FDIC
FEDERAL DEPOSIT INSURANCE CORPORATION

NEWS RELEASE

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FDIC STUDY PROPOSES DEPOSIT INSURANCE IMPROVEMENTS; KEY FINDING IS NEED FOR INDEPENDENT INSURERS

L. William Seidman, Chairman of the Federal Deposit Insurance Corporation, today unveiled a comprehensive study of the federal deposit insurance system. The study outlines the guiding principles that should govern the nation's deposit insurance program so it can perform more effectively as it meets the challenges of the next decade.

"We undertook this study early last year because of a growing realization that deposit insurance needs some fundamental changes if it is to continue to meet its vital objectives," Mr. Seidman told reporters in Washington. "While deposit insurance has fostered financial stability and made bank runs, with depositors lined up at bank doors, a relic of a bygone era, the events of the 80s have brought into clear focus the recognition the current system has created potentially staggering costs."

The FDIC study, Deposit Insurance for the Nineties: Meeting the Challenge, evaluates the experience of the FDIC and the Federal Savings and Loan Insurance Corporation. It also identifies the principles that should guide deposit insurance in the years ahead, Mr. Seidman said.

Among its key conclusions, the FDIC study recommends:

- Deposit insurers should be organizationally independent and self-funded. Mr. Seidman said an insurance fund should be accountable to the Congress, "but its ability to create obligations on the general fund of the government should be limited."

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• An insuring agency also should have the authority to examine all institutions it insures and withdraw deposit insurance quickly when necessary. "An insurer needs the ability to determine the level of risk institutions pose to the fund," Mr. Seidman commented. "When risks are determined to be unreasonable, we need to be able to reduce our potential exposure quickly."

• An insurer also should be able to adjust insurance premiums to reflect recent loss experience. Furthermore, the insurer should be able to require that all institutions owned by a common parent indemnify the insurer against losses resulting from the failure of a bank affiliate.

Mr. Seidman noted that "improving the structure of and tools available to our deposit insurers is important, but we also must improve our supervisory capabilities." He said the FDIC intends to work with other agencies and representatives from the business and academic communities "to establish mechanisms to detect and react to rising risk levels in given geographic areas."

In addition to the analysis of the necessary improvements for the nation's deposit insurance system, the FDIC study outlines three options for revitalizing and focusing the mission of the FSLIC, Mr. Seidman said.

"We prefer the first option. It would create a 'stand alone' FSLIC, which would be financially and administratively independent, thus functioning much like the FDIC," Mr. Seidman commented. "This approach would be the means to achieve a sound deposit insurance system for the nation's S&Ls. The study outlines two additional options should the Congress and the Bush Administration conclude more extensive restructuring is required."

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