



## NEWS RELEASE

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### SEIDMAN REPORTS THAT BANK FRAUD, WHILE AN IMPORTANT CONCERN, DOES NOT THREATEN SYSTEM

FDIC Chairman L. William Seidman today said that fraud and insider abuse in banking are a continuing cause of supervisory concern, but they do not pose any threat to the stability of the system.

Mr. Seidman said: "Contrary to the public's misperception that fraud undermines the banking system, the fact is that safety supervision keeps such activity to a level that the system can tolerate. Fraud is not a systemic risk."

Nonetheless, Chairman Seidman said, "the perception of insider abuse, or the potential for it, hampers many of our efforts to gain support for programs to reform and restructure our banking laws."

In remarks to the 4th Annual Bank and Savings and Loan Supervision, Enforcement and Compliance Conference, Mr. Seidman observed: "Thousands of institutions function for decade after decade without being touched by a breath of scandal. Yet a single sensational case of insider abuse sends out shock waves that undermine the credibility of the whole industry."

Fraud and abuse by insiders is a factor in about one-third of all bank failures, Mr. Seidman said. The FDIC's response, he said, is selective. "We land with both feet on those directors and officers whose misconduct, rather than bad business sense, has contributed to a failure." He noted the FDIC in 1987 has recovered more than \$35 million from directors and officers.

Mr. Seidman said several initiatives to deal with fraud are producing results.

-The Bank Fraud Enforcement Working Group--an advisory body consisting

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of the banking agencies, Justice Department and the FBI--meets each month to discuss specific criminal cases and address common problems.

-A computer tracking program for criminal referrals is helping to spot trends, geographic patterns and emerging problems.

-Some 60 senior examiners designated by the FDIC as bank fraud specialists are receiving special training in fraud and insider abuse.

-An interagency school on white collar crime is providing training for both FBI personnel and bank examiners, and the FDIC is focusing on insider abuse in its own training activities.

Mr. Seidman noted that because directors and officers are also usually a bank's customers, the relationship poses "the greatest potential for conflicts of interest to be found in any business." He said the honesty of most bankers makes it possible for supervision to effectively minimize abuse from such conflicts of interest. This demonstrates the ability of the supervisory system to control risk in the industry.

To help financial institutions avoid fraudulent conduct, Mr. Seidman said the FDIC is emphasizing both improved audit capabilities and is working with other regulators to develop a code of conduct for bank directors. The agencies, he said, will suggest banks maintain an independent board of directors, select and retain qualified management, supervise management, establish and monitor policies dealing with conflicts of interest, audits and ethical standards.

Maintaining the integrity of the banking system is a dual responsibility for regulators and the industry, Mr. Seidman said. "At a time when the regulators and financial institutions will be pushing for the needed overhaul of our present banking laws, the perception of the public and the Congress of the image, reputation and ethics of the industry could not be more important if we are to win support for new ideas."