

**Remarks by  
Ricki Helfer  
Chairman  
Federal Deposit Insurance Corporation  
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When I grew up in a small town in Tennessee, nothing seemed as stable and as enduring as the bank on Main Street, and my early experience was probably the same as many of yours. In small towns across the state, banks anchored the town squares. In brick and stone, each sought to assure the public that its financial condition was as impressive as its solid architecture. Often, the vault was visible from the lobby to underscore the security that the bank offered. One of the cliches of the time was to say that something "was as solid as the bank on the corner."

Historically, that stability could have been an anomaly. From the founding of the Republic until the early 1930s, American banking -- and consequently bank supervision -- was frequently transformed by dramatic, and sometimes tumultuous, events: The births and deaths of the First and Second Banks of the United States, "wildcat" banking, and waves of failures associated with periodic financial panics, to name just a few.

While we have not returned to the turmoil that characterized the American banking system before 1933, in the past twenty years banking has changed beyond recognition from what it was when many of us were growing up and going to college. Technology is redefining the business of banking from the largest institutions in the country to the smallest. Many of the old limits -- and the old certainties -- are fading or are gone.

I addressed the Conference of State Bank Supervisors in Washington in December 1994 -- two months after becoming Chairman of the Federal Deposit Insurance Corporation. It was my first public speech as Chairman -- and I pledged to enhance the working relationship among state supervisors, the CSBS, and the FDIC to prepare ourselves for the changes that we all faced. I wanted to have a closer working relationship than we had ever had.

I said we needed to work closely with state supervisors in adapting to new realities -- in banking structure, banking supervision, and technology -- and we stayed true to this goal. As a result, today we have a framework for dealing with change that is based on communication, cooperation, coordination, and consistency -- a framework that enables us to look to the future with confidence and assurance.

In 1994, the issue of banking structure demanded our attention. Our most urgent task was to adapt to the new interstate banking environment created by the Interstate Banking and Branching Act, which Congress enacted earlier that year. Our goal was to build a structure for interstate banking that would permit the state charter to remain relevant and dynamic. Within two months of becoming FDIC Chairman, I created a Task Force within the FDIC to analyze the impact of the interstate banking law on the FDIC, the banking industry, and the financial system.

The Task Force looked at issues ranging from the adequacy of off-site supervisory information to the effect of interstate banking on the Bank Insurance Fund. The work of that Task Force supported our common effort to establish a seamless regulatory structure that would harmonize supervision among the states.

At the annual meeting of CSBS in the spring of 1995, state supervisors unanimously approved the historic protocol that would allow state-chartered banks that operate across state lines to work with a single state regulator, while providing other state and federal regulators the information necessary to monitor safety and soundness. Five months later, the FDIC joined colleagues from the Federal Reserve System and state regulators from California, New York, Utah and Washington state in a State-Federal Working Group -- under the aegis of CSBS -- to iron out the details of creating a system of seamless state supervision for interstate banking operations. Last November, state supervisors reached agreement among themselves, and separately, with federal supervisors, on how seamless supervision will operate in practice -- based on designating a point of contact with a single state regulator.

At the FDIC, we have changed our own approach to interstate supervision in a way that dovetails into the host state/home state protocols of the CSBS. Under our new approach, case managers will oversee all the risk analysis and examination functions for an entire bank or banking company, regardless of the number of regions in which its subsidiary banks and branches operate. This approach differs from the past where supervision of multi-state banking organizations was broken down by geographic region and where more than one FDIC regional office often was responsible for oversight and supervision of those organizations.

Developing a comprehensive structure for state supervision in an interstate environment in so short a time could not have been achieved without the dedication of all of us to that goal. We at the FDIC have worked with state supervisors every step of the way to assure that the new system of interstate supervision will be effective, that it will provide the greatest possible degree of responsiveness to the needs of banks, and that it will recognize the individual, local, and regional differences in the banking industry. I have no doubt that the FDIC will continue to devote considerable resources to assuring that the structure works in practice.

In 1994, it was also clear to us that our traditional approach to banking supervision had to be enhanced so that we would be able to respond to new and emerging risks more quickly and more effectively.

In early 1996, the FDIC announced new efforts to monitor and assess risks, in part by developing a tiered-examination approach that targets the level of risk and risk management practices of specific institutions. Full-scope examinations will continue to be performed, and this approach will allow examiners to concentrate their resources on those areas of a bank that present the most risk. Ultimately, the approach will cover 14 areas ranging from management of the loan portfolio to electronic banking.

