Remarks by
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The renowned pianist Arthur Rubinstein was once asked to judge a piano competition in London. The scorecards were marked on a scale of one to 20, with the most outstanding performances rating a 20. During the competition Rubinstein listened carefully to the students' recitals and marked his cards as each finished.

At the end of the competition the sponsors looked at the scores and were shocked to see that most players had been given zeros. Only a few had rated scores of 20 and there were no scores in between. The sponsors hurried over to Rubinstein and asked him why he had judged the entrants in such an arbitrary manner. "It's simple," replied the great master. "Either they can play the piano or they can't."

So too with preparations for the Year 2000. Either financial institutions will be ready for the turn of the century or they will not.

For depository institutions, preparing for the Year 2000 is - and has been - a tough road to travel. It's a journey no one envisioned three decades ago, when those computer codes were first created.

The task is deceptively simple: Search and destroy dated computer codes. But the cost of correcting the problem, in terms of time and manpower, is anything but cheap. The price of failure is more expensive still. A reluctance to address Y2K issues immediately and successfully amounts to a gamble backed by the value of the bank franchise and those who run it.

Some estimate that litigation following in the wake of the Year 2000 problem could equal the price tag of the original fix. So the challenge is to do the job right the first time.

As keepers of financial accounts, banks are in a particularly exposed position. Nearly every transaction that takes place in a bank involves computer coding - from payment due dates to interest rate calculations. This is one reason the FDIC is placing such high priority on year 2000 readiness in every financial institution we regulate.

Today, Year-2000 associated risks are at the top of the list of our safety and soundness concerns in the banking industry. This is reflected in the enormous amount of interagency effort that has been put into preparing guidance pieces on the subject which cover all aspects of financial institution readiness. The FDIC began on-site Year 2000 reviews last year and we just completed our last review at the end of May - one month ahead of schedule.

To assess Year 2000 readiness, the FDIC in partnership with state banking authorities, completed at least one on-site review at each of the 6,034 institutions we regulate. Examiners categorized the efforts of each institution as "satisfactory," "needs improvement" or "unsatisfactory." The good news for the industry is that 88 percent of the institutions we reviewed were making satisfactory progress at their banks. Less than one percent of all FDIC-regulated institutions were classified "unsatisfactory."

The purpose of this initial assessment was to identify banks' progress in addressing Y2K problems. And the FDIC will be reviewing banks with unsatisfactory ratings at least once every quarter until the year 2000.

Supervisory actions have been - and will continue to be - issued against banks not taking proper measures to become Year 2000 compliant. Over the next 9 months we will be going back into the banks to review testing plans and contingency measures before the date change. Institutions that don't measure up will be seeing a great deal more of their examiners. We won't let up until all institutions are Year 2000 ready.

Where there are problems, we will seek action. If a bank fails to deal adequately with Y2K issues, we will use all the supervisory remedies at our disposal.

At the FDIC, we are talking with the media at every opportunity about Year 2000 readiness. Moreover, we have just published a brochure that outlines the steps that financial institutions and federal regulators are taking to address Y2K issues. The brochure also answers questions about the Year 2000 date change and its impact on banks and savings institutions. The brochure reminds consumers that the FDIC insures deposits up to $100,000 and will continue to do so in the Year 2000 and beyond.

Our message is that it is still too early to tell whether any institution will fail from Y2K problems, but early indicators are encouraging. Moreover, if any institution fails, for whatever reason, the FDIC will protect the depositor. No one has ever lost a penny in an FDIC-insured account. The goal of our public awareness effort is straightforward: To address depositors' anxiety as the conversion date draws nearer.

As we move forward with preparations for the Year 2000, we should keep in mind that the government isn't sending examiners into local grocery stores to see that managers are fixing the check-out scanners. Nor are gas stations being examined to make sure their managers are working to assure that fuel pumps are Year 2000 ready. But thousands of examiners are visiting every bank and savings and loan in the country to make sure bankers are working on the problem.

We have a good story to tell, and so do you. By all reports the financial services industry is well ahead in its efforts to deal with the Y2K issue. It's a story that not only needs to be told, but is well worth telling! So let the public know what your banks are doing to prepare for the millennium. Sharing this information not only preserves public confidence, but it makes good business sense as well.

While few customers are focusing on the Y2K problem now, as we near the Year 2000, questions and concerns will multiply. It's up to individual institutions to answer these questions and let the public know that the situation is well under control.

Banks can communicate that message through their employee newsletters, newspaper editorials or in speeches to local civic groups. But, in reaching out to the public, it's essential that all key personnel understand the issue and are prepared to answer consumers' questions. Frequent and clear communications will go a long way toward alleviating concern as the millennium approaches.

Y2K readiness is not just a technology problem - it's a leadership challenge and an important safeguard to the stability of the financial system. It's a job that needs to be done right.

Late in his career, when the Yankees were well ahead in the pennant race, Joe DiMaggio was asked why he continued to play so hard. 'Because there might be somebody out there who's never seen me play,' answered DiMaggio.

We need to keep that in mind as we deliver the Y2K message. Because there is bound to be someone out there who hasn't been reading the newspaper, and isn't aware of the Y2K problem. For them it will be a brand new game. And it's up to you to impress them with your mastery of it. With just 18 months remaining to the millennium, top management needs to be actively involved in the educational outreach phase of operations. It's up to the CEO to spearhead these efforts and put an end to rumors before they spread. It's critical that banks and other institutions begin to communicate with customers about what to expect on January 1, 2000. Banks need to be ready to counteract fear with facts - and let customers know what their institutions are doing to meet this deadline.

Whether it's by providing consumers with information brochures in monthly statements, establishing toll-free hotlines, holding seminars to discuss the Y2K problem or developing Internet sites to pass information on to customers, it's the bank's responsibility to spread the word on Y2K readiness. A smooth-running information program will help convince customers that their money is, indeed, safe in the bank.

Customers will want to be reassured that their direct deposit, debit and other automatic electronic payments will be made on time. They'll also want to know that record keeping is current and that they'll receive credit for their mortgage and loan payments. Each depository institution needs to tailor its outreach program to its own unique business environment - and be prepared to address individual customer concerns.

We have provided guidance papers and other tools for you to work with, but at the end of the day, it's up to you. As regulators, our function is to see that financial institutions keep their Y2K programs on track. Your job is to put the programs in place.

And, advance planning can make all the difference! Burglars in London discovered this truth the night they tried to break into a fireworks factory with an oxyacetylene torch. Not only did the torch set several tons of fireworks ablaze, but it also ruined their quick get-away -- by setting flame to their van.

There's no such thing as a fail-safe system. But, if we work together to meet the Year 2000 challenge, the transition into the 21st century could be a great deal gentler than anticipated.

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