



PRESS RELEASE

Federal Deposit Insurance Corporation

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FDIC CHAIRMAN TANOUE GIVES PREVIEW OF DEPOSIT INSURANCE REFORM

FDIC Chairman Donna Tanoue today previewed the deposit insurance reform recommendations the agency plans to issue at the end of this month.

"We believe these reforms are necessary to make our system stronger, more efficient, and better able to meet the future needs of Americans," Chairman Tanoue said in a speech to bankers attending the Independent Community Bankers Association annual conference in Las Vegas.

The deposit insurance system has three fundamental flaws that need to be addressed, she said. Specifically, deposit insurance is crudely priced; charges for deposit insurance occur at the wrong point in the business cycle; and the value of insurance coverage shrinks over time.

"We do not think this is the way FDIC insurance should work," she said. Rather, the cost of operating the insurance system should be spread out across all insured institutions. We should collect premiums in good times that cover losses in bad times. And the value of deposit insurance should approximate the effects of inflation on American savings."

Noting that the current system has been financed by a subset of the banking industry that existed prior to 1996, Chairman Tanoue said, "Taken together, we believe our recommendations for pricing and funding will help manage the impact of new deposit growth in a fair and equitable way," the chairman said.

Specifically, the FDIC plans to recommend the following comprehensive package of reforms:



Congress created the Federal Deposit Insurance Corporation in 1933 to restore public confidence in the nation's banking system. It promotes the safety and soundness of these institutions by identifying, monitoring and addressing risks to which they are exposed. The FDIC receives no federal tax dollars — insured financial institutions fund its operations.

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- *Merge the BIF and the Savings Association Insurance Fund.* The FDIC cannot rationalize the deposit insurance system without eliminating the incongruous requirement to maintain two separate funds.
- *Eliminate the "hard target" reserve ratio of 1.25 percent.* Instead, the FDIC could maintain the reserve ratio within a more flexible target range.
- *Price insurance to be steadier -- less volatile -- over the business cycle.*
- *Price insurance more closely to the risk an institution presents - rewarding the safest institutions over time.*
- *Establish an adjustment mechanism to prevent the fund from becoming too large or too small.* Adjustment rules could provide for a gradual return to the midpoint of a range and some flexibility to adjust to changing conditions.
- *Index deposit insurance coverage levels to an appropriate base year of the Consumer Price Index.*

The full recommendations to be issued later this month will include a detailed discussion of these reforms, as well as supporting analysis designed to further the discussion of these issues. The text of the Chairman's speech can be found at <http://www.fdic.gov/news/news/speeches/archives/2001/sp07mar01.html>.
