Remarks of Chairman Jelena McWilliams to the SRB Annual Conference "Resolution Readiness: Adapting to our Uncertain World"

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Introduction

Thank you, Elke, for inviting me to speak today. I am sorry that we cannot meet in person, but I am glad we are still moving forward together in these interesting times.

It has been two years since I last spoke at this conference, and I am struck by how much has changed. Even a year ago, the world was a very different place with a record period of economic expansion, historic lows in unemployment and inflation, and, for those of us in the resolution sphere, a long period with few, if any, bank failures. Though we knew, even then, that the good times could not last forever[1]– and that future crises would test our financial system – few of us would have guessed the specific challenges and, frankly, successes of these past few months.

Much has changed, much has been accomplished, and, most importantly, much is being learned. I would like to discuss each of these areas from my perspective at the FDIC and I suspect we have a number of common observations.

What has changed?

There have been a number of significant changes since we last spoke, many of which are critical to our thinking about resolution readiness.

In previous years, and certainly in previous speeches, we generally started with the 2008 Global Financial Crisis. We discussed how that crisis revealed gaps in our financial regulatory framework, how it paved the way to many of the reforms that we at the FDIC – and others around the world – have spent more than ten years developing.

That story was useful. Important lessons were learned and reforms put in place, but the world has also changed during the past ten years, including as a result of the economic and financial market stress related to COVID-19. This volatility did not originate with banks or other financial institutions, nor did it derive from failed financial management practices. On the contrary, because of strong capital and liquidity positions, financial institutions have served as sources of strength in crisis.

Political and regulatory authorities took swift, decisive actions that helped to maintain stability in financial markets. These actions focused on providing necessary flexibility for banks to meet the needs of their customers and encouraging banks to work with affected borrowers, as we:

- Encouraged banks to use their capital and liquidity buffers to lend and provide other critical financial services;
- Made targeted, temporary regulatory changes to facilitate lending and other financial intermediation;
- Provided needed flexibility for banks to work with their borrowers and modify loans when appropriate; and
- Fostered small business lending by facilitating the use of new government programs.

As a result of these and other actions, mortgages continue to be made and refinanced. Businesses – though struggling – continue to have to access to credit and, thankfully, our financial system remains strong. That is the good news.

Notwithstanding these positives, however, there remains much work to do given the economic contraction and unemployment related to the pandemic and corresponding shutdowns. We do not know how quickly things will return to normal, but we do know that many people are struggling and worried about making ends meet.

As regulators and supervised institutions continue to respond, we must remain vigilant to the rapidly changing environment and focused on adapting in ways that will best serve our communities and nations.

What has been accomplished?

Since we remain in the midst of this change, I am reticent to engage in too much congratulating but, frankly, the list of accomplishments around the world has been impressive – and I congratulate each of you for your part in them.

First, financial institutions have found a way to turn on a dime – in the midst of a global pandemic – and work remotely during one of the most volatile periods in our financial history. Second, regulators have found ways to work together – creatively and flexibly – to address sudden new risks and continue to promote financial stability. And third, elected officials, finance ministries, and central bankers have taken timely and decisive action to stabilize the financial system.

Deposit insurers and resolution authorities have played a constructive role. We have taken steps to assure the public that their deposits are safe.[2] We have worked with our peers to encourage financial institutions to use their capital and liquidity buffers to support the economy.[3] We have encouraged banks to take prudent steps to work with borrowers struggling with the current uncertainty,[4] and of course, we have continued to work closely with our peers, including the Single Resolution Board, to continue to carefully monitor and prepare should circumstances warrant. In the height of the pandemic, we even found a way to close a bank – this time with a small team, a pandemic plan and a lot of creativity – all to maintain the public's trust in our mission. In short, we, like you, have adapted.

What have we learned?

Though I recognize that there are many lessons still to learn, I would like to highlight a few we have started pulling together: some to share – in hopes they can help others – and some to test– in hopes the criticisms or counterarguments will help us refine our thinking.

Lesson 1. Move past the last crisis in order to address the next one.

It is common for regulators to benchmark ourselves against the last crisis – and do everything we can to avoid a repeat. While I understand the attraction of this approach – and appreciate the old adage that we need to learn from the past or be forced to re-live it – we also need to move forward.

The world is not static. The financial system is morphing quickly, even as we speak. We need to make room for change, adaptation and flexibility. These have been essential tools for mitigating this crisis and I suspect for crises still to come.

