

44 YEARS IN BANKING

A KALEIDOSCOPE OF EVENTS, PERSONALITIES AND CROSSROADS

PART 3

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Banking is a special area of the economy and the life of society. It concerns money, but people remain the most important. System, exactness and consistence are the basis, but they cannot become an end in themselves and an all-powerful bureaucracy, suppressing fantasy, spirit and intelligence.

Profit is the measure of success, but a tolerable level of risk and constant strengthening of the favourable image of the bank cannot be forgotten.

Competition is the motor of performance, but it cannot go beyond the essential framework of correctness, so that temporary victory in battle does not mean defeat in the war.

The basis property of the banker is the ability to gain the trust of the client, but in contrast to the fraudster, he must be able to keep it permanently, since banks work with money, and especially with other people's money. In the most modern conception, the banker is a globetrotter, but the specifics



of a given environment cannot be underestimated. The banker must be an expert, a professional, but if he is also an enthusiast, it can do no harm. The banker must have healthy self-confidence, but he must also have some humility and empathy in communication with the client, since without knowledge of the problems and values of others, he will write his professional death certificate.

From the point of view of the values, destinies and priorities of personalities, companies and regions, banks are literally the modern cathedrals, but they cannot become museums. This means that they must react to every important change in the economy or society or in the life of an important client, and as far as possible they must react not subsequently, but in advance. They should foresee developments.

This constant adaptation to crossroads in development is a further substantial property of the bank.

Banking Reform – Renewal of the Balance between Supply and Demand

The result of an extensive opinion poll in France: "The ability to gain trust and the ability to keep it, can be regarded as the most important characteristics of a banker."

On 1st January 1990, development became much faster. The whole top management of the new federal Central Bank changed. The chairman S. Potáč was replaced by his adviser J. Tošovský. M. Zámečník, J. Krejča and K. Hájek were replaced by V. Valach as the first deputy chairman and J. Kerouš and J. Zahradník as deputy chairmen.

I got the chance to be at the centre of an unrepeatable process of bank reform, of the ferment of seeking new routes, approaches and mechanisms. This was the beginning of the transformation process. The former trainer of the Bratislava football club Slovan used to say be-

fore a match: „We will make a full effort from the beginning and gradually add more.“ A representative of the Central Bank emphasized then: „If you solve these problems, further problems will appear, and solution of them will bring you closer to the problems of the developed countries.“

It was very urgent to simultaneously solve a multitude of the most varied problem areas – conceptual and philosophical, currency policy, its orientation and instruments, the philosophy of granting licenses to new banks, the stability of the crown, the organization of intensive education, as well as the establishment of an adequate new information system. It was also necessary to travel and consult on many questions with foreign central banks, to prepare for entering the World Bank and the IMF and to solve the open financial problems with the COMECON banks (the MBHS and MIB in Moscow) after its dissolution.



This tangle of problems was not always simple to disentangle, since the individual areas were inter-connected and interdependent. For example, it was also necessary to use the mechanisms of the IMF and World Bank to maintain the stability of the currency. To enter these important international institutions in September 1990, it was necessary to introduce internal convertibility of the Czechoslovak crown (Kčs), but to do this, it was necessary to simplify the official exchange rate and make it more realistic. Three progressive waves of devaluation of the Kčs were intended to achieve this. They changed the official value rate from Kčs 14 to Kčs 28 to USD. However, this led to instability in the incomes of exporting and importing enterprises, which had an impact on their financial situation. But more on that later...

habitants was very low on 1st January 1990. 25,000 people worked in banks in the whole federation, 7,000 of them in Slovakia. Compared to neighbouring Austria, Germany and Western Europe with 5-7 bank employees per 1000 inhabitants, in Slovakia the number of bank employees per 1000 inhabitants was 1.4. In the interest of better understanding of the unsatisfactory base from which we started, let me mention that the President of the Luxembourg Association of Banks informed me in September 2003 that the Grand Duchy had 30,000 bank staff for a population of 300,000.

According to the data of the NBS, the development of the number of employees in commercial banks and their branches as of 31st December from 1993 to 2004 was as follows:

| 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|------|------|------|------|------|------|------|------|------|------|------|------|
| 1707 | 1954 | 2207 | 2405 | 2386 | 2390 | 2317 | 2233 | 2132 | 1979 | 1979 | 1992 |
| 7 | 8 | 5 | 3 | 8 | 5 | 1 | 2 | 4 | 4 | 7 | 5 |

However, it is necessary to look more closely at the actual process of banking reform, especially from the point of view of solution of the deep imbalance between the demand and supply of banking services, not only in quantity and range, but also in quality. I can document this not only from the point of view of the new central bank, but also from the position of everyday experience during the establishment of new commercial banks.

The launching of the economic reforms and political relaxation painfully exposed the lack of readiness of the banking system for the real explosion of new or previously hidden demand from the population, new businesses and institutions for banking services. The existing number of bank employees, their knowledge and the range of banking products did not correspond to this. For example, after the frontiers had been opened and the travelling abroad had been simplified, queues of impatient citizens formed in front of the bank exchange offices. This situation was often criticized by the Minister of Finance of the time V. Klaus, at meetings of the Federal Government, in which I sometimes participated as a representative of the chairman of the State Bank of Czechoslovakia. In one of these situations, the Minister of Labour P. Miller asked me how his Ministry could help the banks to solve this unfavourable situation. I asked him to abolish the strict limits on the number of employees in banks. It happened. The banks could rapidly increase the number of employees, especially for operations.

