Remarks by

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Good afternoon. I am delighted to have the opportunity to speak with you today and I want to thank IADI's Chairman, Governor Mikuniya, for inviting me. I also want to thank David Walker, IADI Secretary General, and his staff for organizing this event and for their gracious hospitality.

This is my first opportunity to address you as FDIC Chairman and I am honored because I have tremendous respect for how much IADI has done in a relatively short period of time to strengthen deposit insurance systems around the world.

The FDIC is proud to be a founding member of, and strong contributor to, this association.

Personal Story

I want this audience in particular to know that deposit insurance is especially important to me for very personal reasons. I was born and raised in the former Yugoslavia, a communist country with very little financial infrastructure and no deposit insurance.

My parents did not have much money, but what little savings they had were deposited in a local bank. When Yugoslavia's economy was collapsing in the early 1990s and the bank became troubled, my parents lined up along with other depositors, holding a brown paper bag. But there was no money left for them.

When that bank closed its doors, my family lost their life's savings, and my 68-year old father became a day laborer making five dollars a day. I know first-hand the hardship that can result from inadequate protection for ordinary depositors. The mission of the FDIC resonates profoundly with me, and I am committed to strong and effective deposit insurance arrangements.

Importance of Effective Deposit Insurance Systems

Now that you know this is a personal mission of mine, I want to say a few words about achieving compliance with IADI's core principles in all jurisdictions around the world. We must all make this a top priority and treat it as a matter of urgency, not as a luxury item that we can pursue when convenient. On a personal level, I would not want another 68-year-old to have to dig trenches because his life savings were deposited at a bank without deposit insurance.

And yet effective deposit insurance systems are not fully in place around the world. Instead, there is a patchwork of deposit insurance systems in various degrees of compliance.

There is general recognition internationally among the world's financial standard setters that effective deposit insurance arrangements are paramount for financial stability.

The evidence from the most recent financial crisis only reinforces this understanding. The jurisdictions that had well-established and effectively functioning deposit insurance systems entering the crisis fared much better than those without.

Moreover, it is in our individual jurisdictional interests to achieve compliance with the core principles as quickly as possible.

Our own experience in the U.S. is instructive on this. During the depths of the most recent crisis, FDIC insurance allowed us to manage some 500 bank failures without disruption.[1]

The Role of IADI

One of the top priorities in the current strategic plan of IADI is to assist members in achieving compliance with the core principles. To that end, IADI has begun to train more experts to assist with its Self-Assessment Technical Assistance Program, or SATAP, and has created a new group to provide individual follow-up for members in overcoming their specific obstacles to implementing system enhancements.

I urge member organizations to take advantage of IADI resources to assist you in achieving full compliance with the core principles.

We at the FDIC believe this is important enough to devote our own resources to the cause. The FDIC has been deeply involved in IADI training efforts over the

[1] The story of the FDIC's response to the financial crisis is told in our study titled, *Crisis and Response: An FDIC History, 2008-2013*. It is available on our website at https://www.fdic.gov.

years, and we have recently signed on again to lead the newly formed Training and Conference Technical Committee.

Tony Sinopole and his staff are working hard along with other members of the technical committee to upgrade the quality and value added of all IADI training workshops, and to ensure a full supply of core-principles compliance experts to assist with the needs of IADI members.

Achieving our compliance goals as an association will require strong support from the IADI secretariat as well. IADI's strategic plan recognizes this and calls for providing additional training resources to the secretariat in Phase Two of the plan.

The membership alone cannot provide the continuity, coordination, institutional memory, and specialized expertise that are required to sustain a quality training and technical assistance program for deposit insurance.

The secretariat at its current staffing level lacks the capacity to execute these vital functions, and it will be critical for IADI to provide the secretariat with the resources needed to achieve and sustain our goals for core principles compliance.

We are at a proverbial fork in the road: we can talk or we can do.

History of Runs

These efforts are necessary not only to shore up each country's financial safety net, but to position IADI members to deploy our expertise productively for future policy discussions.

