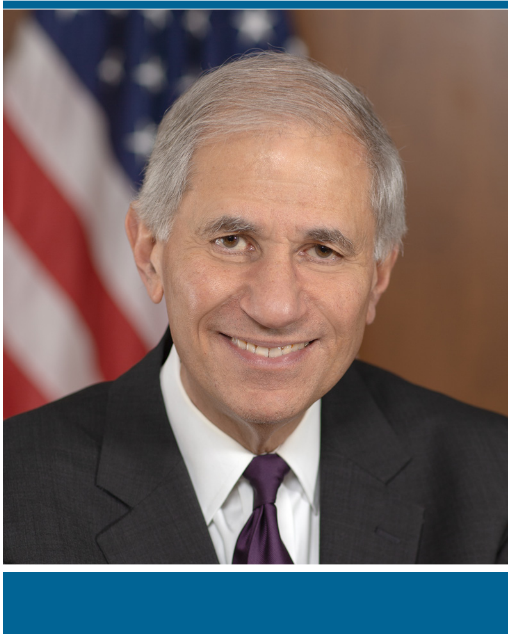
MESSAGE FROM THE CHAIRMAN



February 22, 2024

The FDIC marked its 90th anniversary since President Franklin D. Roosevelt signed the Banking Act of 1933, establishing the FDIC as the first national deposit insurance system. Against the backdrop of the Great Depression and the failure of thousands of banks, the FDIC was created to maintain financial stability and public confidence in our nation's banks. This mission took on heightened importance in 2023, which saw the agency manage three of the largest FDIC-insured bank failures in its history.

Throughout this challenging year, the FDIC workforce carried out its mission-essential functions—insuring deposits; supervising and examining financial institutions for safety, soundness, and consumer protection; making large firms resolvable; and managing failed bank receiverships—with the professionalism, proficiency, integrity, and resilience that has characterized its history.

Following is an overview of developments in a number of critical areas over the past year, as well as the current economic and financial outlook, and the FDIC's operational status.

Ensuring a Safe, Fair, and Inclusive Work Environment

FDIC's mission success this year and over the last 90 years is because of our people. Ensuring that the FDIC workplace and culture align with our core values and that our employees feel safe, valued, and respected is my highest priority as Chairman. And, maintaining a strong workplace culture is essential to effectively carrying out our mission.

Since November 2023, following news reports about sexual harassment at the FDIC, we have developed and begun to implement an Action Plan for a Safe, Fair, and Inclusive Work Environment that describes how the FDIC will support victims of sexual harassment and discrimination. The plan, incorporating feedback from our employees, specifies a number of action items related to identifying and correcting existing problems, repercussions for those engaged in sexual harassment or other serious misconduct, leadership accountability, review of policies and procedures, training programs, communication and outreach strategies, and cultural transformation.

In addition, the FDIC Board of Directors established a Special Committee to oversee an independent third-party review of the agency's workplace culture. Directors Jonathan

McKernan and Michael J. Hsu, Acting Comptroller of the Currency, are co-chairs of the special committee. In December, the committee selected the law firm of Cleary Gottlieb Steen & Hamilton LLP to conduct the independent review, which will cover allegations of sexual harassment and interpersonal misconduct at the FDIC, including allegations of hostile, abusive, unprofessional, or inappropriate conduct, and management's response to that harassment and misconduct. The review will also assess the FDIC's workplace culture, including any practices that might discourage or otherwise deter the reporting of, or appropriate response to, harassment and interpersonal misconduct.

The findings and recommendations of the third-party review will be incorporated into the Action Plan as appropriate.

The Current Outlook for the Banking System

At the end of September 2023, the FDIC insured deposits of $10.6 trillion in approximately 720 million accounts at 4,623 institutions and supervised 2,952 institutions. As of December 31, 2023, the FDIC is managing 74 active receiverships with total assets of nearly $84.6 billion.

The banking industry has proven to be quite resilient despite the period of stress in early 2023. Net income was high by historical measures, asset quality measures were favorable, and the industry remained well capitalized. However, funding pressures continue to challenge the industry, particularly for small and mid-sized banks. Nine new banks opened through December 2023, and five banks failed.

The FDIC will continue to monitor the significant downside risks from the effects of inflation, elevated market interest rates, and geopolitical uncertainty. Moreover, the economic outlook remains uncertain, despite relatively solid growth and low unemployment. These risks could cause credit quality and profitability to weaken, loan growth to slow, provision expenses to rise, and liquidity to become more constrained.