We also implemented similar examination procedures for interest rate risk last October. At that time we offered training in the new procedures for assessing interest rate risk to all the state banking departments -- and, to date, 1,366 examiners from 48 state banking departments have taken our training with an additional 88 examiners from two states scheduled to do so, for a total of more than 1,450 examiners from 50 state banking departments. In addition, we participated last year in 10 seminars that trained more than 1,000 bankers on preparing for examinations under these procedures.

Moreover, in December, the FDIC and the other banking regulators approved the first change to the Uniform Financial Institution Rating System since 1979 -- adding an "S" to CAMEL for sensitivity to market risks. For most institutions, the sensitivity component reflects exposure to changing interest rates.

The training we have given state examiners in the new interest rate risk procedures not only will enable them to assess this risk more effectively, it increases consistency between state and federal examinations.

I have no doubt that the FDIC will continue to devote substantial resources to increasing that effectiveness and consistency -- particularly in the area of training. In the past two years, more than 740 state examiners have participated in FDIC schools, and we estimate that 454 will do so this year.

Providing training to state bank examiners is a long tradition at the FDIC. Soon after he became FDIC Chairman in 1934, Leo Crowley addressed the annual convention of state banking supervisors -- telling them that "the facilities and resources of the Corporation will be freely placed at your disposal" for achieving strong supervision. And, to achieve greater coordination, he announced that the FDIC would conduct training for state examiners. He concluded: "We have the same responsibility you have in building and strengthening a strong state banking system. Let us meet it together."

We did it then -- we are doing it now -- and we will do it tomorrow.

In 1994, it also was clear to us that -- in the long run -- our shared interest in leveraging the use of computer technology in banking supervision could be just as important as the banking structure and examination issues with which we needed to deal. This technology offers the simultaneous benefits of making the supervisory process less burdensome for banks and more effective and efficient for bank regulators. Over the past two years, the FDIC has worked closely and cooperatively with CSBS, state

supervisors, and the Federal Reserve to develop the tools we need to automate the examination process. Currently, three products are in use or are in development.

The first tool -- which we call ALERT-- has been used by the FDIC in 900 bank examinations over this past year. It is an automated system that extracts loan information from the data bases of banks and allows examiners to review the loan data offsite. It reduces the amount of time that examiners spend transcribing data -- time that the examiners can more productively use doing analyses. We have trained 29 states to use it, as well, and 20 states currently rely on it. We have an upgraded version of ALERT scheduled for release later this month, and we plan to provide training in the next few weeks to supervisors from 20 states -- representing all of the Districts of CSBS. In total, 44 states have expressed an interest in using the upgraded version and have requested training materials, which we will provide at no cost to them. In June, the FDIC, the Federal Reserve and CSBS will begin considering whether it is possible to merge ALERT and the Fed's equivalent, WORK STATION, into one loan tool.

The second tool -- which is in development -- is an automated examination package that draws analytical data from agency mainframes, provides examiners with new ways to analyze the data by computer, and produces an examination report. The FDIC calls this tool GENESYS. We have been working with the Federal Reserve and CSBS to produce a product that we all can use, either individually or in joint examinations -- in other words, a product that can draw data from either the FDIC or the Federal Reserve's mainframes in a common form. Just last week, we decided that the FDIC will complete development of GENESYS for use in community banks, and the Federal Reserve will focus on how best to develop a common approach for an automated examination package for larger banks. The FDIC plans to have GENESYS completed and ready for use in the first quarter of 1998.

The third tool -- also in development -- is a common automated format for assessing the risk management programs of banks. It will be used primarily in small community banks. On Thursday, FDIC and Federal Reserve staff displayed this automated format in a presentation at this conference. We plan to begin using this tool for all 14 risk areas in the tiered examination approach in late fall.

We are currently developing a means to provide examination and other confidential information to state banking departments over the Internet through a secure connection. This service will allow any authorized party to download financial institution information via an in-house Internet connection, and it will make the information available to state authorities earlier than through current, more traditional means.

At the FDIC, we have made a commitment to enhance communications, not only with state bank supervisors, but also with bankers and the public, through the Internet. At the end of last year, our Division of Research and Statistics began a new service on the FDIC's Web site, an electronic Institution Directory (I.D.), that provides significant financial information drawn from Call Report data for every insured bank and thrift institution in the country. To date this year, this electronic directory has been accessed

more than 40,000 times by people seeking to obtain financial information on nearly 10,000 of the 11,500 banks and thrifts insured by the FDIC -- or 87 percent of all insured institutions. Currently, people are using the I.D. System to obtain more than 4,000 financial reports on banks and thrifts each week. We recently added an early notification feature to our Web site. If you sign up, we will e-mail you ahead of time to let you know the dates when new industry and bank statistics will be provided on our Web site.

