CHANGING ROLE OF THE BANK MANAGER – SURVIVAL OF THE FITTEST

Nimal Hapuarachchy

General Manager / CEO - SANASA Development Bank

One of my nieces was appointed recently as a Branch Manager of a bank in a nearly town and I wanted to see how she was doing in her new assignment. I thought banking today was much cozier than in my days when banks stuck to collecting deposits and making loans and made a good living. My niece was very happy to see me and took me around to see the banking hall which was better than a lobby of a five star hotel. "How is the business?" I asked her looking for an opportunity to show my expertise as a senior banker. "You know uncle, I was able to canvass a loan of Rs.200Mn for 7 years, so that I will breakeven very soon" was her reply. "Is this loan profitable to your bank? Have you considered the risks?" I wanted to show that I am smarter than her. "No worries uncle, all risks are managed by Head Office". "Oh great, Congratulations", I bid good bye to her. The CEO of that bank must be having a tough time fighting for survival let alone profitability. Isn't it time for a change of the role of a Branch Manager?

Business has changed

Banking in the past was like life in the fast lane. In those days it was intense, challenging and fulfilling. Today it is like playing in highway traffic very stressful intimidating and demanding.

A manager's functions were exciting and stimulating then but it is more frightening and nerve wracking now. Although present day branch managers exercise more powers and are flexible in practice, they are more exposed and tend to be more confused and burned out. Bank managers are now required to serve many authorities relating to business, compliance administration, regulators and auditors and have no single bosses of the flat organizational structures of banks in the past. Profits are no longer assured to bank managers. Banking industry has seen much transformation and the bank manager's role has to change in line with the transformation. The manager who has not changed yet will have to do so soon. Is there a choice? There is a strong need for change from the traditional boss directed, functions focused time based role to a self-directed, risk focused and results oriented.

High performing role to fit into the demanding job descriptions of present day Bank Manager. In today's financial world, survival, let alone profit taking, is no longer given.

Core skills

Against the background of volatile markets, periods of boom and bust, opportunities and threats from new technology and new aggressive entrants to the market, banks must discover their own recipe for success. What will be the role of the future Bank Manager? How can he be a winning Manager? What core skills are required of them?

Risk and Reward management

Branch Managers are appointed on the basis of their track record and competence to handle the job. A competent Branch Manager knows what is to be done. Is this alone sufficient for success? A manager who thinks that marketing the right product to right segment of the market alone will be adequate to achieve profits will be caught unawares during a turmoil situation. Consumer and industrial companies focus on different skills and strategies to earn profits. Such business always tries to avoid risks and mostly pass on such risk to others. In contrast, banks can only succeed by being able to separate well priced risks from badly priced risks. Managers therefore must learn to seek out risk and earn profits from it. Therefore, in today's context Risk and Reward Management is considered the core skill required for success.

Banks will win only when they remember that they are fundamentally different from other businesses. Most businesses take risk of one form or another. A computer company runs the risk that nobody buys its products. Success in their business is not managing risk for reward. It is right decision and right marketing. They succeed by focusing these skills and passing on their financial risks to others. For banks, however managing risk for reward is the key to success. To succeed in the challenge, Managers should be equipped with the right skills of identifying the business strategies where appropriate risks are present and manage such risk by building the strategies around unique ways of making profits.

Balance Sheet Management

Each and every item in the branch balance sheet will pose a risk, yet an opportunity of a promised reward. A manager who is competent to identify such opportunity will succeed its

sustaining a viable business with adequate rewards. It is always profitable and less risky to drive the business on risk reward basis than target basis. Eg:- A manager should analyze his lending portfolio in the following manner to ascertain the best risk/ reward profile.

- What segment gives best interest margin with low cost delinquency ratio?
- What segment has the lowest delinquency impact?
- What is the income/operating cost of each segment

Similar probing would result in a portfolio with best risk/reward balance.

Similarly take the case of the deposits portfolio of a branch. When managers are driven by targets and the performance is determined by the level of target achievement, managers tend to forget basics and associated risks.

Deposits with high rates are accepted to meet the targets without matching assets or lending opportunities. Sometimes loans are given on longer term against deposits which are having short maturities. Managers should first identify their lending opportunities to customers or to Head Office and raise deposits to match such potential rather than accepting each and every deposit that comes their way at higher costs.

Growth of the balance sheet should be a carefully managed exercise in order to sustain profitability and risk exposure.

Branch manager as first line of defence

The enemy will enter through the weakest point in the particular fortification. Complacency and lack of control will provide opportunities for the harmful elements to encroach unnoticed and it will be too late for the manager to realize that he has no options but to surrender to the evil forces of destruction. If a number of branches in the network fail to fortify their perimeter the impact of such weakening will be seen in the overall stability of the core business of the bank as a whole. Therefore, branch manager has a duty to safeguard and protect his first line of defence to prevent deeper penetration by the enemy.

Bank management cultures

There are 3 types of cultures in bank management.