In addition, commercial real estate (CRE) loan portfolios, particularly loans backed by office properties, face challenges when loans mature as demand for office space remains weak and property values continue to soften. Banks have tightened underwriting standards over the past year across a range of household and business loans, and they may continue to tighten further this year.

These will be matters of continued supervisory attention by the FDIC.

The Failures of Silicon Valley Bank, Signature Bank, and First Republic Bank

In the first half of the year, three large regional banks failed. Actions taken by the FDIC, Board of Governors of the Federal Reserve System (Federal Reserve or FRB), and the Secretary of the Treasury in consultation with the President stabilized the banking system, stemmed potential contagion from the failures, and ensured that depositors continued to have access to their

savings, that small businesses and other employers could continue to make payrolls, and that other banks could continue to extend credit to borrowers and serve as a source of support. Throughout this particularly challenging time, the FDIC workforce demonstrated a high degree of proficiency, readiness, and fortitude and effectively carried out its mission for the American public.

On March 10, 2023, the California Department of Financial Protection and Innovation closed Silicon Valley Bank (SVB) of Santa Clara, California. This action followed two days after SVB announced that it had sold securities at a loss to meet deposit withdrawals since the second quarter of 2022 and planned to raise capital. This prompted a run on the bank's uninsured deposits, on which it was 90 percent reliant. In a period of less than 24 hours, depositors withdrew or sought to withdraw nearly all of SVB's deposits.

Contagion effects from SVB's failure began to spread to other banks with perceived similar risk characteristics, including heavy reliance on uninsured deposits. For two of these banks — Signature Bank, New York, New York and First Republic Bank, San Francisco, California — deposit outflows became deposit runs and exposed other weaknesses that could not be overcome, leading to their failures. Signature Bank was closed by the New York State Department of Financial Services on March 12, 2023. Seven weeks later, First Republic Bank was closed by the California Department of Financial Protection and Innovation on May 1. The FDIC was appointed as receiver for all three institutions.

The contagion effect through uninsured deposits threatened additional bank failures and posed genuine financial stability risk. A significant number of the uninsured depositors at SVB and Signature Bank were small and medium-sized businesses. As a result, there were concerns that losses to these depositors would put them at risk of not being able to make payroll and pay suppliers. Moreover, with the liquidity of banking organizations further reduced and their funding costs increased, banking organizations could become even less willing to lend to businesses and households. These effects would contribute to weaker economic performance, further damage financial markets, and have other material negative effects.

Faced with these risks, the FDIC Board voted unanimously on March 12, to recommend that the Secretary of the Treasury, in consultation with the President, make a systemic risk determination under the Federal Deposit Insurance (FDI) Act with regard to the resolutions of SVB and Signature Bank. That same day, the Board of the Federal Reserve unanimously made a similar recommendation. Thereafter, the Secretary of the Treasury, in consultation with the President, determined that complying with the least-cost requirements in the FDI Act would have serious adverse effects on economic conditions or financial stability, and any action or assistance taken under the systemic risk exception would avoid or mitigate such adverse effects.

This determination enabled the FDIC to extend deposit insurance protection to all of the depositors of SVB and Signature Bank, including uninsured depositors, in winding down the two failed banks. The senior management and boards of the failed banks were removed, the shareholders lost their investments, and creditors took losses in accordance with the losses of these banks. The cost to the Deposit Insurance Fund of protecting the uninsured depositors will be paid for through a special assessment on the banking industry, consistent with the statute.

Subsequently, when the failing First Republic Bank was resolved on May 1, 2023, the acquiring bank assumed all of the deposits and substantially all of the assets of First Republic Bank in a transaction that met the least cost requirements of the FDI Act.

At my request, the FDIC's Chief Risk Officer conducted thorough internal reviews of the agency's supervision of Signature Bank and First Republic Bank. The Signature Bank review clearly identified the root cause of Signature Bank's failure as poor management. In the case of First Republic Bank, the primary cause of failure was found to be a loss of market and depositor confidence, resulting in a bank run. Attributes of the bank's business model and management strategies, concentrated in long-term jumbo mortgages, made it more vulnerable to interest rate changes and the contagion that ensued following the failure of SVB.

In both cases, the FDIC reviews identified areas where its supervisory efforts could have been more timely and forward looking, and identified lessons learned affecting a range of safety and soundness and supervisory issues for further consideration, including interest rate risk, unrealized losses on securities and loans, concentrations of uninsured deposits, rapid growth, and escalation of supervisory attention and compelling compliance if necessary.

