The Bank Manager's Handbook Elliott

The Bank Manager's Handbook:

A Guide to Branch Management

P. A. ELLIOTT

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Preface

There is no doubt that bankers taking up their first managerial appointments have had plenty of opportunity to acquire a sound technical knowledge. However, when it comes to the practical art of management, there is remarkably little training available to inform a banker about the things he should expect in his first year or so of management, about the practical difficulties he may now encounter with customers and about his whole approach in taking up his appointment. Experience shows that uncertainty as to how to perform in the managerial capacity and a consequent inability to make the transition from clerical to managerial duties can prevent the new manager from reaching his full potential.

Equally, the failure to make successful relationships with customers can prove a real stumbling block. The ideal situation is one where customers feel they have a bank manager who understands their point of view, who can talk in language comprehensible to them and who gives sound reasons when describing the limits within which the bank can help them. Unfortunately, such a situation is not as common as it should be.

In writing this book I hope to make a contribution towards assisting newly appointed managers through some of the pitfalls of the early years and helping them to achieve a good rapport with their customers. At the same time perhaps I will be able to dispel some of the misconceptions that the student and career banker may have about the demands and realities of branch management. At the very least, I believe that readers of this book will be challenged to consider again how they as banking customers themselves can get the best out of their own bank.

In order to avoid using both the masculine and feminine form on each occasion where it is necessary I have, on the whole, stuck to the male form. I recognise that this is an unsatisfactory representation of the banking world today, but felt that, for easy reading, a single form would be more helpful.

I would like to thank Mr Owen Hawkes for his idea of the mnemonic used in the book. It conveys what I wanted to say simply and memorably. My particular thanks are also due to my wife for her assistance in matters of composition and layout.

Finally, it should be pointed out that all the individuals and companies referred to in the text are entirely fictitious.

Peter Elliott
November 1986

Introduction

Banking is an art and not a science

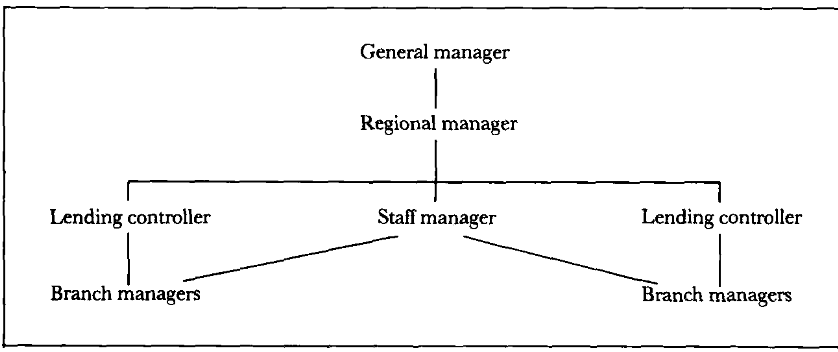
Whilst the science of banking may be described as the firm financial discipline within which any banker needs to operate, the art is in having the flair to know when to bend with the wind and when not to give an inch. Once it is recognised that the art of banking lies in an ability to keep a continuous balance between implacability and being able to discern an acceptable banking risk, then a valuable lesson has been learnt. Sometimes bankers reach elevated positions by practising implacability in every situation – sticking to 'the rule book' – but banks and their branches are usually more profitably built by people capable of identifying potentially worthwhile customers and going along with them, after a sound assessment of possible hazards ahead. Those who are implacable rarely build anything.

This book is divided into three parts. The first deals with the foundations of management. It follows a newly appointed manager into his first branch and picks up his career in the weeks immediately after his formal appointment, taking him through the matters which ought to be occupying his mind prior to and after arriving at this branch. It illustrates that, quite apart from getting down to the immediate daily problems, there are many things which need consideration in taking long-term stock of the business for which the manager will be responsible. The emphasis here is placed on the personal qualities and attitudes that will be required if the new appointee is to become a successful professional banker.