1) Market share driven

Managers who are keen to beat their competition in the command area adopt a market share driven culture by seeking high volumes in portfolios within a short period. In this race

they tend to ignore the need for right pricing and offer lower rates to attract volumes neglecting the impact of rapid growth on the risk profile of the branch. Sudden changes in any of the segments will have adverse effects on the branch as well as the bank despite of achieving a larger share of the market. Managers driven by market share culture will be detrimental to the success story of the branches.

2) Profit driven culture

In a situation where managers are rewarded for achieving an attractive bottom line, they are tempted to drive the entire business for short term benefits ignoring the high risks involved resulting in poor quality portfolios in the medium and long run. Profit driven managers are likely to be recognized too soon and promoted to higher positions only to reveal that those profits have paved the way for more and more losses in the near future.

3) Value driven culture

Value driven management culture ensures strong risk management across the business with soundness in all decisions and stable and quality portfolios and guarantees a consistent stream of income in the short and long run. Branch managers being the first line of defence against failures should become value driven managers, and must create a business around the reward and risk advantage, and be able to have the courage to take risks for profits.

Critical success factors

Branch managers make key decisions which are critical to the success of the overall bank. These decisions could relate to credit or operational matters. If such decisions are suboptimal in aggregate, perhaps several years later these will cause serious problems. In a bank where such decisions are made by managers who are several levels below the senior management, they could expose the bank to a possible disaster.

Therefore, branch managers should be competent in identifying critical success factors in driving their business to achieve desired goals.

1) Specific business risks (SBR)

Specific business risks are directly related to balance sheet information and should be critically analyzed and managed by the manager. A careful look at each and every item in the balance sheet will reveal the extent of risk exposures in anticipated rewards stream. A manager who fails look at top 100 customers on a regular basis would be making a costly mistake by not focusing on large exposures which bring in a major component of profits. Managers must always ask themselves who are my customers? Who are riskier? Are my portfolios diversified adequately?. Each and every item in the balance sheet should be analyzed critically for optimization of resource

utilization, minimizing risk exposure and improving the productivity. i.e. managers should be monitoring each and every item in the balance sheet to optimize risks/rewards.

2) Key operating risks (KOR)

Key operating risks are displayed in the profit and loss account and here again managers are provided with information which would contribute to the critical success of the business. Suppose a rapid growth of interest income is evident over a period managers should not be comfortable that everything is fine. This could be either due to good business decisions, right pricing or high margins of riskier lending. Similarly, a decline in the ratio of interest expense to income may be due to decreasing funding cost, risky portfolio or fall of loan quality. These should be analyzed before coming to a conclusion. Growth of fee income? Are we lacking expertise in some income generating areas? Cost/ Income ratio is a vital measure of the efficiency of the management of resources. Behaviour of provision for non-performing loans will provide a deep insight into the lending operations. Profit per employee will be a good benchmark to adopt to ensure optimum utilization of manpower allocations.

3) Key financial risks (KFR)

Key financial risks arise from the liabilities side of the balance sheet. Managers who are not competent enough to identify the gaps in maturing of deposits and borrowings run the risk of large costs involved in mismatches in term or maturity. Lending over long term on fixed rates without supporting long term funds allocated to such lending will pose a major risk of adverse variations due to movement of interest rates and need to borrow further at high rates to support long term assets. Sunk funds such as non performing advances, specific provision for doubtful debts should be minimized to avoid further funding costs and losses. If total NPA is Rs.500Mn in a branch, the branch runs the risk of following losses.

		Rs. Mn
Cost of mobilizing new funds Rs.500Mn at 10% p.a. to support new lending	=	50.0
Loss of interest income of Rs.500Mn NPA at 15% p.a.	=	75.0
If 25% of the NPA portfolio needs 100% provision	=	125.0
Total loss	=	250.0

It is evident that the branch runs the risk of losing Rs.250Mn in respect of NPA. This amount could be more than the aggregate annual profit of several branches of the bank.

Therefore, managers who fail to critically analyze SBR, KOR and KFR are not fit to engage in the survival game.

Nothing serious ever happens

Most managers become complacent when things run smoothly. Fantastic growth trends, excellent profits, good bonuses, promotions ... and everyone believes that "Nothing Serious Ever Happens". Suddenly things start to happen. Margins start dropping, operating costs increase, gradual deterioration of portfolio quality occurs with the increase of NPA. Manager panics as he sees that bottom line is not to his liking. This is where the manager is stuck at "cross roads" without knowing which road to take. His image and reputation as a successful manager is going to be affected. If he has been professional enough to analyze SBR, KOR and KFR, the early warning signals that appeared at prominent places could have prevented this situation. Some managers become cosmetic managers to save face by adopting a number of unethical practices such as reporting overdue as current, ever greening portfolio, losses under the carpet and sometimes frauds to prevent him being highlighted as a failure. Therefore managers who never think that nothing serious ever happens will end in disaster dragging the bank into deep difficulties. These cosmetic managers eventually become "desperate managers" by engaging in numerous unprofessional methods to prevent the disgrace.