Managing the Deposit Insurance Fund (DIF)

The DIF balance declined to $121.8 billion as of December 31, 2023, primarily due to loss provisions for the five bank failures during the year. Following the failure of two large banks in March 2023, the banking industry experienced outflows of total deposits, but also experienced strong insured deposit growth. This growth in insured deposits, coupled with the decline in the DIF balance, resulted in a decline in the fund reserve ratio from 1.23 percent at September 30, 2022 to 1.13 percent as of September 30, 2023.   The reserve ratio is the ratio of the DIF balance to total insured deposits in the United States.

A total of five banks failed in 2023, resulting in a combined estimated loss at December 31 of $40.4 billion. As of December 2023, the FDIC estimated the cost for the failures of SVB and Signature Bank to total $23.6 billion. Of that estimated total cost, the FDIC estimates that approximately $20.4 billion was attributable to the cost of covering uninsured deposits as a result of the systemic risk determinations, following the closures of SVB and Signature Bank. These loss estimates will be periodically adjusted as assets are sold, liabilities are satisfied, and receivership expenses are incurred. The final cost will be determined when the FDIC terminates the receivership.

By statute, the FDIC is required to recover the $20.4 billion estimated loss arising from the use of a systemic risk determination through one or more special assessments. Accordingly, in November 2023, the FDIC Board approved a final rule under which the FDIC will collect the special assessment at an annual rate of 13.4 basis points beginning with the first quarterly assessment period of 2024 (i.e., January 1 through March 31, 2024) with an invoice payment date of June 28, 2024, and will continue to collect special assessments for an anticipated total of eight quarterly assessment periods. The special assessment amount and collection period may change as the estimated loss is periodically adjusted or if the amount collected each quarter changes. The base for the special assessment is equal to an insured depository institution's (IDI's) estimated uninsured deposits for the December 31, 2022 reporting period.

The FDIC estimates that a total of 114 banking organizations will be subject to the special assessment. No banking organizations with total assets under $5 billion will pay the special assessment. Banks with assets over $50 billion will pay 95 percent of the special assessment.

The remaining estimated loss from the failures of SVB and Signature Bank of $3.2 billion, as well as, estimated losses of $16.7 billion from the May 2023 closure of First Republic Bank, directly impacted the DIF balance.

As required by the Federal Deposit Insurance Act, the FDIC has been operating under a Restoration Plan since September 15, 2020, which aims to restore the DIF to the statutory minimum reserve ratio of 1.35 percent within eight years. Notwithstanding the recent losses due to bank failures and growth in insured deposits, the DIF remains on track to meet the statutory minimum reserve ratio of 1.35 percent by the eight-year deadline of September 30, 2028.

Exploring Deposit Insurance System Reform

The failures of SVB and Signature Bank, and the approval of the two recommendations for Systemic Risk Exceptions to the Least Cost Test, raised fundamental questions about the role of deposit insurance in the U.S. banking system. The events of March 2023 further suggest that the banking system has evolved in ways that could increase its exposure to deposit runs.

To address the broader questions about the role of deposit insurance to promote financial stability and prevent bank runs, the FDIC initiated a comprehensive review to examine the role of deposit insurance and a range of potential changes, as well as additional policies and tools that may complement changes to deposit insurance coverage.

The resulting report, *Options for Deposit Insurance Reform*,[1] evaluated three options to reform the deposit insurance system: 1) Limited Coverage, which maintains the current structure of deposit insurance in which there is a finite deposit insurance limit (possibly higher than the current $250,000 limit) by ownership rights and capacities; 2) Unlimited Coverage, which extends unlimited deposit insurance to all depositors; and 3) Targeted Coverage, which allows for different levels of deposit insurance coverage across different types of accounts and focuses on higher coverage for business payment accounts.

Although each option has strengths and weaknesses, Targeted Coverage for business payment accounts captures many of the financial stability benefits of expanded coverage while mitigating many of the undesirable consequences. However, there are significant unresolved practical challenges to Targeted Coverage, including defining accounts for additional coverage and preventing depositors and banks from circumventing differences in coverage.

The report also underscores the important role that supervision and regulation play in limiting the risks to the deposit insurance system.

[1] *Options for Deposit Insurance Reform* is available at https://www.fdic.gov/analysis/options-deposit-insurance-reforms/index.html.

Any option to expand deposit insurance coverage would require Congressional action. The FDIC remains committed to engaging with the public, as well as with stakeholders in the industry and with policymakers in the Congress as policies to strengthen the deposit insurance system and meet emerging challenges are considered.