Lesson 2. One team beats four.

Another lesson we learned during our recent market volatility was how lucky we were to be in the middle of a reorganization. I know that must sound odd – who wants to be stuck by an economic shock with an organizational structure in flight? – but, fortunately, we were.

Last July, I announced[5] that the FDIC was creating a new division – the Division of Complex Institution Supervision and Resolution – and merging all of its supervisory and resolution functions together for banks with assets above $100 billion for which the FDIC is not the primary regulator.

For years, these tasks had been split among three separate divisions or offices creating silos that limited information sharing, slowed analysis and unnecessarily complicated an already challenging mission.

Even though this group was still in the midst of significant organizational change – and not yet a year old – the organizational synergies and reinvigorated team paid huge dividends for our speed, situational awareness, and crisis readiness. For the first time, we could pull together – almost seamlessly – a market-based, institution-based, and resolution-based perspective on what was happening and how we should respond. Cross-organizational projects, exercises and conversations that happened too rarely in the past, were now happening automatically. Thus far, that organizational change has resulted in a quantum leap forward in our crisis readiness.

Lesson 3. Focus on scenarios, but "mind the gap."

As you know, we at the FDIC are in the resolution planning business. In this business, we are constantly trying to imagine failure scenarios so that we can identify gaps early and take steps to address them. While scenarios can be helpful for focusing the mind and the discussion, they have their downsides too. They are over-weighted by our recent memory or last crisis, and can limit our imagination. We can become so focused on a particular scenario that we forget the fact that many other scenarios are even possible.

To make matters worse, even if we push ourselves to have a robust imagination, scenarios can quickly spiral into ever worsening doomsday competitions. No matter what the scenario, one can always find ways to make the scenario worse.

A year ago, no one was suggesting planning for resolution in an environment with an immediate spike from historically low to double digit unemployment, and a dramatic shock to large segments of the real economy in a pandemic environment replete with remote work and social distancing guidelines – and yet, here we are. And, even if we had planned for this scenario, few would have predicted the across-the-board adaptation and successes that have also occurred.

For what it is worth, my view is that we should use particular scenarios the way we use caffeine and chocolate: sample it, but do not get addicted to it. It is helpful to use a variety of scenarios to test particular strategies. If we see the same gap or problem repeatedly – we know where to focus – on the gap, not the scenario.

Lesson 4. Capabilities are critical.

Unlike scenario planning, focusing on specific organizational capabilities – identifying shared services, key personnel, or liquidity needs, or building flexible and redundant IT systems – can be useful in many different scenarios, including the ones that actually happen. Indeed, many of the capabilities developed by firms in response to resolution planning requirements proved to be incredibly helpful in the real world scenario that actually happened: the one no one imagined.

The same holds true for our capabilities at the FDIC. Technology and IT modernization has been a top priority for me, both at the agency and across supervised institutions. At the agency, we built capacity, moved our team to laptops, and rolled out new tools to help us video conference. Across supervised institutions, we have been able to continue and complete nearly all scheduled examination activities during the pandemic as a result of previous investments in collaboration technology and file-sharing tools.

Because of this prioritization and these investments in our capabilities, we have been able to adapt, improving our resilience and readiness regardless of scenario. These same capabilities have also enabled the establishment of a new approach to resolution activities during the pandemic. As I mentioned earlier, when a small institution failed due to preexisting financial challenges unrelated to the pandemic, we successfully resolved the institution without missing a beat.

Lesson 5. Technology and operational risk are liability and solution.

I think we have learned an important and positive lesson, too, about operational risk and information technology. We must not lose sight of the fact that almost overnight financial institutions, regulators, servicers, customers and counterparties around the world all left their offices, went home and stayed there for months…and it worked. It is still working. Markets are trading. Banks are lending. Customers have access to banking services and their money. Clearinghouses are clearing and financial markets continue to perform their critical functions.

That was an operational risk – and we had an operational success that exceeded all reasonable expectations.

Far too often we speak of technology as an operational risk. But technology is also an operational enabler – providing capacity, redundancy, and access. We must foster innovation and embrace technological innovation by managing associated risks, not running from them. Our banks, businesses, and consumers will be the beneficiaries.

Because of our investments in technology, the pipes and the very machinery of finance functioned, moving all those resources effectively and at the same time. The real credit goes to the employees, the contractors and the IT professionals around the world who have made it happen day in and day out for months. Congratulations – and thank you.

Lesson 6. Use capital and liquidity buffers wisely.

