of opposition and concern, and DOD still faces resistance from many key stakeholders.

I am not advocating a departure from merit principles, equal employment opportunity or whistleblower protections. People are entitled to be treated with respect. They are entitled to know what is expected of them, and to have the tools to do it. They should be encouraged to speak up and be heard and be assured that they will be treated fairly. In exchange, all employees should be held to the same high standards of public service. They should expect to be measured and rewarded for excellence and not for the number of years they spent on the job.

I am not advocating a reduction in pay or benefits for FDIC employees. The FDIC has always paid its employees well and will need to continue to do so to attract and retain the best possible employees. What I am advocating is that we take our role seriously as stewards of the bank and thrift insurance funds.

I am advocating new hiring systems. Hiring new employees is a slow and cumbersome process. We have missed opportunities to bring on exceptional candidates who took other offers from employers who could act more quickly. We should be able to hire for the skills we need, when we need them, and for the time period we need them.

I am advocating meaningful pay for performance systems. It is difficult to be properly compensated for excellent work. It was surprising to me that in government a pay for performance system is deemed as a radical step. I always thought that everyone recognized it as a fundamental part of what makes our economic system the envy of the world.

I am advocating having the ability to deal with poor performers in a more effective manner. The process for removing poor performers or even limiting their pay increases is time-consuming and cumbersome, requiring an inordinate amount of a manager's time and energy.

I am advocating for the ability to promote the shining stars without regard to arbitrary "time-in-grade" requirements. I have spoken with many FDIC employees who are frustrated and know that they are held back by these same rules. In order for an employee to get ahead, they have to move up gradually, step by step, regardless of how good they are.

I am advocating the ability to shift resources around an organization to where they are most needed. There are limitations in moving employees from one grade level to perform work in another grade level or even across organizational lines.

I am advocating rules for involuntary separations, or reductions-in-force as they are called in government, that do not mean that an organization has to roll the dice as to whether or not it will lose some of its best employees. It is inconceivable that in an effort to be more efficient, the federal government cannot retain its employees based on performance as the paramount consideration.

Overall, I'm advocating increased flexibility in human resources management. Our country's private sector outperforms every other country in the world because it has greater flexibility to manage its human resources effectively.

This is not a novel concept for the federal government. I mentioned the Comptroller General's remarks earlier on this point but, in fact, every commission or task force set up to study the federal workforce has concluded that reform is imperative. The Congress has already provided certain other federal agencies with increased authority to manage its resources.

Government employees get a bad rap. They are dedicated and talented. But their performance is not always acknowledged because of outdated law and regulation. Change is necessary.

I am late in delivering a legislative package to Congress. We have contacted the president of the union, provided our ideas for legislative change and asked to work together for a joint solution. It is my hope that the union and our employees recognize that change is imperative if the FDIC is to be prepared to handle the inevitable challenges that lie ahead. I don't know whether or not the union is ready to address the issue seriously. I do know that my conscience will not allow me to ignore an issue so crucial to the FDIC's future.

Thank you.

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Congress created the Federal Deposit Insurance Corporation in 1933 to restore public confidence in the nation's banking system. The FDIC insures deposits at the nation's 9,182 banks and savings associations and it promotes the safety and soundness of these institutions by identifying, monitoring and addressing risks to which they are exposed. The FDIC receives no federal tax dollars - insured financial institutions fund its operations.

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