Strengthening the Community Reinvestment Act

In October, the FDIC, Federal Reserve, and Office of the Comptroller of the Currency (OCC) adopted a final rule to strengthen and modernize the Community Reinvestment Act (CRA). The final rule represents an ambitious effort to adapt CRA to the dramatically changed nature of the banking business since the law's enactment in 1977 and the last major rule change in 1995. Most of the rule's requirements will be applicable beginning January 1, 2026. The remaining requirements will be applicable on January 1, 2027.

First, banks today no longer serve their customers exclusively through a branch-based network around which CRA assessment areas are currently drawn. They increasingly interact with customers either online or through mobile phones in areas in which the bank may not have a physical presence, including so-called "banking deserts," which include rural and other underserved areas, Native Land areas, and low- and moderate-income communities. Lending by banks in such areas has not been subject to a CRA evaluation.

The final rule adapts to this new banking reality by requiring large banks to establish Retail Lending Assessment Areas (RLAAs) in those geographies outside of their physical footprint where they originate significant numbers of closed-end mortgage loans or small business loans.

Under the final rule, the loans in these new assessment areas will be subject to CRA review and evaluation for the first time, ensuring that large banks serve all segments of the communities in which they are chartered to do business. This represents a critically important adaptation of CRA to the changing nature of the business of banking.

Second, the final rule establishes a series of metrics and benchmarks against which banks will be measured for CRA performance for lending and community development. This will allow the banking agencies to establish specific standards for bank performance to achieve a particular CRA rating that will provide an incentive for increased lending to underserved communities. It will also provide greater clarity, transparency, and predictability for the banks and the public, as well as consistency among the agencies.

Third, the final rule tailors CRA evaluations and data collection to bank size, complexity, and business type. For instance, small banks would continue to be evaluated under the existing regulatory framework but would have the option to be evaluated under aspects of the new regulation. However, large banks with assets over $2 billion will have to collect and report community development data, and large banks over $10 billion in assets will have additional data collection and reporting requirements relating to deposits and retail banking products.

Fourth, the final rule recognizes the importance of minority depository institutions (MDIs), Treasury Department-certified Community Development Financial Institutions (CDFIs),

Women's Depository Institutions (WDIs), and Low Income Credit Unions (LICUs) in providing financial access to underserved consumers and communities.

For example, the final rule creates a specific community development definition for eligible activities, such as investments, loan participations, and other ventures conducted by all banks with these institutions, including by other MDIs, WDIs, or CDFI banks. All community development activities conducted by banks with these entities will get CRA credit under the final rule.

Fifth, in order to promote transparency, the final rule will require large banks to disclose the distribution of home mortgage loan originations and applications in each of the bank's assessment areas by income, race and ethnicity. This aspect of the final rule is intended to provide transparent information to the public in regard to the bank's lending to communities of color. Although the data disclosed would not have an impact on the CRA ratings of the bank, it would allow the public to compare lending by a bank in those communities to other communities, as well as allow comparisons to other banks.

Sixth, while we know that technology has led to significant changes in the provision of bank services, bank branches continue to play a crucial role for consumers and communities. For example, just over three-quarters of closed-end mortgages originated by large banks in recent years were located in branch-based assessment areas. These branch-based assessment areas remain a foundation of CRA. Under the final rule, each banking agency will be required to evaluate a bank's record of opening and closing branches to inform the degree of accessibility of banking services to low- and moderate-income communities.

Further, the final rule will provide positive CRA consideration to large banks for the offering and demonstrated consumer usage of low-cost transaction accounts—accounts with low or no minimum balance requirements and no overdraft fees—such as Bank On Certified accounts.

Finally, the rule gives credit to community development activities designed to strengthen disaster preparedness and weather resiliency in low- and moderate-income communities. These activities may include supporting the establishment of flood control systems in a flood prone area, and retrofitting affordable housing to better withstand future disasters or climate-related events.

The new rule will significantly expand the scope and rigor of CRA and will assure its continued relevance for the next generation.

Finalizing the Basel III Capital Rules

Finalizing the Basel III reforms is critical for the safety and soundness of the U.S. banking system, financial stability, and the performance of the U.S. economy.

In July, the FDIC, with the FRB and OCC, issued a proposed rulemaking that would modify large bank capital requirements to better reflect underlying risks and increase the transparency and consistency of the regulatory capital framework. Specifically, the proposal would revise the capital framework for banks with total assets of $100 billion or more in four areas: credit risk,

market risk, operational risk, and credit valuation adjustment risk. Community banks would not be impacted by the proposal.

