Quality management and managing quality in banking (financial) sector

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INTRODUCTION

My contribution deals with the specifics (peculiarities, particularities) for quality management and managing quality in banks and other financial institutions. Specific object of analysis (banking sector) requires special approach. Analysis of financial sector proper is of interest because it was a major cause of recent global financial crisis and global recession and, even more, because its reforms until now did not eliminate weaknesses in the sector to prevent next financial crisis in making. It is surprising that financial sector as the main culprit of most recent economic problems in recent years, is neglected in the outlines of the European Congress of Quality.

This paper covers both, management (creating, attaining) quality of financial institutions and quality of bank (financial) sector management in modern era. The first part is inward oriented and defines competencies for bank (financial) managers to attain the highest possible performance quality. The second part is outward oriented and proposes the ways to quality manage financial institutions with the goal to achieve the best business results (performance) and the optimum for the entire global economy.

GOAL: Social responsibility of banks, financial sector: socially optimal results, taking into account both positive and (especially) negative externalities of their activities. Defining the goal of financial institution is prerequisite for evaluating quality of its management. What they want to achieve in their business endeavor defines elements (criteria) for quality of management.

Illustration 1:
Characteristics (competences) required for quality bank (financial) manager
In mid 1990 at the annual conference of American physicists their senior leader gave the following advice to younger fellows: "As cold war (with Russia) is over after transition of socialist block in Russia and its satellites there will be no more good opportunities for research and high earnings for you in the military sector (armament). Therefore, the best future option for You is to go to the Wall Street and use (implement, apply) Your technical skills and intellect, the experience from the physical science, and apply them to the financial sector, banks, insurance companies, funds." Young physicists in fact listened to this advice: quants occupied financial sector and applied their knowledge there.

The outcome are managers – financiers, socially invalid (insensitive) personalities working on financial markets with dire consequences – in 2008 the largest global financial crisis since 1929, not only but to large extend due to their contribution. They reform the financial sector to be similar to their environment in physics. To recreate rules the rules of Newton mechanics in financial sector, first, they replace human beings with lifeless physical objects, while physical mind is transferred to the financial mind. Second, they assume existence of perfect competition similar to vacuum in physical experiment. Only this way similarity with the laws of physics could be introduced to financial sector. But, both assumptions are unrealistic, leading to catastrophic consequences, not only to financial sector but to the whole economy.

QUALITY MANAGEMENT OF BANKERS (QUANTS) (intra quality)
Subjects are bankers (financiers) working in banking (financial) institutions. Competencies should include:
-complete education (economy, finance, quantitative methods, basic social and human sciences),
-proper value system: convergence of econ and human values with quants as extreme (financiers as extreme econegos: i.e. greed is good, society as mechanical system, earning first billion before 30, increasing shareholder value as primary task)
-principal – agent conflict: wrong payment initiatives led managers to increase the size of financial sector above all limits

MANAGING QUALITY OF BANKING (FINANCIAL) SYSTEM (extra quality)
Subjects are government officials and administrative employees, supervisors who create and supervise performance of banking (financial) sector). Their tasks should be:
-creating (managing) proper micro financial units (their goals, visions, strategies): capital and liquidity requirements, profits,
-there should be three types of banks: retail, commercial, investment, with China wall among them,
-increasing security requirements and credibility for banks gives rise to expansion of fintech and other nonbank financial institutions, which perform banking operations (and payments) without stricter security requirements filling one hole in the bucket lead to emergence of many other holes, thus leading to next financial crisis.
-revolving door principle should be abandoned

Illustration 2: bank NKBM
-sold to foreigners for 250 Million €, with capital of over 600 Million € thus earning immediate profit of over 350 Million (plus obtaining from the state The post-bank for free)
-earned huge profits in first year of foreign ownership due to relaxing overly strict reserves given to the bank by the state budget just before the sale of bank;
-create profit (proudly announced) in the second year by streaming business meaning lay-off of employees which become as unemployed burden to the state unemployment fund (negative externality)

QUESTIONS TO BE ANSWERED IN PAPER (Outline)
1.What is (means) quality management in banking (finance)
2.How it could happen? Causes of global financial crisis, with emphasis on mistakes of managers
-principal – agent relation (manager : owner)
3.How banking and financial sector management should be really reformed?
-What is the goal, purpose of the financial sector: social responsibility of enterprise should be present in financial sector too
-financing versus trading in financial sector, trading limited
-Financialization of the whole economy and everyday life – should be restricted
-Financial system: the proper institutional reform of the financial sector
-Fintechs as innovation with potentially positive as well as negative effects
-competencies required for financiers and people dealing with financial sector
-what are potentially positive and negative consequences of digitalization in financial sector