

**Remarks by
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Thank you and good morning.

Every so often, experience reminds me that careful planning and consideration often do not survive contact with reality. Life is unpredictable.

For example, a lot of thought must have gone into the signature system used with credit cards. The system is simple and, you might think, effective. But several weeks ago, I was signing a receipt for a bank credit card purchase at a supermarket when the checker noticed that I had never signed my name on the back of the card. He informed me that he could not complete the transaction unless the card was signed. He explained that it was necessary to compare the signature on the credit card with the signature I just signed on the receipt.

So I signed the credit card in front of him. He carefully compared that signature to the one I had signed on the receipt. As luck would have it, they matched.

Not only is reality unpredictable, it can also be dangerous. You might think that the chances of being killed by a flood of molasses on the streets of Boston would be zero -- but you would be wrong. In January, 1919, a storage tank exploded near the sites where the world famous Faneuil Hall and the New England Aquarium stand today. Thirty-foot high walls of molasses flooded down the surrounding streets at up to 35 miles per hour. They moved with a force of two tons per square foot, smashing buildings, crushing cars and knocking over elevated train trestles. The flood killed 21 people, and injured another 150. Even today, no one in Boston ever says that anything is "as slow as molasses."

Federal deposit insurance was created sixty-four years ago to address an unpredictable and potentially dangerous reality -- the reality that banking rests on public confidence. When public confidence has not been anchored in the absolute certainty that the public's deposits were backed by the resources of the government, depositors under stress in a financial crisis have panicked again and again. Panic, however, is the wrong word to describe withdrawing funds from a bank if there is sudden uncertainty they will be safe there. Withdrawals in those conditions are rational.

Certainly, one of the purposes of deposit insurance was to protect the small depositor. Federal deposit insurance has allowed tens of millions of Americans to sleep more soundly at night than would have otherwise been the case by erasing the fear that their savings would evaporate if their banks failed. In creating the FDIC, our government made a promise to the American people -- they would have a haven of security and of certainty in the uncertain financial world. We have kept that promise to three generations of Americans.

In protecting depositors, insurance has achieved other important objectives. By maintaining confidence, deposit insurance has preserved the integrity of the payments system and the ability of banking organizations to continue to perform the intermediation that supports much of our economic activity. Along with prudential supervision and the lender of last resort role played by the central bank, deposit insurance is a critical thread in the safety net that prevents our financial system and our economy from hitting bottom when under stress.

Large banks benefit from that safety net along with small banks -- money center banks along with community banks -- in fact, everyone in the economy.

By assuring financial stability, continued intermediation by diverse banking organizations, and the continued efficient operation of the payments system, deposit insurance has had an enduring value for all Americans, depositors and nondepositors alike.

Federal deposit insurance, therefore, has a purpose in the public interest beyond the peace of mind it provides depositors. One might even say that the peace of mind we provide is the means to a greater end.

I remember how deposit insurance held the financial system together during the thrift and banking crisis of the 1980s and early 1990s -- and I know that many of you remember that, too. I came to the FDIC in 1990, after a 30-year career as a banker in an agricultural town in Nebraska.

In 1991, the United States had 124 bank failures, and the assets of those banks totaled \$63 billion. The banking system continued to operate throughout the crisis without a shudder. There were no panics. The anchor for public confidence that deposit insurance provides held. During good times -- like those we have enjoyed over the past five years -- it is tempting to underestimate the value of a safety net and to focus on the costs that go with it, rather than on the security it provides.

There has been a lot of talk lately about possible changes to the deposit insurance system.

Some of this talk is inspired by the ongoing revolution in our industry -- a revolution that has been reshaping banking for more than twenty years. One side of that revolution is

called "globalization" and can be seen in this headline from the American Banker earlier this week: "Bank Boston Buys Deutsche Retail Business in Argentina."

Another side of the revolution is called "modernization" and its outlines can be seen in this recent prediction from the American Banker: ". . . by year-end, the country's first truly diversified financial firm will be born. The Travelers Group soon will push beyond its insurance stronghold into the securities industry with its Salomon Inc. merger, and then invade banking -- via the thrift charter. And it's all legal."

Given these two trends, the legitimate question people are asking is: "What is the role of deposit insurance when geographic restraints and legal barriers have faded?"

That question assumes a role for deposit insurance.

A number of people also recently have been calling for dramatically scaling back federal deposit insurance or eliminating it -- notions that we have frequently -- and forcibly -- responded to, and will continue to oppose until critics propose a basis for public confidence that has the absolute certainty that a federal government backing offers.