The proposal also takes into account lessons from the banking turmoil in March of this year by seeking to apply a consistent set of capital requirements across large banks. Banks with total assets of $100 billion or more would be required to include unrealized gains and losses from certain securities in their capital ratios; comply with the supplementary leverage ratio requirement; and comply with the counter cyclical capital buffer, if activated.

The comment period on the proposal closed on January 16, 2024. I look forward to carefully considering the comments received and working with the other federal banking agencies to finalize and implement Basel III. These important changes to the regulatory capital framework will enhance the financial resilience and stability of the banking system, better enabling it to serve the U.S. economy.

Addressing Financial Risks Posed by Climate Change

Climate-related trends, including rising sea levels, increases in the frequency and severity of extreme weather events, and other natural disasters, as well as the transition to lower carbon emitting sources of energy, continue to present challenges for the future resiliency of the financial system and banking industry and may pose safety and soundness risks to individual banks. Throughout 2023, the FDIC continued its work to ensure that the financial system remains resilient despite these rising risks.

In October, the FDIC, Federal Reserve, and OCC adopted interagency guidance for large financial institutions that includes a high-level framework for the safe and sound management of exposures to climate-related financial risks. The guidance provides general principles with respect to governance; policies, procedures, and limits; strategic planning; risk management; data, risk measurement, and reporting; and scenario analysis. It also provides guidance on how climate-related financial risks can be addressed in the management of traditional risk areas, i.e., credit, liquidity, operational risk, and legal and compliance risks.

Although all financial institutions, regardless of size, may have material exposures to climate-related financial risks, these principles are intended for the largest financial institutions, those with over $100 billion in total consolidated assets. We understand smaller institutions, including community banks, may have limited resources and may experience the impacts of climate-related financial risks in a manner that differs from large financial institutions.

The FDIC does not make environmental policy, nor does it determine firms or sectors with which financial institutions should do business. Financial institutions should fully consider climate-related financial risks—as they do all other risks—and continue to take a risk-based approach in assessing individual credit and investment decisions. The FDIC expects financial institutions to manage climate-related financial risks in a manner that will allow them to continue to prudently meet the financial services needs of their communities, including low- and moderate-income and other underserved consumers and communities.

Providing Regulatory Relief in Disaster Areas

In 2023, the FDIC provided flexibility to financial institutions in 16 states and territories, where communities were affected by severe storms, flooding, tornadoes, wildfires, mudslides, typhoons, hurricanes, and other disasters. The FDIC supported financial institutions' efforts to meet customers' cash and other financial needs by providing flexibility on lending and credit policies and more. As these areas continue to recover, the FDIC encourages depository institutions to consider all reasonable and prudent steps to assist their customers, consistent with safe and sound banking practices.

Reviewing the Bank Merger Process

The FDIC also continues its efforts to evaluate the effectiveness of the regulatory framework for implementing the Bank Merger Act (BMA) of 1960. That framework generally requires approval by the FDIC, Federal Reserve, or OCC, as appropriate, for bank mergers after consideration of certain specific statutory factors. FDIC approval is also required for a bank merger with a non-insured entity.

Although there has been a significant amount of consolidation in the banking sector over the last 30 years, facilitated in part by mergers and acquisitions—and the prospect for continued consolidation among both large and small IDIs remains significant—there has not been a significant review of the implementation of the BMA in that time.

The FDIC continues to evaluate and consider comments received in response to a Request for Information and Comment on Rules, Regulations, Guidance, and Statements of Policy Regarding Bank Merger Transactions published in March 2022.

In addition, the FDIC is coordinating with the Federal Reserve, OCC, and Department of Justice regarding an interagency review of the existing laws, regulations, guidance, and processes used by the federal banking agencies under the BMA. These discussions, which are ongoing, are consistent with the Presidential Executive Order on Promoting Competition in the American Economy.

Evaluating and Addressing Crypto-Asset Risks to the Banking System

The risks associated with crypto-asset activities by banks are novel and complex, and may involve safety and soundness, consumer protection, anti-money laundering and the Bank Secrecy Act, and potentially financial stability issues. As a result, the FDIC, in coordination with the other federal banking agencies, has taken steps to closely monitor crypto-asset-related activities of banking organizations. For example, the FDIC has issued statements to assist banking organizations in ensuring that they have put in place appropriate measures and controls to identify and manage risks and comply with all relevant laws.

