



## PANEL 3

# Managing Bank Crises in Other Countries

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Thank you, Gail. Once again I'll join in welcoming all of you to the second day of the symposium. Yesterday, the panels discussed the U.S. bank and thrift failures of the 1980s and the 1990s. As noted yesterday, one of the most successful resolutions is prevention. Forecasting and addressing the problems early on normally will result in fewer failures and reduced cost. Prevention, however, is not always possible, especially if there is a currency crisis or other external influencing factors. Absent the prevention, the development of resolution strategies sufficiently flexible to adapt to a changing economy are critical to resolving troubled institutions.

The techniques used to address the enormous volume of assets resulting from failures in the U.S. were as varied as their results. I believe the ability to be creative and flexible will be seen for years to come as a key to resolving any bank crisis.

The United States has not been alone in dealing with troubled banks and thrifts. Over the same time period, many other countries such as Argentina, Bolivia, Brazil, Chile, Peru, Venezuela, Mexico, Finland—and the list goes on and on—have all dealt with or are currently dealing with problem financial institutions.

Troubled institutions throughout the world have created challenges for financial systems worldwide. Governments have implemented a variety of resolution strategies ranging from forbearance to open bank assistance to liquidation. Generally, these strategies have been used as a tool to maintaining or restoring public confidence and financial stability. Today, we have a distinguished panel who will address resolution strategies used by other countries. You will see that the spectrum of resolution processes has been varied. You will note similarities as well as differences in the process used in the United States.

As we proceed with the discussion, it should become very clear that no two banking failures or crises are the same. Likewise, no two countries are the same. What worked in one country may serve as a possible solution for another, but should be viewed more as a building block to crafting the right solution rather than the solution itself. Resolving failing financial institutions must be viewed in the broadest of contexts, especially in developing nations, where a banking crisis can easily become a debt crisis.

Many factors must be considered when attempting to resolve banking problems. A review of the laws, the culture, the existence or non-existence of deposit insurance, the expected cost, the economy, as well as the political environment, and finally, the potential long-term impact, are all critical, essential elements to crafting the right solution.

The concentration of banking in a few institutions may also impact the resolution process. As was seen with the rescue package of Credit Lyonnaise, it may suggest that the reality of too big to fail has already been proven. At the same time, the resolution of Credit Lyonnaise attempted to address the moral hazard by forcing a downsizing of that institution in the rest of Europe; therefore, making it not overly competitive with the other institutions in Europe, not giving it an advantage. In France, it was left such that the other French banks feel that they've been placed at a competitive disadvantage.

As suggested by our featured speaker yesterday, what do the mega mergers in the U.S. suggest for our future? Can we afford to ignore the banking problems of other countries? Economies continue to grow more interdependent, failures on an individual basis may only impact the local economy. On the other hand, a large number of failures or the failure of a mega institution may, in fact, have fall-out in a number of countries. Today's discussion will focus on past crises and current events, starting with the Scandinavian experience. We will then move to Eastern Europe and the issues confronted by emerging nations, followed by a discussion of the Japanese government's response to recent banking problems and the potential impact on the rest of southeast Asia, as well as the world.

Let us welcome this morning's panel. To my left is Arne Berggren. Mr. Berggren traveled a great distance to be with us today, coming from an assignment in South Korea via his home in Stockholm. He is President of Eusticon and serves as a consulting advisor to banking authorities in a number of countries, as well as to The World Bank and the International Monetary Fund. Earlier in his career, Mr. Berggren was Special Advisor to the Swedish Ministry of Finance, and in that capacity, he assisted extensively with measures taken to strengthen the Swedish banking system.

To Mr. Berggren's left is Bill Roelle. No stranger to us. Bill is currently Managing Director of Business Development for General Electric Capital Corporation. Immediately prior to assuming that position he served as an advisor to the Polish government in addressing bank privatization. Earlier in his career, he was employed at the FDIC in a number of different positions. He also served as Chief Financial Officer and Director of Resolutions and Operations for the Resolution Trust Corporation.