These proposals appear to arise from a desire to escape regulation. The emphasis on this burden reflects industry conditions, but there will come a time when the focus returns to assuring confidence, as it did in the late 1980s and early 1990s.

Other suggestions for changes to the deposit insurance system arise from the well-intentioned impulse to address perceived imperfections.

We all remember that deposit insurance was reformed less than a decade ago, at a time of great stress on the system. The focus then was on moral hazard -- which is the incentive that deposit insurance may give some managers to take greater risks than they otherwise would take if deposit insurance did not exist. The reforms -- including prompt corrective action and risk-based deposit insurance premiums -- were designed to control excessive risk-taking. Reforms to toughen prudential supervision accompanied the insurance reforms.

It is important to note that the reforms in insurance and prudential supervision have not yet been tested in difficult times.

At the FDIC, we appreciate the importance of continually assessing whether the deposit insurance system and the efforts that accompany it strike the necessary balance between the pursuit of safety and soundness and the need to allow banks to compete and to evolve. This is a constant tension that exists in any financial system in which the government plays a meaningful role.

Deposit insurance is just one element in striking that balance -- without deposit insurance there would still be a need to regulate banks. We also know that we have the

responsibility to keep the costs of deposit insurance -- direct costs as well as indirect -- as low as possible.

Deposit insurance affects bankers, because you pay for it. In its effects, however, deposit insurance affects everyone that our economy touches. Deposit insurance is a subject of complex technicalities and of broad public policies.

In a democracy such as ours, any change in how the deposit insurance system operates will be the result of discussion and dialogue. We hope that this discussion and dialogue will occur in the spirit of deliberation, not in the heat of crisis as did the debate that resulted in the reforms of a decade ago. And we are willing to act to take the lead in encouraging that discussion and dialogue, and in fostering a spirit of deliberation.

As a first step in that direction, we are sponsoring a symposium on deposit insurance in January. It will focus discussion on the evolving role of deposit insurance in financial modernization and globalization, and it will explore refinements to the current system. We will invite community bankers, regional bankers and money center bankers to the discussion, as well as representatives of trade, consumer, and public interest groups, other regulators, Congressional staff, analysts, and scholars.

We will ask for views on how deposit insurance should operate in a world that the Travelers/Salomon merger foreshadows. Clearly banking is headed toward a new world, though the exact route it will take to get there is a bit uncertain.

We will ask the participants for their thoughts on how to strike a balance among the potentially competing objectives of maintaining stability, allowing banks to evolve and compete, and controlling moral hazard. We will explore alternatives to our current assessment system. And we will examine whether the current target reserve ratio for the insurance funds is appropriate.

In the end, in encouraging discussion among bankers, analysts, regulators, consumer representatives and other informed observers, we hope to define the ground upon which reasonable people can agree when considering changes in deposit insurance -- what needs to be done and why.

A man and his gorilla are sitting in the club house when the club champion walks in. "I'll bet you \$500 per hole my gorilla can play better golf than you can," says the man. The champion looks at the man, looks at the gorilla, and says: "You're on." And off they go to the first tee. The first hole is a long par four over water. The man gives the champion the honors. The champion tees up and hits a beautiful drive straight up the middle, over the water, and chipping distance from the green. "Nice shot," says the man.

The gorilla then tees up, booms the drive onto the green, and into the hole!

The champ picks up his ball and they head off to the next hole, a beautiful par five, along the creek with a slight dogleg left.

The gorilla tees up and boom another drive, drawing it just enough to land it on the green, inches from the pin. The champ, humiliated, concedes the hole and the match. They head back to the clubhouse.

As they settle the bet, the champ remarks how well the gorilla plays. "I've never seen anyone drive it as far. By the way, since he aced the first hole and I conceded the match before finishing the second hole, I never got to see how he putts."

"Oh," says the man, pocketing his money, "he putts exactly like he drives!"

I believe that the best decisions are informed decisions -- those that are based on knowledge -- and that the best public policy comes from a free exchange of information. The alternative -- uninformed decisions -- may very well result in an expensive surprise.

By sponsoring an open discussion of deposit insurance next January, we may spark new information and new thinking on several prickly issues. By bringing together the range of participants we are planning, we certainly will encourage a recognition that the issues cut across diverse interests.

Because the FDIC is a government corporation, we have an obligation to be open to the public in our operations and an obligation to be open-minded in addressing the issues we face. Our symposium next January is evidence that we take both obligations seriously.

Thank you.

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