An explanation: the number of bank staff per 1000 in-

The variations in the numbers of employees correspond to the development of the network of new commercial banks and their branches up to 1996. In the following period, some banks disappeared as a result of bankruptcy or forced administration. The significant decline in 2000-2004 was also a result of the restructuring of banks in the process of privatization.

In 1990 and especially in 1991, some banks also raised the low pay of their staff according to the principle: „What is not forbidden is permitted. This was done by R. Salzmann, President of the Komerčná banka in the Czech Republic, and by J. Mudrík, President of the Všeobecná úverová banka in Slovakia.

The process of raising the number of bank staff was started. It meant the recruitment of new employees, not always with professional qualifications and often without banking ethics. In the period of 1990-1996, the banks not only raised the conditions and pay of their employees, but also invested in buildings and infrastructure, which sometimes led to unfavourable views or misunderstanding from the public. For example, on 12th August 1994, the newspaper Pravda published an article by V. Mináč saying: „... the usurious form of banking, as the revolution gave birth to it, weighs down all enterprise in business like a millstone... all the political representatives support the immoral and incorrect banking practice, nobody dares to tell the truth about the holy cow of the market, which only eats, but does not give milk... when bank officials are forming an extra class, towering over other employees, not because of what they



know, but because they are bank employees, it is necessary to go to see the Tinker's Trade Museum at Budatín and remember what it was like to carry a tinker's pannier".

Pravda published my reply to these words titled „To criticize, but not to insult“, in which I categorically protested against the generalized and disparaging statements on the great number of bank employees who were honourable and correct. In the conclusion of the article, I emphasized that even wise people could make mistakes, but when they find out, they apologize. However, there was no response to my article. In spite of this, honourable bankers highly respect V. Mináč for his literary work in favour of Slovakia.

The greatest boom of new banks was recorded in the years 1992-1996, as the following summary of the issuing of licences by the Central Bank shows:

1990: Tatra banka a.s.

1991: Slovenská poľnohospodárska banka, Slovenská záručná banka and Ľudová banka.

1992: Priemyselná banka Košice, Investičná a rozvojová banka, Slovenská kreditná banka, Devín banka, Istrobanka, Prvá stavebná sporiteľňa, Prvá komunálna banka, Konsolidačná banka, Poštová banka.

1993: Credit Lyonnais Bank Slovakia, Stavebná sporiteľňa VÚB-Vüstenrot and licences for branches of the Agrobanka Praha in Banská Bystrica, Ekoagrobanka Ústi nad Labem in Piešťany, Banka Haná Prostejov in Nitra, Coop banka Brno in Bratislava, Banka Bohemia Praha in Košice, Morávia banka Frýdek – Místek in Žilina, Československá obchodná banka Praha in Bratislava, Interbanka Praha in Bratislava, ING Bank in Bratislava.

1994: Licence for the Creditanstalt Bank in Bratislava.

1995: Licences for the Slovenská sporiteľňa, Všeobecná úverová banka, Komerčná banka Bratislava a.s., Bank Austria (SR) a.s. Bratislava, Banka Slovakia a.s. Banská Bystrica, Citybank (Slovakia) a.s. Bratislava, HYPO-Bank Slovakia a.s. Bratislava, licence for the branch of AB banka Mladá Boleslav in Bratislava.

1996: The NBS withdrew the licence of the branch of Banka Bohemia a.s. Praha in Košice. The branch of Interbanka a.s. Praha in Bratislava was liquidated. The COOP banka a.s. Brno was authorized to sell its Bratislava branch to Dopravná banka a.s. Banská Bystrica, and Ekoagrobanka a.s. Ústi nad Labem was allowed to sell its Piešťany branch to Dopravná banka a.s. Banská Bystrica.

1997: Licence for AG banka a.s. Banská Bystrica, authorization for Agrobanka Praha to sell its Banská Bystrica branch to AG banka Banská Bystrica, introduction of

enforced administration at the Investičná a rozvojová banka a.s. Bratislava.

1998: Approval of merger of Bank Austria (SR) a.s. Bratislava and Creditanstalt a.s. Bratislava with the new commercial name Bank Austria Creditanstalt Slovakia Bratislava. Authorization for Banka Haná to sell its Nitra branch to AG banka a.s. Banská Bystrica, and for Morávia banka a.s. Frýdek – Místek to sell its Žilina branch to AG banka a.s. Banská Bystrica.

1999: Approval of the sale of the Priemyselná banka a.s. Košice to the Slovenská sporiteľňa a.s. Bratislava after a period of enforced administration of the Priemyselná banka. Ending of enforced administration of the Investičná a rozvojová banka, which renewed its banking activity to the full extent.

