Remarks by
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Before the
International Conference of Banking Supervisors
Sydney, Australia
October 21, 1998

I am here today to talk about the importance of contingency planning. I will try to present a broad conceptual framework on issues underlying supervisory contingency planning.

Many of us have instructed the banks we supervise to make contingency planning a priority. We also have to make it a priority ourselves. Why plan? After all, in some countries it has been widely reported that banks and other financial service providers are ahead of other industries in Y2K readiness preparations. While this may be true, this fact is no reason for complacency for three reasons.

One, the critical testing phase is still in process. We need to be very careful about drawing premature conclusions until we have a chance to review test results to be certain that systems designed to work in theory actually work in reality.

Two, some countries will probably not be as prepared as we would hope.

And three, there are significant, and, in some cases, unknown risks posed by the relationships between banks and third parties such as data processing providers and public utilities.

However remote, there remains the possibility of disruptions in the banking system from Year-2000 related problems.

Two areas pose potential risk to banking systems. First, banks may suffer disruption from technological problems, interconnectivity disruptions between financial service entities or from service interruptions from telecommunications or other key infrastructure providers. Second, banks may suffer liquidity problems due to a loss of confidence on the part of depositors or other funding providers.

To address the first area of risk, we need to analyze the relationship between banks and their third party providers. While self-assessment surveys may provide useful information, they have obvious limitations. I believe the most reliable method for identifying individual problems is through an on-site Year 2000 readiness review. Expanding our analysis to include relationships may allow us to identify systemic risk areas. Unfortunately, many of the third party business partners and infrastructure providers who will be most important to the banks usually operate outside of our regulatory authority or outside our borders. Nevertheless, we must identify the critical

players and find ways to deal with them and their regulatory bodies through communication and cooperation, and, where we identify cross border risk, we need to establish communication channels with other bank supervisors to share information.

What options do we have to deal with banks that experience disruptions, but are otherwise financially sound? Given that time is running out quickly, we must give this issue prompt attention. A number of options are available, and supervisors should consider implementation of these options before the date change. They include: mandating data integrity standards to assure the prompt recovery of data, issuing enforcement actions where appropriate, granting regulatory relief when necessary, and introducing receivership appointment powers. We should review each option to ensure that it does not pose a moral hazard that could harm market operations.

Liquidity risk is the second important concern. Of course, the most important step we can take here is prevention. Promoting and preserving public confidence in the face of sensationalized reports may require coordination between the industry and banking supervisors. We must encourage banks to establish communications plans or customer awareness programs, and supervisors must also be prepared to deal publicly with Year 2000 issues, even seeking opportunities to do so. Our assumption is that transparency and disclosure of industry efforts and aggregate industry assessments will provide the public with information necessary to make informed decisions.

Nevertheless, we expect banks to be prepared for greater liquidity demands closer to the date change. In that regard, in terms of contingency planning we should ask ourselves: Should we as supervisors encourage banks to build extra liquidity as a preventative measure? Should supervisors encourage borrowing lines to be established in advance of critical dates?

Finally, I would like to turn to an aspect of contingency planning that is of particular interest to the FDIC. Some of you attended the International Deposit Insurance Conference we sponsored last month. There was a broad consensus among conference participants that we continue to discuss and share information on topical issues related to deposit insurance. The Y2K challenge provides a good opportunity to convert that idea into action.

The FDIC's combined roles of supervisor of banks, insurer of deposits, and receiver of failed banks are essential to our organization's mission of preserving public confidence in the U.S. banking system. We need to be ready to resolve failing banks quickly and efficiently. FDIC bank liquidation and resolutions experts, therefore, are carefully studying the potential implications of Y2K-related problems.

We are fully prepared to work on an interagency basis and to share our experiences and our analysis with international supervisors and deposit insurers. We should all work to facilitate thoughtful consideration and collaboration on these issues and to share best practices.

Today, I have attempted to describe important areas that bank supervisors must address in our contingency planning. In closing, let me emphasize that your unique circumstances are critical to developing realistic and practical supervisory contingency plans. Legal structures, cultures and the actual and perceived financial condition of your banking system must be considered. Given these variables, universally applicable advice is not possible. However, we at the FDIC believe -- as does the Basle Committee -- that supervisory contingency planning can be developed with a conceptual framework of common supervisory concerns and potential supervisory strategies.

Thank you.

Last Updated 06/25/1999