The FDIC faced the challenge of supervising an increasingly global banking industry during 1998. In that role, the Corporation took a number of steps in the international arena, such as monitoring foreign economies, supervising international banking activities, providing technical assistance to foreign supervisors and deposit insurers, and promoting cooperation and coordination among foreign bank supervisors.

Monitoring Foreign Economies

By monitoring foreign economies, the agency was able to assess the risks of current and emerging international issues to the FDIC's deposit insurance funds. The continued deterioration in global economies, particularly in Asia and among emerging economies, was probably the most significant international issue the FDIC monitored during 1998. In many countries throughout the world, the economic turmoil contributed to deterioration in the international banking sector's capital levels, asset quality and profitability. As a result, bank failures in some countries increased and worldwide confidence in the global economic system declined.

During 1998, the FDIC took appropriate actions to minimize any adverse impact on its deposit insurance funds resulting from deterioration in foreign economies. For instance, FDIC economists from the Division of Research and Statistics and Division of Insurance studied the indirect risks to U.S. banks of international lending resulting from the increased linkages of world economies. These linkages have become stronger in recent years due to increased international trade and increased capital flows to and from emerging economies around the world, particularly East Asia, Eastern Europe and Latin America. Greater economic linkages among world economies increase the likelihood that one country's economic woes will adversely affect other countries. In an attempt to quantify the effects of indirect risks caused by trade fluctuations, FDIC economists are developing statistical models to measure the degree of international linkages and risks among world financial markets. These models will better enable the FDIC to determine the degree of risk to the insurance funds that may result from the international activities of FDIC-insured institutions.

Supervising International Banking Activities

The FDIC Division of Supervision's (DOS) on-site and off-site supervisory programs continued to focus on the increasing globalization of banking during 1998. DOS staff conducted quarterly reviews of foreign banking operations (FBOs) that have insured operating subsidiaries or branches in the U.S. These quarterly FBO reviews included detailed analyses of parent institutions, financial issues and current developments in home countries. The FDIC also closely reviewed U.S. banking organizations' cross-border exposures, which result from their issuance of debt or off-balance sheet contracts to international entities. Along with the Board of Governors of the Federal Reserve System and the Office of the Comptroller of the Currency, the FDIC is a member of the Interagency Country Exposure Review Committee (ICERC), which assesses transfer risk (the risk that a foreign debtor will not be able to obtain dollars to repay U.S. creditors) in those countries to which U.S. banks have cross-border exposures. The FDIC chaired the ICERC during 1998.

Sharing Expertise With Other Countries

Over its 65-year history, the FDIC has accumulated a wealth of knowledge and experience that it shares with bank supervisors and deposit insurers around the world. Of particular interest is the FDIC's success in resolving the banking crisis that occurred in the 1980s and early 1990s, without a single loss to an insured depositor. The FDIC's success in resolving failing institutions enabled the nation to maintain confidence in the U.S. banking system.

W.W.Reid

Vijay Deshpande (l), Director of FDIC's Office of Internal Control Management, talks with Central Bank officials from Sri Lanka (center) and Malaysia at the FDIC-sponsored international conference on deposit insurance in September.

The FDIC shared its expertise by providing technical advice to foreign supervisory authorities and deposit insurers. Technical advice is a relatively low-cost method of helping to improve the operations of foreign supervisory authorities and deposit insurers. It may contribute to the stability of foreign markets and reduce any adverse impact that international events may have on the FDIC's deposit insurance funds. During 1998, the FDIC met with representatives from Japan, Korea, Nigeria, Kenya, Croatia, Malaysia, Lithuania, England, Thailand, Slovakia, the Philippines, and other countries. The FDIC addressed a number of the foreign representatives' concerns, including how to liquidate failed-bank asset portfolios without damaging market or investor confidence.

The FDIC also provided training to supervisory personnel of foreign banking authorities. In conjunction with the Association of Banking Supervisory Authorities of Latin America and the Caribbean, the Corporation established a training curriculum on internal routines and controls, and the resolution process for failing institutions. The FDIC, through DOS, also participates in an ongoing effort with the Asian-Pacific Economic Cooperation Forum (APEC) to improve bank supervisory training in APEC-member countries. Further, the FDIC provided foreign supervisory authorities with the opportunity to gain hands-on experience in U.S. bank examinations. Throughout 1998, a number of foreign bank supervisors observed on-site examinations of banks to learn more about how the FDIC supervises U.S. institutions.

Promoting Cooperation Among Foreign Bank Supervisors

The FDIC consistently promotes cooperation and coordination among international supervisory authorities, resulting in stronger and more consistent supervisory standards. This, in turn, decreases risk to the FDIC's deposit insurance funds.

During 1998, the FDIC participated in a number of international efforts that promoted cooperation and coordination among bank supervisors around the world. The FDIC is a member of the Basle Committee on Banking Supervision, which formulates broad standards and guidelines for each of the member countries. The FDIC is an active participant in many facets of the Basle Committee's work, including subgroups and task forces that focus on such issues as capital, risk management and the Year 2000. During 1998, the FDIC provided extensive input on a number of important supervisory topics, including managing risks associated with electronic banking, improving public disclosure of international banking organizations and implementing strong internal control systems. Throughout 1998, DOS staff also worked with the U.S. Department of the Treasury on projects mandated by the Group of Seven (G-7) countries and the Group of Twenty-Two (G-22) countries. The G-7 and G-22 projects focused on strengthening international financial systems, including banking systems, improving information-sharing between domestic and foreign regulators and improving disclosure by banking organizations.

In September 1998, the FDIC hosted the International Deposit Insurance Conference in Washington, DC. The conference was the first of its kind to bring together deposit insurance authorities from around the world. Top government officials from 62 countries, including leaders of deposit insurance agencies from more than 20 nations, attended the conference. Keynote speakers included FDIC Chairman Donna Tanoue; Deputy Secretary of the Treasury Lawrence H. Summers; First Deputy Managing Director, International Monetary Fund, Stanley Fisher; and former FDIC Chairman Ricki Helfer. Discussion focused on the role of deposit insurance in maintaining public confidence in the world's banking systems. Other topics addressed were past strategies used to restore stability to various financial sectors, and the strategies' applicability in addressing problems that may arise in the international arena in the future.

Supervising an increasingly global banking industry will likely continue to be one of the FDIC's primary challenges in the future. The Corporation will remain diligent in its efforts to respond to international issues in order to maintain the stability of the FDIC's deposit insurance funds and further strengthen public confidence in the U.S. banking system.