Part One also looks at the relationship between the manager and head office, which is usually expected to evolve satisfactorily without specific attention. In reality experience shows that lack of attention to this sensitive area is among the main reasons for failure to reach high performance levels. A good relationship cannot be assumed and must nearly always be worked at.

The second part of the book concerns the borrowing customer – his needs, expectations, the manner in which he ought to be assessed – as well as providing guidance on the procedures necessary to maintain credit control and a clean lending book. There are sections showing a manager how to avoid the pitfalls of fraud and the like. The third part of the book deals with various aspects of general branch management. This is a wide field to cover and emphasis is therefore given to those areas which seem to have given rise to the greatest number of problems over the years.

Throughout the book a simplified system of bank control has been used and is shown in the figure which follows below.



The nomenclature of clearing banks varies. For the purposes of this book the term 'lending controller' has been used to describe the function of supervising lending activity through a head office controller who may be looking after 'some thirty branches. It is assumed that it is to him that the manager generally refers all his problems, be they lending, property, legal or otherwise. The term 'second-in-command' has been used for the officer who is in charge of the branch during the manager's absence and who is normally engaged in supervising the flow of work through the branch and ensuring that the bank's regulations are kept.

In the second half of the 1980s there have been great changes in the structure of the branch networks of clearing banks. Whilst the old order still remains in many branches, others may no longer, for example, handle corporate accounts; these are now dealt with by a team of lending managers in a local branch or office. The duties of these corporate managers will vary: some will be solely concerned with lending and others with lending plus responsibility for the general welfare of several branches where there are administration managers in charge of the daily business. Although the needs of customers have not on the whole changed greatly, bankers participating in the new order may take up their appointments with a different mix of duties from those of the past. None the less, the foundations and principles of branch management do not change. Those starting in a different situation to that described in this book should easily be able to adapt the information provided to fit their particular role.

Contents

PART ONE

Foundations of branch management

CHAPTER 1

In anticipation of branch management

'Time spent on reconnaissance is seldom wasted'
Officers' Training Corps Manual, (1938)

The new manager of the Millchester branch of Barretts Bank is thirty-four years old. It is his first managerial appointment and customers are saying 'Isn't he young – is he experienced enough? Will he be as understanding as the last one was? Presumably the bank knows what it is doing – better give him a chance.'

The banking profession is one in which personality can play a strong part – as shown in the number of customers who follow bank managers from branch to branch when the managers are promoted. However, when a bank manager moves on the main body of customers have to adapt to the new incumbent, as do the bank employees themselves. Unless the previous manager has been a disaster, the advent of the new person will not be particularly good news to the customers. They, like the new manager, are going to have to establish a rapport all over again, and this takes time. As soon as the news of the appointment is out, even as our new manager is receiving the congratulations of family and friends, customers heavily involved in the branch to which he is moving, along with the staff of the branch, are watching the situation closely.

The new manager's first interview with each of his customers sows the seeds of a working relationship, but it will probably take two or three meetings before both sides understand each other and accord each other mutual respect. It could take as much as a year before a new manager feels he has fully settled into his branch, maybe two years in the larger branches.

The first branch appointment is perhaps the most crucial stage of a manager's career. The moment he steps over the threshold on his first morning he must start actively running the branch. His responsibilities to bank and customer begin then, not at some future, unspecified time of his choosing – and he must be prepared for them. Naturally, he may have a little stage fright about it all, but if his management is to succeed it must start straight away.

As the salary reflects, a first managerial appointment is akin to being promoted from the non-commissioned ranks in the army to the level of officer. If the new manager lays down good foundations, he will be able to build a solid career upon them and achieve the strong, quiet confidence which is the hallmark of the professional.

CAUSES FOR CONFIDENCE

Before considering some basic principles for the manager's new life, we need to look at his background. Nowadays, a manager should come to his new appointment well educated and trained for his role. He will probably have become an Associate of The Institute of Bankers by examination prior to leaving the bank's clerical ranks. There is no room in banking today for unqualified personnel at managerial level, whatever the case was in the past. The average business customer expects professionalism from his bank and indeed it is the quality of its professional management that will set one bank apart from another.