2001: Approval of the merging of Bank Austria Creditanstalt Bratislava with Hypo Vereinsbank Slovakia. Enforced administration of Devín banka and later declaration of bankruptcy.

2003: Authorization of KOMMERZBANK Aktiengesellschaft Frankfurt am Main to establish branches. Withdrawal of the licence of Dopravná banka a.s. Banská Bystrica.

2004: Withdrawal of the licence of Devín banka a.s. Bratislava.

Memories as a Document

The new banks, new employees, new banking products and mechanisms introduced to Slovakia in the framework of the transformation process meant an extraordinary strategic manoeuvre, rarely seen in developed countries with a continual development. There has been a change of a whole generation of bank staff, since many of the employees from before 1989 have retired, others have adapted, and an entirely new generation has entered. I noticed this during the establishment of the Credit Lyonnais Bank Slovakia, when we turned to a pensioner from the ČSOB because of a lack of specialists in creditives. She willingly accepted, but left after two days, because she was not able to use the new and relatively complicated information system already used in the bank.

I often remember 1st April 1991, when I accepted the offer to establish the first bank in Central and Eastern Europe to support small and middle sized businesses - Slovenská záručná banka (SZB – the Slovak Guarantee Bank). It was a challenge to support a new, very dynamic segment of the economy – small and middle sized businesses. We also used the experience and very generous cooperation of the Austrian Burgess Verderungs



Bank and the French Sofaris Bank. The philosophy of the Bank had three basic pillars:

- the company (its origin and development until it is liquidated),
- risk (we chose a coefficient of 1:5, that is, we covered Kčs 5 of credit provided by the commercial bank to the client with a Kčs 1 guarantee from the SZB),
- public mechanisms to support small and middle sized businesses.

I am pleased I had a chance to document the development of Slovak banking in this journal. For example, we established the Slovenská záručná banka in a record period of 6 months, starting on 1st April 1991 and launching the first operations on 1st September 1991.

In 1992, I accepted an offer from the Deputy Prime Minister A. Vavro to establish a Ukrainian–Czechoslovak bank as a result of his official talks in Kiev. The aim was not achieved as a result of the break up of the federation. On 1st December 1992, I was honoured by an offer from the Credit Lyonnais in Paris and the President of the Všeobecná úverová banka J. Mudrík, to establish a new subsidiary of the Credit Lyonnais – Bank Slovak in Bratislava. The founding documents were signed three days after the separation of the Slovak and Czech currencies on 11th February 1993. In this way, a leading world bank confirmed its confidence in the newly independent Slovak Republic. As a matter of interest, the course of development of the new bank was as follows:

(Note: I give these facts especially because the immense process of establishing a bank „on a green field“ will very probably never be repeated in the Slovak Republic.)

1st December 1992 – Beginning of preparatory work, especially working out the basic documents in close cooperation with the headquarters and lawyers.

11th February 1993 – Signing of the basic documents.

19th February 1993 – Submission of an application for a licence to the National Bank of Slovakia.

24th February 1993 – Issuing of the licence, probably a „world record“.

July 1993 – Arrival of the deputies of the general director from the USA, France and England:

- organization of the bank,
- registration,
- setting up the information system,
- intensification of recruitment of staff and subsequent intensive training.

November 1993 – More intensive marketing and preparation of the commercial strategy.

First quarter of 1994 – Intensive preparation of the In-

formed System for Banking Administration (ISBA) information system and SWIFT. Intensification of marketing.

29th April 1994 – Implementation of the ISBA system.

1st June 1994 – Beginning of the activity of the bank.

June 1994 – Activity of the bank „at the speed of the first speed stage“.

July 1994 – „Speed of the second speed stage“.

August 1994 – „Speed of the third speed stage“.

September 1994 – „Speed of the fourth speed stage“.

18th October 1994 – Ceremonial opening of the bank, commercial offensive – „fifth speed stage“.

When I compare the conditions of building the Credit Lyonnais Bank Slovakia and the ČSOB over a period of 25 years, the following areas have changed:

- The material and technical conditions had substantially improved, but with substantially higher demands from the headquarters, especially in the area of the budget.
- The information system was much more sophisticated.
- A new cross cultural factor in the form of the participation of foreign personnel.
- New banking products, techniques and mechanisms.
- An advantageous synergy of commercial activities using the global network of the bank.

The range of banking services and products was widened in the framework of the transformation process. When I returned to Slovakia at the end of 2001, after more than four years in the diplomatic service in France, I was pleased to find the balance between supply and demand in banking services restored, and not only in the quantity and range of products, but also in their quality. The Slovak banking system had entered Europe.

Development continued. For example, after the merging of the Credit Lyonnais and the Credit Agricole, the Credit Lyonnais Bank Slovakia was renamed Calyon. Instead of a conclusion, I will mention a small curiosity. In 2002, I participated as an accidental pedestrian in the opening of a new branch of the ČSOB in Pezinok. The hostess distributing leaflets with basic information about the ČSOB did not even know when the bank was established. I mention this, because young people today do not know the circumstances and difficult conditions, in which this bank originated more than 30 years ago, and how the foundations of present-day banking were laid. It is good that they do not have to experience such situations and conditions, because development has moved on...