FDIC
FEDERAL DEPOSIT INSURANCE CORPORATION

NEWS RELEASE

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FDIC ATTEMPTING TO HELP BANKS SOLVE DIRECTORS' LIABILITY INSURANCE PROBLEMS

The FDIC is concerned that some banks are unable to obtain liability insurance for their directors and is attempting to help the industry find an insurance solution, FDIC Chairman L. William Seidman told the American Bankers Association today in San Francisco.

Mr. Seidman outlined the following steps the FDIC is taking to help end the insurance problem in our banks' board rooms:

- Meetings with bankers, trade groups and insurers to foster better communication and understanding and explore solutions.
- Discussions with insurers and reinsurers, in the United States and Europe, to encourage increased insurance availability.
- Working with other regulators to develop guidelines for directors and officers outlining their duties and responsibilities. Mr. Seidman noted that it would be difficult to sue a director who, in good faith, had complied with the FDIC guidelines.

Chairman Seidman noted that FDIC lawsuits are not a major cause of the insurance dilemma. He stressed that lawsuits are brought by the FDIC against directors and officers only when there is evidence of real negligence or wrongdoing. "We do not file a lawsuit in every case where there is liability insurance coverage, nor do we ignore a potential claim just because there is no insurance. More importantly, no lawsuit is filed without a thorough investigation," he said. Mr. Seidman noted that investigations are lengthy and no suit can be filed without his personal review of the case.

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"As still a further precaution, we have been testing a procedure whereby the potential defendants would be advised of our findings and given an opportunity to submit a written statement before any final litigation decisions are reached," Mr. Seidman said. "Our intention is to file suit only when we have found evidence which will make a case and lead to a financial recovery," he added.

Mr. Seidman urged the banks to consider the example of the mutual funds in providing a separate budget to independent directors, noting that: "Outside directors often need extra help to deal with the complexities of banking." He said the directors could use the funds to retain independent counsel to assist them. "They could choose periodically to retain an outside auditor, an accountant or a consultant," he said.

"A separate budget means some additional cost to the banks, but this may be recovered through a lower insurance premium, better operations and fewer lawsuits," he said.

Mr. Seidman concluded with an update on the FDIC insurance fund noting that its year-end 1986 balance will be about $18.8 billion dollars, despite record failures and expenditures. He added, however, that it is unlikely there will be an insurance rebate for 1986. "Cash outlays for dealing with 1986 and prior year failures will approach $4.2 billion," he said.

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