Welcome regulators as friends

Managers should not consider regulators (whether Central Bank or auditors) as a "pain". Manager must always remember that they are trustees of large public funds. Such funds must be used, employed prudently within the rules and regulations in order to ensure the stability of the financial sector. Most elegant mission statements, slick annual reports or sponsorship of high profile national events will be worthless if the bank's economic performance is poor. Branches are the first line of defence in protecting this stability and it is the regulators who ensure that the financial sector follows the rules.

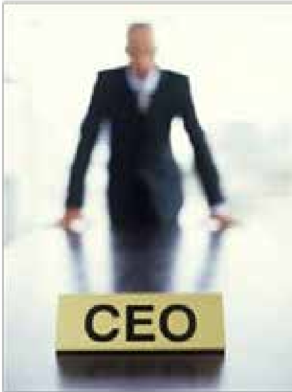
Regulators mean business. They have a rigid regulatory framework. They are sharp and professional. During a visit, they are capable of picking right from wrong within minutes. Yet they are nice people, friends. Managers should get the best advantage of their visit to learn the right thing, do the right thing. All what they look for is the management of risks and this is where the core skill of risks and reward management comes handy.

Somewhere in the world every day brings news of another bank or finance company being busted due to bad management. Thanks to regulators in Sri Lanka, the financial sector saw a rapid transformation of the industry which proves that an effective regulatory framework can not only avoid disaster but help us to grow and prosper as well.

The bank Manager who is vested with the responsibility and accountability for substantial public funds at branch level through his actions runs the risk of exposing the overall bank and the industry losing public confidence affecting the stability of the bank and perhaps the financial sector. The average size of a balance sheet assigned to a branch manager could run into rupees one billion. Regulator is keen to ascertain whether a manager who has the authority to manage assets which are mainly supported by public deposits and bank's own capital is a fit and proper person to handle such a job. Is he putting too many eggs into the same basket? Is he able to make good lending decisions and not put his assets into high risks? Is he ever greening his portfolios by putting bad assets under the carpet? Regulators want to know whether branch managers violate regulations posing a risk of possible losses which affect the stability. Therefore regulators have the right to check whether branch managers are fit and proper persons to take responsibility of managing public funds in a prudent manner. They should therefore be welcome with open arms.

Manager as a "Mini CEO"

The critical success factor of a CEO is the competence to handle the job. Similarly all branch managers who collectively run the bank's business need to be competent to perform as a manager. This competence comes with the knowledge, experience and skills. It is a major task which involves competence to survive and win by seeking out risk. That is Banking. If competent manager will provide leadership as to how the business is run effectively within the rules and regulations. In other words, the manager must demonstrate leadership by making his staff to follow him as a role model.



Being achievement oriented makes the mini CEO a person with a high strategic direction, ability to plan day to day, year to year. As a leader a manager will get his subordinates to go find business and not wait for business. Overall CEO should always ensure that he has a quality management team who can independently drive the tasks assigned to them. Similarly, branch managers must have his quality management team and devote time and energy to build them into a strong and effective group. From the moment, the branch managers assumes the role of mini CEO; he is reminded of his accountability, responsibility and expectations by his CEO. This is where his core skill of managing risk of rewards (MRR) becomes relevant and vital for his survival and success.

Management challenge

Management should be truly skilled to take the responsibility of managing the risks in a prudent manner, because the bank's capital is entrusted to the risk taking managers who make decisions. Key risk takers at senior level must enhance the skill of managers with continuous follow up discussions reviews and encouragement. It is vital that those who manage branches are the right individuals. The success of the bank, even its survival, depends on the skills of such individuals, because the key risk and reward skills will help accomplishing the goals and sustainability in the long run. Therefore promotions do not come as a matter of course. Rather, promotions come as a result of having achieved new skill levels and should be a sign that such individual is ready to assume a new role in the career ladder. Therefore, a manager who follows strategies which are fundamentally different to risk/reward rules will not be a winner for himself and for the organization.

Conclusion

A competent branch manager will focus on his balance sheet to select "Nice to do" from "Must do" to reach the desired goals. He should be asking common sense questions from himself before he takes any decision which involves the balance sheet. For example, if he is about to approve a loan, he must himself ask the following common sense questions.

"Is this loan profitable to me?"

"Do we know the customer well?"

"Can I recover this money?"

"What is the fall back strategy?"

In other words, he is using his risk/reward skill to take a calculated decision. He is more focused on ensuring that the deal is based on customer's integrity, cash flow and mitigation of risks.

Managers are given the driving seat to drive the business to excellence through a well

regulated path seeking deliberate risks, meeting challenges and opportunities and to survive and win at the end. Without seeking risks the so called managers even with the best thought out approach will fail due to inadequate revenues, bloated costs or inadequate return on capital.

Managers “do it yourself” kit should include tools to check vital indicators to measure the performance regularly. Break even values, cost of funding, efficiency ratios, productivity ratios, portfolio quality ratios, top 100 customers, NPL listing could invariably be in the kit ready to be used on a day to day basis.

It is a “Do or die” situation for a branch manager as a mini CEO. It is invariably a case of survival of the fittest.