After leaving the clerical ranks the manager will probably have had three or four executive posts prior to his latest appointment. These may have been wholly within the branch system or interspersed with periods in a head office or regional office environment. Moreover, he will probably have been in banking for at least ten years and will have attended a number of training courses. His experience will include having been subject to senior staff and having controlled staff himself as his seniority grew. He will have been involved in making administrative and lending decisions and, if he has been alert, will have picked up a great deal from working with the people responsible for taking decisions in day-to-day banking situations. Normally he will also have had plenty of direct contact with customers.

The senior management of Barretts Bank have selected him from a number of candidates as being the best person available at the time to fit into and to carry out the role of manager at Millchester branch. He can take heart from the fact that the management, who are responsible for filling all the bank's managerial vacancies and making a profit, reckon he is the best 'horse for the course'. He should, therefore, be starting the job quietly confident. However, whether he has the self-assurance essential for this job will partly depend on the amount of effort the bank has already put into building that confidence (see Chapter 3 under 'The managerial appointment interview'). A degree of nervous anticipation prior to taking over the branch is natural and is certainly much better than being overconfident. The bank would not have appointed a manager who overtly lacked confidence in his ability to meet the demands of his new job. But nobody has been really tested until they have held sole responsibility for a business: people may crumple under such responsibility or they may blossom.

However, those unduly lacking in confidence should remember how far they have come. They have passed their Institute of Bankers' examinations and have got out ahead of the pack and onto the first rung of the ladder. The personnel manager has, from a background of considerable experience, endorsed the new manager's appointment – presumably on the basis of a good staff report. If he is still worried it may be about the customers – without whom, it has been said, there would be no problems. But there will be sufficient time to learn how to cope with them and the bank recognises that it takes a while to find one's feet. Customers probably appreciate this too and it would be unusual for them to be obstructive over affairs which concern their financial well-being. However, they will expect the new manager to be decisive, to speak with common sense and to give reasons for decisions made.

BASIC PRINCIPLES FOR RUNNING A BRANCH

There are a number of nettles to be grasped in the first year of management. The problem of establishing one's reputation is one of them. One should not be hesitant about stating the bank's case. For instance after listening to Mr Perkins asking for a loan for a new car which he cannot afford and suspecting that perhaps he and his wife are simply trying to keep up with the Joneses, the manager should say nothing less forthright than 'No, Mr Perkins, I cannot lend you the money for the car. We have both explored how you can afford to repay a loan and have proved that your salary is completely committed already. If you have the loan, the bank will finish up by pressing you for the instalments and you would have to sell the car. That means unnecessary problems for both of us'. It is part and parcel of a manager's life to have to decline borrowing proposals and the sooner he learns to distinguish the salient facts in a situation the better. (Chapter 4, 'The borrowing customer – general considerations', describes what happens when a manager cannot say 'no'.) Once the new manager has learned to turn a few proposals down, having provided good reasons for so doing, his confidence will grow. The thought of a difficult interview is often more worrying than the interview itself–particularly for the young manager on the threshold of his first branch.

Impartiality

The need for impartiality is obviously a major requirement in bankers. The bank must show no personal preferences – be they political, racial, religious or social. All customers providing they are honest are of value to a bank: credit balances are the life blood of banking.

This need for strict impartiality can, however, give a bank problems at times. For example, a bank holding the account of a trade union engaged in an unpopular strike may well have customers complaining about their bank retaining such a customer and about normal banking services being provided to the union – including, perhaps, the service of short-term lending to fund strike pay, pending the sale of securities. A bank could lose business from those holding strong views on the subject. Nevertheless, banks and their managers must continue to maintain an unbiased approach to all honest customers. Any deviation from such a policy could lead to reduced confidence in a bank or particular bank branches. The customer's confidence in a bank can take a long time to establish but can be lost overnight–so care needs to be taken to retain it at all times. The need for impartiality extends throughout banking business into all aspects of daily routine. The new manager must be aware at the outset that he must have no favourites so far as business dealings are concerned, although he will undoubtedly get on better with some customers than others.

