FDIC
FEDERAL DEPOSIT INSURANCE CORPORATION

NEWS RELEASE

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FDIC CHAIRMAN OUTLINES CRACKDOWN ON FRAUD IN BANKING

FDIC Chairman L. William Seidman today called for aggressive pursuit of "those bankers who would abuse the public's trust by engaging in illegal transactions." He proposed that detecting fraud in banking be a "primary objective" of the examination process--not an incidental activity.

In a speech at The Southwestern Graduate School of Banking, Southern Methodist University in Dallas, Mr. Seidman said the FDIC is preparing a list of "red flags" which examiners will use in looking for evidence of misbehavior. He also revealed the FDIC is consulting with a committee of the American Institute of Certified Public Accountants on the fraud detection responsibilities of independent CPAs.

Chairman Seidman said the FDIC and other banking supervisors recognize that self-interest is "neither good nor bad," but merely a force to be reckoned with. But he said the FDIC will aggressively seek out those bankers who engage in illegal activity. He outlined three approaches for use by bank supervisors in dealing with "self-interested" activities:

- Fraudulent behavior should be ferreted out and punished.
- Parties that engage in aggressive, risky, but legal behavior should be made to bear the costs such risks impose.
- Banks that seek out sound and appropriate profitable opportunities should be able to do so with as little interference as possible.

Mr. Seidman noted that an FDIC regulation requiring banks to report suspected crimes becomes effective this month. He said the FDIC has developed a computer system to track criminal referrals and is committed to providing prosecutors with the technical assistance necessary to ensure successful bank

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fraud prosecutions. "The FDIC is committed to achieving an effective anti-fraud capability," Mr. Seidman said.

The FDIC head noted that, while he favors deregulation, he believes banks engaging in greater risk-taking should bear the costs such risks entail. He suggested risk-related insurance premiums as one way to recognize those costs. He also said a bank's risk profile should be considered when assessing its capital adequacy. He cited increased public disclosure of information as yet another way to use market forces to discipline excessive risk-taking. "We hope to develop with other regulators consistent disclosure policies for all banks," he said.

Mr. Seidman said banks should be encouraged to seek out profitable opportunities that do not involve unwarranted risks. "Bank supervisors should interfere as little as possible with such self-interested endeavors," he said. "Government officials are not likely to be better than banks' managements in shaping the direction taken by the banking industry."

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