The FDIC requested that all supervised institutions that are considering engaging in, or are already engaged in, crypto-asset-related activities notify the FDIC and provide all necessary information that would allow the FDIC to assess the safety and soundness, consumer protection, anti-money laundering/countering the financing of terrorism, and financial stability risks in order to provide supervisory feedback to the institution.

The FDIC also advised all FDIC-insured institutions of the risks of consumer confusion or harm arising from crypto-assets offered by, through, or in connection with insured depository institutions. These concerns were elevated as a result of certain misrepresentations about FDIC deposit insurance by some crypto companies. Inaccurate representations about deposit insurance by non-banks, including crypto companies, may confuse consumers and cause them to mistakenly believe that these investments are protected by deposit insurance. To counter this confusion, the FDIC released consumer education materials advising the public that crypto-assets are not deposits insured by the FDIC. In addition, over the course of 2023, the FDIC issued several cease and desist letters that resulted in companies removing misrepresentations about the insured status of crypto products.

In early 2023, the FDIC, along with the Federal Reserve and the OCC, issued two joint statements on crypto-assets. The first, issued in January 2023, addressed several risks posed by crypto-assets, including significant volatility in crypto-asset markets; risk management and governance practices in the crypto-asset sector exhibiting a lack of maturity and robustness; and inaccurate or misleading representations or disclosures by crypto-asset companies; among others. Our second joint statement, issued in February 2023, highlighted key liquidity risks associated with certain sources of funding from crypto-asset-related entities.

The agencies continue to emphasize that banking organizations are neither prohibited nor discouraged from providing banking services to customers of any specific class or type, as permitted by law or regulation.

Supporting Diversity, Equity, Inclusion, and Accessibility

Supporting diversity, equity, inclusion, and accessibility (DEIA) enhances the FDIC's ability to carry out its core mission. It is essential that the FDIC's workforce reflect the diversity and experiences of the public it serves.

Throughout 2023, the FDIC made further progress in implementing corporate DEIA initiatives as outlined in our *DEI Strategic Plan*, including launching empathy training for all employees. We also focused on enhancing our recruitment and retention of Hispanic employees and addressing female workforce participation. The FDIC remains committed to recruiting strategically to reach all available talent in the labor market, providing advancement opportunities to current employees, and enhancing employee engagement at all levels.

The FDIC's commitment to DEIA in the broader financial industry is reflected through our Financial Institution Diversity Self-Assessment program. This program supports the efforts of supervised institutions to create and grow their diversity programs, allowing them to build strong relationships with their clients and communities, maximize workforce representation,

and develop and implement inclusion efforts. In 2023, we continued our outreach to community banks and trade associations to increase awareness and participation in the assessment program, and we launched “office hours,” an initiative to provide more hands-on technical assistance to the financial institutions and to increase voluntary participation.

Supporting Minority Depository Institutions (MDIs) and Community Development Financial Institutions (CDFIs)

The preservation and promotion of MDIs and CDFIs remains a long-standing priority for the FDIC, due to the vital role they play in providing mortgage credit, small business lending, and other banking services to minority and low- and moderate-income communities. Similarly, banks designated as CDFIs by the Treasury’s CDFI Fund provide financial services in low-income communities and to individuals and businesses that have traditionally lacked access to credit.

The FDIC supervises approximately two-thirds of the 312 FDIC-insured MDIs and CDFIs. In addition to its supervisory activities, the FDIC’s Office of Minority and Community Development Banking supports the agency’s ongoing strategic and direct engagement with MDIs and CDFIs.

Over the past five years, six *de novo* MDIs opened their doors (two Asian, one Native American, one African American, and two Multi–racial) and 17 existing institutions became newly designated MDIs due to changes in control or in board composition. These additions to the MDI list mostly offset removals from the list due to mergers, changes in control, or other events that caused institutions to lose their MDI eligibility.

As significant new sources of private and public funding have become available to support FDIC–insured MDIs and CDFIs, the FDIC has supported these institutions access to this funding through regulatory changes and technical assistance training.

In addition, in November, the FDIC hosted an interagency conference with the OCC and the Federal Reserve to facilitate potential partnerships among FDIC-insured MDIs and CDFIs and large and regional banks supervised by the FDIC, Federal Reserve, and OCC. The conference featured an overview of the new CRA rule and benefits for partnering with mission-driven banks. More than 100 FDIC-insured MDIs and CDFI banks participated, in addition to more than 65 FDIC-insured large and regional banks.