Later this morning, Don Inscoe, associate director of our Division of Research and Statistics, will present a demonstration of the I.D. System at this conference, including enhancements we will make to it later this month. Among those enhancements, we are expanding the financial information the I.D. System provides so that users can compare any FDIC-insured bank or thrift with peer group statistics published in the Quarterly Banking Profile, which we also provide on-line. Another new feature will allow users to download information into a spreadsheet to create custom reports. This is another example of how we at the FDIC constantly try to improve what we do.

One thread ties together our efforts at coordinating our approaches to interstate banking, banking supervision, the leveraging of technology, and, generally, more effective communication of information and ideas. We are all seeking to change with a changing world to assure the strength and viability of our dual banking system.

Why is that important?

FDIC Chairman Leo Crowley was succinct when he answered that question in 1934. Establishing only one authority for bank supervision "places too much power in the hands of one individual," he said. In other words, the dual banking system mirrors our form of government in providing checks and balances. It is the American way.

In addition, the dual banking system promotes innovation. Another one of my predecessors as FDIC Chairman, Frank Wille, said eloquently 20 years ago: "Without new ideas, persistently applied, nurtured and absorbed, any bureaucracy can go through an ossification process just like petrified forests that long ago stopped producing living trees. This hasn't happened in bank regulation -- or at least not for long -- largely because the number of regulators is so large . . . that new ideas, sooner or later, will have to be considered by even the most resistant of regulatory authorities."

The recent movement away from burdensome regulation has come because of the healthy process by which regulators learn from each other -- despite the inability of the Congress to move legislation that would make much needed, common-sense changes to the statutory structure under which federal regulators function. As a nation we choose to have a dual banking system because we believe that intellectual competition, like economic competition, benefits everyone.

One person -- or one small group of people -- does not have all the answers. Moreover, the right answers are more likely to be discovered outside the Beltway than inside, in

Washington state rather than in Washington, D.C. Under state authority, the first bank branches were established. Under state authority, banks first offered fiduciary services to customers. Most recently, federal supervisors, following the practice of banking departments in 13 states, began disclosing the components of CAMEL ratings to bankers.

We believe by disclosing the components, we will enhance the communications process, improve report quality, and give bankers an early warning of problems. We have learned from you and we continue to learn from you. In our dual banking system, the states provide the most valuable resource of all -- ideas.

Two-and-a-half years ago, I was proud to tell the CSBS that I value and support the dual banking system. We have been through much together since then. I will always be proud of our common achievements.

The state banking half of the dual banking system has come under attack many times over the years. After the Civil War, its opponents tried to tax it out of existence -- but it survived. In the early 1930s, its opponents tried to replace it with national branch banking -- but the dual banking system survived, in large part because of the creation of the FDIC, as well as the refusal of state bankers to accept its demise.

For more than 60 years, the FDIC has supported -- in word and in deed -- the dual banking system. For that support to continue, the political independence of the FDIC must be preserved. Our ability to do our job rests on our independence. We must make unbiased assessments of risk in the financial system and act upon them without fear or favor. The integrity of the insurance funds rests ultimately on the integrity of the people who manage them and of the people who assess the risks in the financial system to which the funds are exposed.

Any attempts to compromise our independence are necessarily attempts to compromise our mission of promoting a safe and sound banking system and providing stability in the financial markets. Whether through regulatory consolidation, stripping the FDIC of the authority it needs to protect the insurance fund, or privatizing the deposit insurance system, the result would be the same: to destroy the FDIC's independence -- and to damage or fatally injure the dual banking system.

Some people seem to think that the day of the dual banking system is over -- that new legal and technological realities will make the state charter an anachronism. Despite my Calvinist upbringing, I believe the future is not predestined. We can, through our actions and hard work, shape the future that we desire. Over the past two-and-a-half years, we have worked together to create a future in which the dual banking system will endure -- and our nation is stronger for our efforts. Over 132 years, the dual banking system has provided us with a precious resource -- the flexibility to adapt to change. Never has banking needed that flexibility more than it needs it now. Never has the dual banking system been more necessary. Never have our efforts to preserve the dual banking system been more necessary.

Thank you.

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