So far, the challenges we have confronted in 2020 have not resulted in significant bank failures and therefore have not tested our systemic resolution regimes – and we should take every step we can to try to keep it that way.

Banks' capital and liquidity strength – and regulatory flexibility – were central to these institutions serving as a source of strength during this year's volatility. Unlike in the prior crisis, banks have been able to help support the real economy through this traumatic period because they had built up strong capital and liquidity reserves during the past decade. Regulators have helped by prudently providing flexibility in the rules without compromising safety and soundness. Banks need robust levels of capital and liquidity to avoid failure, serve their clients and communities, and keep our economy functioning. When shocks come though, they also need flexibility to put those resources to work to stabilize the economy and improve the recovery.

Lesson 7. Relationships improve resilience.

Even with the technological change – and social distancing – I was still struck by the importance of good old fashioned human relationships. Part of what allowed so many agencies to work together and act in a more coordinated fashion in the United States was that many of the agency heads built strong relationships prior to the downturn. Randy Quarles, the Vice Chairman for Supervision at the Federal Reserve, and Joseph Otting, the former Comptroller of the Currency, are not just current or former colleagues; they are my friends. We have shared numerous meals together, met the families, and visited each other's homes. So when the time came to pick up the phone and make difficult phone calls, we had already built a solid foundation based on mutual respect and trust.

In those first few weeks of March and April, the banking agencies needed to act with remarkable speed on a series of interim final rules and other actions. The longstanding trust that we built up over the years was instrumental in ensuring we were able to take decisive actions on virtually a daily – or in some cases hourly – basis, prioritizing the needs of the nation and the financial system over those of particular agencies or institutions. And I look forward to continuing to build a strong relationship with Brian Brooks, the Acting Comptroller who took over for Comptroller Otting in May (who, by the way, I have already shared meals with and invited to my house).

We saw this in our international engagements as well. Because of the relationships we have built with colleagues at the SRB, in the EU, Switzerland, the UK and all around the world – we were able to touch base quickly and maximize coordination.

Though I am truly impressed by the way our teams have adapted to this crisis and enabled strong and stable financial institutions, we need to keep reminding ourselves that the world can change overnight. It just did and it most certainly will again. Our jobs are to be ready for that.

To that end, we are going to continue to build plans, test scenarios and improve capabilities. We are going to continue to push to make sure that our financial institutions are safe and sound so they can continue to support our economies. We are going to inspect and polish the tools in our toolkit. And we are going to continue to invest in the most important tool of all – our relationships with each other.

Thank you.

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[1]*See*, *e.g.*, FDIC Chairman Jelena McWilliams, "Oversight of Financial Regulators," testimony before S. Comm. on Banking, Hous., and Urban Affairs (Dec. 5, 2019), available at https://www.fdic.gov/news/news/speeches/spdec0519.html ("This expansion and consequent absence of failures cannot endure forever. It is normal – and indeed expected – for some banks to fail, and our job at the FDIC is to protect depositors and ensure that banks can fail in an orderly manner.").

[2]*See* FDIC, "FDIC: Insured Bank Deposits are Safe; Beware of Potential Scams Using the Agency's Name" (Mar. 18, 2020), available at https://www.fdic.gov/news/news/press/2020/pr20032.html.

[3]*See* FDIC, Federal Banking Agencies Provide Banks Additional Flexibility to Support Households and Businesses (Mar. 17, 2020), available at https://www.fdic.gov/news/news/press/2020/pr20030.html; *see also* Regulatory Capital Rule: Eligible Retained Income, 85 Fed. Reg. 15909 (Mar. 20, 2020), available at https://www.govinfo.gov/content/pkg/FR-2020-03-20/pdf/2020-06051.pdf.

[4]*See* FDIC FIL-36-2020, *Revised Interagency Statement on Loan Modifications by Financial Institutions Working with Customers Affected by the Coronavirus* (Apr. 7, 2020), available at https://www.fdic.gov/news/news/financial/2020/fil20036.html; see also FDIC-FIL-22-2020, *Interagency Statement on Loan Modifications by Financial Institutions Working with Customers Affected by the Coronavirus* (Mar. 22, 2020), available at https://www.fdic.gov/news/news/financial/2020/fil20022.html.

[5] *See* FDIC to Centralize Key Aspects of Its Large, Complex Financial Institution Activities (June 27, 2019), available at https://www.fdic.gov/news/press-releases/2019/pr19056.html.