Expanding Access to Banking Services and Understanding of Deposit Insurance

Helping Americans understand the benefits of deposit insurance and expanding their access to mainstream banking services help strengthen confidence in the nation’s financial system—the FDIC’s core mission.

Last year, our *National Survey of Unbanked and Underbanked Households* found that, despite the economic challenges posed by the COVID-19 global pandemic, nearly 96 percent of U.S. households are banked. Approximately 4.5 percent of households lacked a bank or credit union account, which is the lowest national unbanked rate since the survey began in 2009.

These results are encouraging, but significant work remains to be done to address large disparities that exist in the United States with regard to access to the banking system: 11.3 percent of Black households and 9.3 percent of Hispanic households were unbanked, according to the most recent survey, compared to 2.1 percent of White households. Other populations also have lower levels of bank engagement, including lower-income households, households with lower levels of formal education, single mothers, and households headed by a working-age individual with a disability.

These populations can be reached by taking advantage of bankable moments and by ensuring that consumers are aware of, and able to locate and open, bank accounts that can meet their needs. We continue to host events, including webinars, workshops, and roundtables, across the country that aim to highlight opportunities for local organizations to reach unbanked populations.

In addition, in October, we launched a public awareness campaign—"Know Your Risk. Protect Your Money."—that aims to reach consumers who may have lower confidence in the banking system or who are unbanked, as well as those who use mobile payment systems, alternative banking services, and financial products that may appear to be FDIC-insured but are not.

Following the failure of SVB, Signature Bank, and First Republic Bank earlier this year, a Gallup poll found nearly half of Americans surveyed are worried about the safety of their money deposited into banks and other financial institutions. We recognized this opportunity to reach out to the public and ensure that more consumers understand deposit insurance and how it protects their money. Our public awareness campaign addresses that knowledge gap by referring consumers to educational material offered in English and Spanish.

The campaign also responds to an increase in instances of firms or individuals misusing the FDIC's name or logo, or making false or misleading representations about deposit insurance, raising confusion among consumers about the insurability of nonbanks and crypto-assets.

We will continue the campaign into 2024 to coincide with the start of traditional tax filing season, when many consumers receive refund payments—a key opportunity to open an account and realize the benefits of deposit insurance.

Cybersecurity

Threats from malicious cyber actors continue to be a significant and evolving risk for banks and their service providers. Evaluating cybersecurity practices continues to be a high-priority focus of the FDIC's supervision program. During 2023, the FDIC conducted 1,243 IT examinations at state nonmember institutions and issued four formal enforcement actions.

The FDIC also examines the IT services provided to institutions by bank service providers. In addition to routine examination procedures, in 2023, the FDIC, Federal Reserve, and OCC horizontally reviewed the supply chain risk of the most significant service providers.

The FDIC actively engages with both the public and private sectors to assess emerging cybersecurity threats and other operational risk issues. In October, the FDIC hosted on behalf of the Federal Financial Institutions Examination Council (FFIEC) a national banker webinar covering cybersecurity awareness with guest speakers from the Federal Bureau of Investigation. We also released cybersecurity informational videos for bank directors, bank officers, and staff.

Internally, in 2023, the FDIC made significant progress towards adopting the Zero Trust Cybersecurity Principles to safeguard its operations and the critical data it manages. This progress represents continuous improvement in the agency's enterprise security posture and enhancements in our ability to provide secure and accurate data access.

Emerging Technology

The FDIC continues to dedicate significant resources to identifying and understanding emerging technologies and the implications for financial institutions and their customers to ensure the FDIC is prepared to address the changing landscape in financial products and services. Since 2016, these efforts have been led by the FDIC's Emerging Technology Steering Committee, which is supported by two staff-level working groups. The committee is composed of the Directors of the Divisions of Risk Management Supervision (RMS), Depositor and Consumer Protection (DCP), Insurance and Research, Resolutions and Receiverships, and Complex Institution Supervision and Resolution, as well as the General Counsel, Chief Financial Officer, Chief Innovation Officer, Chief Risk Officer, and Chief Information Officer. The Steering Committee met eight times during 2023, and discussed a number of topics, including the Executive Order on Artificial Intelligence, various crypto-asset scams used by fraudsters, Fed Now, various technology offerings and use cases, and various aspects of distributed ledger technology, including oracles and smart contracts. For example, throughout 2023, the Steering Committee helped formulate strategies to respond to opportunities and challenges presented by emerging technology and to ensure developments align with regulatory and supervisory goals.