To Mr. Roelle's left is also no stranger to us—a former FDIC chairman, Bill Seidman. Mr. Seidman is currently a commentator on CNBC TV, publisher of Bank

Director magazine, and a worldwide consultant on banking issues. While at the FDIC, he oversaw the birth of the Resolution Trust Corporation and served as its first chairman. He was responsible for many of the asset disposition and resolution strategies used by the FDIC in the late 1980s. He has had a varied career, including serving as vice chairman and chief financial officer of Phelps Dodge Corporation, managing partner of the accounting firm of Seidman & Seidman, educator and a member of the White House staff of President Ford as assistant for economic affairs.

I would like to thank the panelists for taking time from their busy schedules to be with us today. At the conclusion of the presentation today, as in yesterday, there will be an opportunity for questions. I would encourage all of you to be active participants in this discussion. The worldwide financial news of the past six months clearly suggests that this should be an interesting and lively discussion.

Let me introduce our first panelist, Mr. Berggren.

### **Arne Berggren** **International Banking Consultant**

Good morning. First, I would like to say how glad and honored I am to be here. I am impressed by the failed bank resolution processes that you have developed and by what you have accomplished in resolving your banking crisis. I also think you have a lot of experience that many countries will benefit from in the future.

However, while there are many similarities, it is critical to note that there are also important differences between a banking crisis in the United States and a banking crisis in smaller countries. First of all, the American economy is the largest in the world and is “closed” in the sense that it is not as exposed to problems in other countries. Smaller countries have more “open” economies, as they are more reliant on foreign trade, and are therefore more exposed to problems in other countries. These economies can be rather volatile, as they typically are also more reliant on foreign sources for investment. As a result, banking problems in these countries can quickly develop into severe systemic problems. Moreover, the economic and political differences between countries make it important to adjust the responses and techniques to fit the unique circumstances.

What I will do today is to go through the Scandinavian banking crises. First, I will try to show you some similarities between the three Scandinavian countries. I will then move to the Swedish case. I am most familiar with that case since I engineered most of the Swedish strategies and processes.

If you look at most countries that have lived through a banking crisis, especially the more developed countries, you will see a scary pattern that very often starts with deregulation of the domestic credit market and/or the current account. It seems to be a rule of nature that deregulation is often followed by an over-expansion of the economy—a boom period. This boom lasts for a while and oftentimes results in a crash.

Let's look at the banking crises in Scandinavia. Each crisis happened at different times due to the different structures of their economies. The Norwegian economy is based on oil. You are very familiar with what can happen in that type of situation. When the price of oil fell in the early 1980s, it had a dramatic effect on Norway's terms of trade, and this eventually had a negative effect on their banking system. Finland and Sweden, in a sense, benefited from Norway's problems and were able to "postpone" their bank problems for a couple of years. Finland had extensive trade relations with their Soviet neighbor, and their banking crisis became serious when the Soviet Union fell apart. The Swedish banking crisis started with the bursting of our real estate bubble. The most difficult period of the Swedish banking crisis came after a period of currency unrest (when George Soros became a household name, even in Europe).

So what we have noticed is that a country will have a period of deregulation and experience an over-expansion of their economy, which oftentimes ends in a crash. I think that you have seen that cycle at work in many states and areas within the U.S.

Let's go back to the mid-1980s to look at the development of the Swedish economy. The combination of strong economic growth coupled with the deregulation of the domestic credit markets eventually generated a banking environment that was the equivalent of an economic hothouse. The deregulation enabled a rapid credit expansion by bankers that did not fully understand the risks involved. Prior to deregulation, those bankers were in a sense required to go to the central bank once a week and ask for money to lend—but when everything was deregulated they were looking for new markets and to increase market share. At the same time, we had a system with high marginal taxes and interest income was tax-deductible. As a result, a very high leverage ratio was built into the Swedish economy.

During the period of expansion (until 1989–1990) real estate prices rose 25 percent per annum. There was also a wave of leveraged buyouts. The ratio of credit to Gross Domestic Product (GDP) rose from 90 percent to 140 percent in just two years.

I would like to point out an important difference between the American banking system and the European banking systems. In Europe, the normal ratio of banking assets to GDP is around 100 percent. In America, it is around 50 percent. The banking systems are more important in Europe since their capital markets are less developed.