At the core of almost every systemic financial crisis are runs by holders of liquid assets. The role of runs is especially evident in the history of financial crises in the U.S. In the early days of the country, when banks produced their own private currency called "bank notes," bank runs occurred when holders of the notes began to doubt whether their bank was sufficiently sound to be able to redeem all of the bank notes fully in gold.

The doubts of the noteholders led them to run on their banks and demand re-payment in gold while the banks were still able to procure it.

The creation of a national currency in the U.S. provided by the central government addressed that problem. With no more private money, the holder of a dollar could be sure that it was worth a dollar.

But shortly after a national currency was created, a new source of bank runs emerged. When checking accounts were developed, runs and financial crises occurred whenever depositors began to doubt that the value of the banks' assets backing their accounts would be sufficient to return the full dollar amount of their deposits.

The establishment of effective deposit insurance systems addressed that problem. And this has been demonstrated wherever there are deposit insurance arrangements in compliance with IADI's core principles.

The most serious runs in the last crisis occurred when institutional investors and other financial institutions began to doubt the value of the collateral securing their holdings of repo, commercial paper, and other liquid instruments that were essentially serving as money for these investors.

The runs were different in form from traditional runs because they occurred outside the regulated banking sector, involving different actors, but they were not different in substance.

Holders of highly liquid instruments serving essentially as money became concerned about the value of the backing, or underlying collateral, and so precipitated a run in an effort to be repaid before it was too late.

The result was a systemic financial crisis.

The history lesson here is that we can expect new sources of runs to emerge over time. We have expertise that is relevant for future policy development with other standard setters in this area, but we need to be in a strong position collectively in order to contribute. That means our deposit insurance systems must be in good working order, and this is where IADI's core principles come into play.

Transparency

Finally, I want to say a word about something I consider to be an essential complement to a fully compliant deposit insurance system, and that is transparency.

Deposit insurance is all about trust. The essence of an effective deposit insurance system is the trust of the banking public in the operations of the deposit insurer. The only way to build trust is to make those operations transparent so that your stakeholders have the information and the means to hold you accountable. It is all about being accessible, understandable, and responsive to both regulated entities and those we seek to protect vis-à-vis deposit insurance.

If you do not trust the system in which you live, you do not feel a part of it. It is not *your* government. On the other hand, distrust breaks down relationships, whether it is between a business entity and its customers, a manager and her employees, or a government and its citizens.

For us in the U.S., it is no accident that trust and public confidence lay at the heart of the FDIC's mission statement. Without trust, the FDIC could not maintain stability and confidence as insurer of deposits, bank supervisor, and receiver of failed institutions.

Trust in the FDIC as insurer has kept insured deposits from fleeing banks at the first sign of trouble, including during the crisis. For banks, trust allows for participation in a supervisory and examination process believed to be fair and free of outside influence. And as the receiver of failed institutions, trust is necessary to encourage participation in fair asset sales that return maximum value to the private sector as quickly as possible.

During times of economic or financial stress, transparency becomes even more important as the FDIC undertakes stronger and more visible actions. The stronger the action, the greater the need to be as transparent as possible, not only with respect to *what* action is being undertaken, but *who* will benefit, *who* will pay for it, *how* it will affect banks and consumers, and *why* it is the best possible course.

Communications that are absent, misunderstood, or nonresponsive, will only serve to heighten misperceptions that undermine trust and the recovery process.

Because of that, I have chosen for my first initiative at the FDIC to focus on transparency. The name of the initiative is "Trust through Transparency."

A key feature of the initiative is the creation of FDIC performance metrics that will be published on a new website. Quantifiable measurements of performance, such as turnaround times for examinations and applications, will be regularly published, providing transparency for the banking industry and public on our performance.

In closing, I urge you to consider ways to improve transparency in your own deposit insurance organizations as you move toward compliance with IADI's core principles.

Core-principles compliance and transparency are essential ingredients for building and maintaining the public trust that is the heart and soul of our common mission as deposit insurers.

In the end, each of us wants to protect that 68-year-old man who had to return to work as a day laborer because the bank did not have deposit insurance. We will succeed only if we are accountable to him, consistent with each other, and aligned in pursuit of a common goal.

And that common goal will be achieved only if we all turn our words into action.

Thank you.