Since 1933, the FDIC has contributed to the stability of the U.S. banking system. The FDIC's insurance program is designed to achieve three goals: provide insured depositors timely access to their funds in the event of a bank failure; ensure the viability of the insurance funds as risks and economic conditions change; and promote bank customers' understanding of the deposit insurance rules.

In 1998, the FDIC gave much attention to the scope and nature of deposit insurance in light of several ongoing trends. One was financial modernization, or the actual or proposed expansion of banking organizations into additional lines of business. Another was the changing nature of the global marketplace, where larger and more complex banks are taking on new businesses and risks. These and other trends spurred the FDIC to undertake a variety of initiatives in the administration of its insurance program in 1998.

Addressing Risks to the Funds

The ongoing debate over financial modernization raises fundamental questions with respect to the structure of banks and the role of deposit insurance. As continued innovations in technology and information services allow financial service providers to offer a full range of products, the distinction between banking and nonbanking organizations has become increasingly blurred. The challenge for policymakers is to provide a statutory and regulatory framework that allows the financial services industry to evolve while maintaining the safety and soundness of individual insured institutions, the stability of the financial system and a level competitive playing field. The FDIC has supported initiatives that would expand the range of activities permissible for banking organizations, if the activity poses no significant safety-and-soundness concerns. Further, the FDIC has supported the ability of banking organizations to have the flexibility to choose the corporate or organizational structure that best suits their needs, provided adequate safeguards exist to protect the insurance funds and the taxpayer.

On January 29, 1998, the FDIC sponsored a symposium to promote a discussion of the role and nature of deposit insurance. The audience included bankers, regulators, consumer and trade group representatives, academics and congressional staff members. A wide range of opinions was expressed and a number of interesting ideas deserving further consideration were discussed. Among the issues covered were the use of additional information for determining risk-based insurance premiums; the appropriate reserve-ratio target and other matters relating to management of the deposit insurance funds; proper coverage levels and funding arrangements for small versus large institutions; and ways to enhance the FDIC's ability to identify, analyze and act on risks to the insurance funds and the banking industry.

In an effort to identify and respond to these risks more quickly and effectively, the FDIC continued to refine the examination process to emphasize an institution's risk-management systems and the risks each individual institution faces. Examiners look beyond the static condition of an institution to how well it can respond to changing market conditions.

In addition, analysts in the Division of Insurance (DOI) closely monitor trends in the financial services industry and the economy, and work closely with FDIC examiners to help assess emerging risk exposure for individual banks and groups of banks by providing comprehensive regional economic data and analysis. Articles in the 1998 issues of *Regional Outlook*, DOI's quarterly publication, addressed topics such as mergers and consolidations in the banking and thrift industries, lending concentrations in real estate, the Asian crisis, volatility in financial markets, and the Year 2000 issue. Another resource, "The Regional Economic Condition Report for Examiners," or RECON, is an Internet-based application introduced by the FDIC in 1998 to provide supervisory personnel quick and easy access to a wealth of local economic data.

The risk-related premium system is another means through which the FDIC can address risks in the banking industry. The Corporation is required to maintain a deposit insurance premium schedule that reflects the risks posed to the insurance funds by member institutions. While the current nine-category premium schedule is based primarily on capital ratios and examination ratings, the FDIC is authorized to consider other information when assigning institutions to particular risk categories.

Twice a year, the FDIC sets deposit insurance assessment rates for members of the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF). These rate schedules are supported by analysis of the probable losses to the funds, failure-resolution expenditures and income, expected operating expenses, revenue needs of the insurance funds, the impact of assessments upon insured institutions, and any other factors that the Board deems relevant.

Throughout 1998, the FDIC and other banking agencies identified the possible build-up of risk in the banking system due to easing credit standards. Regulators observed that a growing number of institutions exhibited risky loan concentrations, poor underwriting practices, and weak internal controls. These signals were particularly troubling because they appeared against a backdrop of global instability, as the financial crisis in Asia deepened and economic shock waves from Russia jolted Brazil and other countries.

In light of these indications of increased risk at the same time that 95 percent of all insured institutions were classified into the lowest risk category of the premium schedule, the Corporation intensified its efforts to ensure that the risk-based premium system incorporates all relevant information regarding fund risk exposure. As 1998 ended, the FDIC was engaged in discussions with bankers and other banking regulators on ways to use additional information from the supervisory process, financial reports, and the market to enhance the risk classifications used for setting deposit insurance premiums.

Efforts to Promote Public Understanding

In 1998, the FDIC employed a variety of methods to provide deposit insurance information to insured financial institutions and the public. The FDIC's primary means of answering questions from bankers and the public is through its toll-free Consumer Affairs Call Center (1-800-934-3342). During the year, more than half of the inquiries answered by the Call Center concerned FDIC deposit insurance. The FDIC answered another 730 deposit insurance inquiries received through regular mail and electronic mail. The volume of deposit insurance inquiries increased approximately 50 percent in 1998, due largely to the FDIC's efforts to increase public awareness of its deposit insurance education program.

A major FDIC initiative during the year was developing the Electronic Deposit Insurance Estimator, or "EDIE," a user-friendly Internet application that consumers and bankers can use to calculate the amount of insurance coverage for deposit accounts at FDIC-insured institutions. EDIE is accessible to novice computer users with no prior knowledge of deposit insurance. EDIE also provides links to other FDIC Web sites that provide useful information for consumers. EDIE can be found on the FDIC's Web site at www2.fdic.gov/edie.

The FDIC maintains a number of consumer brochures and banker training guides on deposit insurance. These documents, which are published by the FDIC and disseminated widely by the agency and FDIC-insured institutions, are tailored to the specific needs of financial institution customers and employees. In 1998, the FDIC updated its most popular brochure for consumers, *Your Insured Deposit*, to reflect simplified amendments to the deposit insurance rules adopted by the FDIC during the year. The FDIC distributed more than 10 million copies of *Your Insured Deposit* in 1998. Copies of all the FDIC consumer brochures and training materials for bankers are available on the FDIC's Web site.

The FDIC routinely publishes articles on deposit insurance topics of interest to consumers and bankers in quarterly editions of *FDIC Consumer News*, a free publication distributed to consumer organizations, individual consumer subscribers and bankers. *FDIC Consumer News* is also available on the FDIC's Web site.

Another facet of the FDIC's deposit insurance education program is training seminars for employees of FDIC-insured institutions. During 1998, the FDIC conducted 29 seminars on the deposit insurance rules. These seminars were held across the nation and attended by approximately 2,000 representatives from almost 700 FDIC-insured financial institution employees. Participants received an in-depth review of the deposit insurance regulations and interagency guidelines for the retail sale of mutual funds and other nondeposit investments by financial institutions.

The FDIC's electronic deposit insurance estimator—"EDIE"—allows consumers and bankers to easily calculate the amount of insurance coverage for deposit accounts at FDIC–insured institutions. EDIE (and the onscreen helper, "Edie") appears on the FDIC's Web page.