The expansion lasted until around 1989–1990 when an international recession, a tax reform, and some other events led to a dramatic downward adjustment in asset values. Real estate prices fell 50 percent, stock prices fell, and practically everything lost value in a very short period of time. That was later followed by a currency crisis that led to a 30 percent depreciation of the currency. That caused another wave of business failures. This demonstrates how quickly things can evolve in an open economy.

A period of ad hoc measures was instituted when the banking crisis first began to appear. We were initially approaching the situation bank-by-bank until it became clear that the entire banking system was fragile. We eventually instituted a general guarantee—which I will discuss later.

So, that was the macroeconomic situation. Let's now look at the structure of the system. The finance companies were the first financial institutions that were hit by the crisis. These institutions were one of the results of the regulations existing prior to 1985. They could not take deposits. They issued CDs. They often borrowed short term and lent long term.

We also had a wave of mergers in the banking system as all institutions were hunting for dominance, for market share, and were trying to cut costs. By 1992, we had only 17 commercial banks in the country and the six largest banks accounted for 75 percent of our banking system. As we developed our strategies to address the banking crisis, it was clear that we could not liquidate them all.

Other considerations had to do with the structure of the economy. Sweden has quite a few multi-national corporations. Maybe 90 percent of their sales are outside the country and are in other currencies. The structure of the Swedish economy is like a cocktail glass in that we have several extremely large multinational corporations, a few mid-sized companies, and many small business organizations. One result is that approximately 40 percent of bank loans are in foreign currencies. This is a short description of the situation at that time.

So what did we do? It was clear that the failing finance companies were nonsystemic so they were handled by the supervisory authorities in a normal court liquidation process or in negotiations between creditors. The Swedish banking system was, in relative terms, well capitalized before the crisis. It looked strong and we thought that we could weather the storm. But our financial problems did not end there. We had our first bank failures in 1991, and those were large bank failures. The consequence was that the Swedish Ministry of Finance got directly involved.

We did not have a deposit insurance system in Sweden, which was good in my opinion. Those large failing banks were all systemic and taxpayers' money was necessary in order to solve their problems. That meant that we had to go to the Parliament with a bill each time a bank had a problem and explain why it was necessary to do certain things. However, the condition of the system was not improving. It was increasingly clear that the system was fragile. At the Ministry of Finance a few of us started to develop a worst-case scenario. That was important in that it helped us to form a political consensus among the decision-makers in the Ministry of Finance, the Central Bank, and the office of the Prime Minister, as well as the political opposition.

The crisis continued. We had to make a big quick fix for Nordbanken. However, it was soon clear that the quick fix was not enough. So we decided to nationalize the bank and recapitalize it. Nordbanken was very large, as its asset base equaled 23 percent of GDP. The initial cost of recapitalizing Nordbanken equaled 3 percent of GDP. A few years later we were able to turn it around at a profit for the taxpayers and that transaction, more or less, paid for the banking crisis.

The restructuring of Nordbanken was really important in that it served as a show-case for the rest of our work. It demonstrated the government's determination to address and resolve the crisis and it helped us to gain respect. If you are operating in a small

open economy and are dependent on the international capital markets, you need to explain to American pension fund managers, to Japanese pension fund managers, to Standard & Poor's, to Moody's, and to others what your country is up to. The intended audience was not the depositors, because they already trusted us, it was the international capital market.

So what do you do in a situation like the one in Nordbanken? You need to develop a strategy, a set of actions, and determine how to pay for it. The interests of the shareholders, depositors, creditors, management, employees, and the taxpayers were all at stake. We approached the problem as a commercial undertaking and determined how we could maximize profits to the government or minimize cost. We studied Nordbanken's operations to determine how we could improve efficiency and the management of various asset types. It was clear that there was a potential for improving the core banking operation, to cut costs and unprofitable lines of business, and to refocus the organization. We felt that a successful approach would be to act as an aggressive equity investor focused on profit maximization. That would be the only way to recover some or all of the taxpayers' expenditures.

Nordbanken was refocused to retail and we decided to skip the large corporate segment altogether. The large and complex nonperforming loans, and what we called non-strategic assets, were removed from the franchise. As you can see, we were more involved in the organization and management of the restructuring of the bank than governments often are in situations like this.

