Remarks by

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Scholarly Research and the FDIC

Annual CFR-JFSR Research Conference

Arlington, Va.

September 7, 2017

It is my pleasure to welcome you to the 17th Annual Research Conference sponsored jointly by the FDIC's Center for Financial Research (CFR) and the Journal of Financial Services Research (JFSR).

I want to thank Manju Puri, the director of our Center for Financial Research; Haluk Unal, an FDIC Visiting Scholar and Managing Editor of the JFSR; Rosalind Bennett of our CFR management team; and all of the FDIC staff who helped to bring this event together.

I would like to take a few minutes this morning to underscore the FDIC's deep institutional commitment to banking research and why we believe it is fundamental to the FDIC's core mission of maintaining public confidence and stability in the banking system.

Research has always been important at the FDIC. From its inception in 1934, the FDIC has had a research unit in its organizational structure, and the FDIC Board has relied upon the research and analysis of FDIC economists to guide the development of financial regulatory policy as well as operational business decisions.

The research and analysis necessary to support the FDIC's key functions – deposit insurance, supervision, and resolution – is extensive, and becomes even more critical during periods of financial stress. As Chairman and as a Board Member, I have often been struck by the range of research and analysis that we rely upon for all aspects of our decision making. This includes:

- Assessing the potential impact of policy decisions relating to capital and liquidity requirements, lending limits, rate caps, and all of the other elements of financial regulation;

- Assessing the systemic risks posed by an individual financial institution, as well as the systemic risks posed by developments in financial markets;
- Understanding changes in the structure of the industry including, for example, the impact of consolidation on the essential functions of community banks and on concentration among the large institutions;
- Conducting appropriate stress tests for insured institutions;
- Understanding how best to price deposit insurance according to risk;
- Determining how large the insurance fund should be to withstand adverse shocks and high-loss scenarios;
- Determining the least-cost method for resolving each failed institution; and
- Gauging the dimensions of the underbanked population and the implications for public policy.

These are just a few examples.

Institutionally we have strived over the years to maintain a steady presence in, and close connection to, the larger body of scholarly work in financial economics.

This is important for a number of reasons. First, participation in this arena is what ensures that our researchers are providing us with the independent thinking and objective analysis that is so critical for the FDIC to make informed choices among complex alternatives and to evaluate our own performance. Ultimately, this comes through establishing a strong internal research capability integrated into the broader peer-review process – a process that demands the rigor required to produce research of lasting value.

In addition, it is important to our mission that the FDIC has the expertise to participate constructively in the deliberations of lawmakers and other U.S. regulatory bodies, as well as global standard setters, such as the Basel Committee on Banking Supervision and the Financial Stability Board. A strong research capability greatly enhances our ability to do this.

Further, the FDIC has a stake in participating in and influencing the broader bank research agenda of the economics profession. The recent financial crisis has only reinforced the importance of this factor for us, given the unprecedented nature of the systemic risks that characterized this episode and the policy responses that followed.

While we recognize the importance of scholarly research to the FDIC, I would hasten to add that we also see a reciprocal benefit to the larger research community from original research contributed by the FDIC. Given our long experience in financial regulation, and most especially our unique functions of providing deposit insurance and resolving bank failures, we bring a strong comparative advantage from these areas into the research arena.

The essential point I wanted to emphasize today is that the establishment of the FDIC's Center for Financial Research, and the FDIC's broader institutional commitment to scholarly research, is central to the FDIC's mission of maintaining public confidence and stability in the financial system.

The CFR has been the organizing force for our efforts in this regard, including the hiring of new research talent, the Visiting Scholar Program, our seminar series with the accompanying series of working papers and, of course, this annual conference.

Most recently, we were able to persuade Manju Puri to join us on loan from Duke University as Director of the CFR. She is, in my view, providing outstanding leadership to the

CFR. She is building it out in all of the ways we would want it to develop , and is helping our economists find more intersections where research related to the FDIC's public responsibilities also fill significant gaps in the existing literature.

One area of research prioritized by Manju that is particularly promising involves the use of data from failing banks. As the resolution authority for failed institutions, the FDIC has unique access to detailed, transaction-level data for these institutions over the months and sometimes years leading up to their failure.

Given the large sample of bank failures resulting from the recent crisis – more than 500 since 2008 – these data hold great potential for understanding the behavior of bankers, borrowers, depositors, and other key stakeholders in the institution as it becomes troubled and proceeds ultimately toward insolvency.

Needless to say, the quality of the data is uneven and there are challenges to unlocking the potential in this untapped resource. However, the work is well underway and you may be aware of a paper co-authored by Manju and CFR staff using these data. I believe there is much to look forward to in this area.

The next two days promise to be productive. Thank you again for being here and for engaging with us in ways that advance our mutual interest in expanding the research frontiers of banking and financial economics.