Dishonest customers are anathema to a bank manager. Sometimes dishonesty can be discerned by the bank in the conduct of an account; at other times it will become known from outside sources such as newspaper reports. Clearly, in this context, the need for care when allowing accounts to be opened is vital. Nevertheless, from time to time it is impossible to avoid such customers and the bank ends up with one on its books. The account must be closed as soon as possible, though proper notice must be given – in accordance with banking law and practice (Joachimson *v.* Swiss Bank Corporation 1921). Failure by a manager to act firmly can often lead to the bank losing money at some future date. Once again, a bank cannot be seen to have dealings with such persons as this too can lead to a loss of public confidence in it. (One only has to see how concerned a bank's head office becomes if its name is reported in a criminal case where the defendant, one of its customers, is convicted, to realise the sensitivity of the issue.)

Charges

The manager's prime task is to make profits for his bank and must therefore negotiate the best possible terms for the bank. This means he should set out to make the same charges for similar transactions across the whole spectrum of his customer base and not favour one customer with lower charges than others – unless there are good business reasons for so doing. Rates of interest and commission charges are discussed by customers outside the bank and the manager who acts in a biased way can damage his future business prospects.

There are two remaining areas of business in which the manager should have sound principles established at the outset – lending and customer relationships.

Lending

The daily payment of cheques and negotiations with customers for borrowing facilities will dominate the life of the bank manager. The situation in different branches does vary but it is not uncommon for him to have four or five lending interviews each day and he will need to devote a fair time to the payment of cheques presented in the clearing. There is a long history in banking of managers being removed from office for failing to perform their lending activities satisfactorily – bankers who were often conscientious and loyal to their bank, but who ultimately failed to control their lending effectively. The reasons for such failure include the reluctance to say 'no', lack of basic lending knowledge, faulty perception, inability to ask the right questions, gullibility (falling for plausible stories without establishing the true facts), neglecting to ask for or to take security when necessary, and an inadequate response to early signs of weakness in the case of existing advances. No doubt the chief inspector's department of any clearing bank could add to this list but it is sufficient here to indicate the general problems which can arise when managers are put to the test in lending a bank's money. (Methods which can be employed to avoid such disasters are discussed in Chapter 4.)

Customer relationships

The banker-customer relationship falls into two parts: the legal, which conditions the actions that both parties may legally take in business with each other, and the physical, which can depend on the manager's 'bedside manner' or 'marketing approach'. At this point we are concerned with the latter part of the relationship – for unless the new manager and his staff get this right a great deal of endeavour can be wasted. No amount of technical competence can overcome the problems arising from managers who are either ineffectual, grumpy, curt, pompous, over-busy or who are unable to relate to the broad spectrum of a bank's account base. It is not unknown to find managers who avoid interviews for fear of making a mistake – a sure sign of self-doubt. Any new manager would be horrified to hear such criticism levelled at him but the pressures of banking life can cause people to change and to lose the common touch. Managers must be aware of this possibility and check it if they realise such a situation is developing.

One of the rewards of banking is the pleasure of doing business daily with people involved in the broadest possible spectrum of occupations on a basis of mutual respect. It may be necessary in the early stages to learn to relate to people from some walks of life where there has previously been no opportunity for contact. A banker newly engaged in management should be aware of the need to adjust his style to that of his customer. Some have a natural ability in this direction, others have to work at it.

If strong personal presentation is important for the manager then it is equally important for his staff. The public rightly expect the same informed civility and service from counter staff as they receive from staff in any other business. One or two off-hand cashiers can easily undo any good the rest of the staff have done.

A good example of the kind of behaviour which should not be allowed to occur took place in a small branch bank one day when a managing director of an engineering company came in to cash an £8,000 wages cheque. As he presented the cheque under the bandit screen with a cheerful 'Good morning' the sole cashier walked away from the counter without a word, left the branch by the front door and came back a few minutes later with a can of soft drink. Upon returning to the counter, the cashier opened the can and drank part of the contents before attempting to deal with the cheque. Flabbergasted, the director told the manager, in good engineering terms, what he thought of such treatment! This may have been a