It was also really clear that we needed to explain to the politicians that we had suffered a loss, that we were less rich than we had previously thought, and that the necessary expenditures to restore confidence in the system could be a sunk cost. However, a portion of those expenditures could actually be viewed as an investment and as a way to get our money back. It was clear that we needed to recapitalize the bank to a decent level to restore confidence. The best-managed and capitalized banks in the country were used as benchmarks for the recapitalization.

Our goal was to re-privatize the bank in a reasonable amount of time and thereby recover our initial investment. That would allow us to achieve our primary goal, which was to minimize the final cost to the taxpayers.

An asset management corporation called Securum AB was established and the large bad assets were transferred to that entity from the bank. The government provided the required equity. Once that was accomplished the restructured Nordbanken had a balance sheet that was more transparent and its operations more focused, and we were able to start the bank and the asset sales process.

Just a few words about the asset sales process. We used different approaches to asset disposition, both organizationally and strategically, depending on the type and the size of the assets. Securum is just one example. Most of Securum's assets were linked to larger real estate and industrial companies—such as the chemical industry for example. Our scope was international. We had assets in the United Kingdom and in Germany, we had assets in Atlanta and in New York. We had golf courses in Spain and France and in similar places.

Anyway, the idea we wanted to get across was that we did not mind becoming an owner of the underlying assets. The message was that we wanted to work out the loans effectively and that Securum's mission was to get its money back. In many cases that meant that companies were taken over and run by Securum. We took over the companies, restructured and merged them into more logical industrial groups, made them profitable, and then exited the investments by floating them on the stock exchange or by negotiated sales.

The reason for this approach instead of direct sales of nonperforming loans was that Sweden is a small country with less developed capital markets. We couldn't securitize, since our capital market was not deep enough. So we needed another approach and this was the corporate restructuring approach.

We thought that it would take eight to ten years for Securum AB to get rid of the assets, but it actually took only five to six. During the general crisis that followed after the restructuring of Nordbanken, the government set up other types of asset management corporations. Some were independent and others were established as bank subsidiaries. All banks eventually established asset management corporations during the crisis, and those were later spun off to their shareholders.

In 1992 it was clear that the Swedish banking system was falling apart and we were forced to issue a general guarantee, i.e., the state guaranteed that all banks would meet all their commitments on a timely basis. Everything was guaranteed apart from the stockholders' interests. Moreover, the parliament gave the administration a "carte blanche" to do whatever was necessary to safeguard the payment system. That meant that we no longer had to go to parliament seeking approval for individual measures and to get funding—we could use as much money as was needed to accomplish our objectives, i.e., to restore confidence in accordance with the principles set out in the bill.

We said that the support system would be in place as long as it was needed. However, we wanted to shorten that period since we realized that the pricing mechanism would be disturbed as long as the guarantee was in place. We managed to clearly communicate that message as we could see that all short-term bank papers were priced the same, while there were differences between longer-term bank papers. It was clear those investors understood that the support system was a temporary measure.

The individual decisions were all based on a few principles during the crisis. However, certain principles were more critical than others. I think the commercial principle was one—to run the operation as a business and to maximize profits for the real owners, i.e., the taxpayers. Another was to focus on minimizing final costs rather than short-term government expenditures.

We established the Bank Support Process with this in mind. First, we decided what kind of banking system we wanted, or would most likely end up having, in the future. We then developed our analytical framework. This framework was used to decide which banks we had to close or merge, which business lines to get out of, and which banks had the greatest potential for profit improvement. We ran through a lot of financial valuations, risk analyses, and reviews of strategic options for each of the institutions that

applied for support. We wanted to preserve local competition—we did not want a community to have only one local bank branch.

This is what we did to alleviate our banking crisis. We had to do all of this since there were no market prices at the time. How can you value stock, real estate, loans, etc., when there is no market? You have to value it anyway. You need to develop assumptions and you need to develop an analytical framework that treats everyone equal. You need to be able to delegate this framework into your system, and you have to control the methodologies and other things crucial for making this process work. For example, by using this framework we were able to individually value 25,000 pieces of real estate in just four to five months.

