



# NEWS RELEASE

FOR IMMEDIATE RELEASE

PR-182-86 (11-20-86)

## FDIC CHIEF OUTLINES STEPPED-UP PROGRAM TO REDUCE BANK FRAUD AND INSIDER ABUSE

The Federal Deposit Insurance Corporation is adopting new measures to detect insider abuse and fraud in banks, FDIC Chairman L. William Seidman today told the American Institute of Certified Public Accountants.

Mr. Seidman also announced that the agency is exploring a new program to supplement its examination staff by contracting with public accounting firms to assist in conducting bank examinations.

"Fraud and abuse are important factors in bank failures," Mr. Seidman said. He noted that examiners have found significant insider abuse in about one-third of all bank failures this year and that the FBI estimates that it has handled fraud and embezzlement investigations this year involving almost a billion dollars in losses.

Mr. Seidman cited a series of actions bank regulators have taken to respond to the problem:

- . New training for examiners in fraud detection, with specific attention to computer fraud, securities fraud, real estate fraud and insider transactions.
- . Development of a system of "red flags," a checklist indicating warning signs of different kinds of fraud and insider abuse.
- . Formation of a bank fraud special investigations group to coordinate procedures and to work on major problem cases.

Mr. Seidman said the FDIC also is evaluating several measures used by the Federal Home Loan Bank Board, including mandating annual audits and requiring

-more-

outside accountants to notify the FDIC of any defalcations detected.

Mr. Seidman said the frequency of examinations is a serious problem, particularly in such economically weak areas as the farm belt and the southwest. "In these areas, there are often as much as 48 months between examinations," he commented. "This is too long in the best of circumstances. In those areas, where banks are fighting off the effects of a weak economy, it is just unacceptable."

To cope with this shortfall, Mr. Seidman said the FDIC is considering turning to the public accounting profession for help. "We seek a program of contracting with public accounting firms to provide us with a staff to supplement our examination force," he said. "Auditors would work alongside our examiners under the supervision of an FDIC examiner-in-charge."

Mr. Seidman said the agency is assessing the cost of such a program and is developing a pilot project. "If the pilot proves successful," he said, "the program will be expanded promptly."

"We can learn from one another," said the FDIC head. "By working together we can reduce bank fraud and increase our examination capability. By working together we can benefit the banking industry and the country."

###