Throughout 2023, the Emerging Technology Steering Committee continued work on its established objectives through its staff-level working groups to:

- Comprehend, assess, and monitor the current emerging technology activities, risks, and trends;
- Evaluate the projected impact of emerging technology on the banking system, the deposit insurance system, effective regulatory oversight, economic inclusion, and consumer protection;
- Oversee internal working groups monitoring particular aspects of emerging technology;

- Recommend follow-up actions, as appropriate, and monitor implementation; and
- Help formulate strategies to respond to opportunities and challenges presented by emerging technology and to ensure developments align with regulatory goals.

Building on the Steering Committee's efforts, since 2020, the Emerging Technology & AML/Cyber Fraud Policy Group within the Legal Division has focused on legal issues facing both the FDIC and the banking industry arising from emerging forms of technology, such as blockchain and artificial intelligence. In addition, in 2023, the FDIC established the Emerging Technology Section in RMS to provide examination support and lead policy development related to emerging technologies. Similarly, in 2023, the FDIC established the Technology Enterprise and Consumer Harm Risk and Innovation Section in DCP to expand technical knowledge and supervision capabilities. Separately, throughout the year, staff in RMS and DCP met with financial technology companies interested in doing business with financial institutions.

In addition, the FDITECH group in the CIO organization serves a critical function supporting the identification, testing, and adoption of innovative technologies within the FDIC to improve the delivery of its core mission responsibilities. FDITECH engages with stakeholders throughout the FDIC to identify problems and challenges in programs and operations, and conducts proofs of concept aimed at removing barriers and building IT capabilities. This includes the evaluation and adoption of technologies that enable the FDIC to keep pace with developments within the banking industry. For example, FDITECH is providing Divisions and Offices access to unbiased expertise and assistance to collaboratively identify, refine and prioritize potential uses of distributed ledger technology (DLT). This effort enables the FDIC to identify and analyze risks that DLT can pose to regulated institutions, their customers, and the Deposit Insurance Fund, as well as the effects on resolution and receivership activities.

Furthermore, as data becomes more valuable over time, FDITECH is also focused on how to best utilize data and technology to meet the demands of the agency.

In 2024, the FDIC will continue to explore the potential application of new and emerging technologies, automations, and process improvements by:

- Exploring the utility and application of robotic process automation and AI to reduce the time required to complete manual work; and
- Developing potential use cases that allow employees to learn about distributed ledger technologies through hands-on experience.

Managing FDIC Resources and Operations

As of March 2023, the FDIC has largely returned to pre-pandemic business operations, operating in a hybrid work posture that includes an in-person component for each safety and soundness and consumer compliance examination. We have announced that we will transition to an even greater on-site presence at our office facilities starting in July 2024.

In December, the FDIC Board adopted a 2024 Operating Budget of $3.0 billion, which represents a 6.3 percent decrease from last year's budget. The budget reflects a 57.5 percent decrease in the Receivership Funding component of the budget and an increase of 12 percent in the Ongoing Operations component. The budget also authorizes 189 new positions, many of which are being added to increase the monitoring and supervision of large banks to support early detection of emerging risks and quicker action to ensure that banks are taking the necessary steps to mitigate such risks. This increase will bring the 2024 authorized staffing total to 6,817.

The budget provides additional resources to address potential risks to depositors and consumers of emerging technologies that are beginning to be used by banks, such as the use of artificial intelligence in credit underwriting models. It also includes funding to support planned efforts to educate the public about deposit insurance and to continue our multi–year IT Modernization Program and our multi–year Facilities Modernization effort. Both of these initiatives are critical to ensuring that the FDIC's future workforce will have the tools and resources needed to continue fulfilling our important mission.

Conclusion

This has been a challenging year for the FDIC. However, despite the period of uncertainty earlier in 2023, the banking system has remained a source of strength for consumers, households, and businesses.

In 2024, the FDIC will carry out its mission to maintain public confidence and stability in the U.S. financial system and address risks faced by the banking system by maintaining a strong deposit insurance system, examining and supervising financial institutions for safety and soundness and consumer protection, making large and complex financial institutions resolvable, and managing receiverships.

We will also be looking inward in 2024 to address the issues in our workplace culture that have come to light in recent months. None of the accomplishments outlined in this report would be possible without the hard work and commitment of the FDIC workforce. Our employees deserve a workplace where they feel safe and valued.

I am committed to achieving this for our employees, and I remain grateful for their dedication to the mission of the FDIC.

Sincerely,

Martin J. Gruenberg