To conclude, when you are faced with a systemic banking crisis like the one we had, the most important thing is to develop a worst-case scenario and to be certain that you have the management capacity to handle it. It is also quite important that you base your restructuring efforts on facts, and not on wishes, in order to shorten the workout period.

You may think that our approach was extreme. I have not seen it used in any country other than Sweden. However, I think it made it possible for us to shorten the period of intervention to two years and we were able to remove the guarantee since the situation had returned to normal by then. We had initially used around 7 percent of GDP. But we actually recovered most of that when we were able to sell our stakes in the intervened institutions. As a result, the final cost was 0.5 percent of GDP.

Thank you.

### **Bill Roelle, Head of Operations, Financial Services Group GE Capital**

Good morning. I want to speak a little bit today about managing the crisis in Eastern Europe. Could we have the first slide please?

#### **Slide BR-1**

I'll focus on the Polish experience because I'm most familiar with that, and I think it would be safe to say that you can assume for most of the Visiguard countries that the Polish experience is fairly representative. It is just a larger country and they have more banks, but the process and the problems are the same.

Let me point out before I start this that they started off in a crisis when they came out from under the Iron Curtain. Their banking system was essentially non-existent as we know it and it was in crisis from almost day one because virtually all their banks, by our standards, were insolvent.

#### **Slide BR-2**

If you look at the legislative framework, in 1989 the Polish banking system had been transformed from a collection of highly specialized state-owned banks to financial services institutions or universal banks. These banks were taken out from under the National Bank of Poland which was their mono-bank. They were commercialized which

was to say they were taken out and made stock institutions, of which the state owned all the stock. So, they were still essentially state-owned banks, but they were partitioned. As you see, the National Bank of Poland Act created a monetary policy arm, a bank regulation and supervisory arm, and it split up the National Bank of Poland.

The monetary policy arm has done a reasonably good job. The Polish economy has had real growth the last three years, averaging slightly over six percent. However, the monetary policy arm is highly politicized and very much influenced by the IMF and The World Bank. Poland continues to want to enter the European economy. They want in NATO and they are highly influenced and they have to maintain many of the structures that are placed upon them by the IMF and The World Bank and that often conflicts with their domestic policy issues.

Regulation and supervision—I'll tell you a little bit more about that on the next slide.

The Banking Act really established or tried to establish, and I'm using the word here—"de-monopolization." You might call it restructuring. But what they really set out to do is they understood that they had a monopoly and it was a mono-bank and they had to do something about that. So, they split it up, as I told you. But, the split up was rather more form over substance.

They also created the power for the Bank Privatization Act to be housed with the Ministry of Finance, which has also had its difficulties and was highly politicized and I'll tell you a little bit more about that in the next slide.

The Deposit Insurance Act was created. It is very similar to ours. They've done some things that we probably, in hindsight, would have done. They've kept the amount of deposits that are insured to a very reasonable limit. They've been careful not to go too far too quickly. But, there are differences and some of them are significant and debilitating.

#### **Slide BR-3**

I'll give you a quick overview of the banking sector today. If you look at that, what is in the private sector is 38 percent of the gross assets. Privatization—these are institutions that are teed up to be privatized, represent 8 percent. You have 5 percent in co-ops and you have virtually half of their entire system in what are called specialized banks. I'll tell you a little bit about each of those.

The footings in the banking system are around \$70 billion. If you look at the number of banks in each of those categories, there are 76 banks in the private sector. There are two banks teed up to be privatized. There are seven banks in the specialized category, and there are 1,600 co-ops, most of which are insolvent.

#### **Slide BR-4**

The opportunities are substantial and we should remember that although they started out in crisis, the Poles didn't realize they were in crisis. They weren't valuing or measuring their banking system exactly the way we would. They saw, coming out from the Iron Curtain, and joining the free nations with a market driven economy as a huge opportunity, in spite of the crisis that we might see as regulators, supervisors, and folks who had worked in and around bank problems in the United States for the last 20 years.

They have a stable government and they are very much market driven. Perhaps too stable. The reason I say that is that their governments, since they came out from under the Iron Curtain, have been largely coalition governments—very fractured. The coalitions get together and form a government and because of the special interest inside the coalitions, you may have a very right-wing coalition that wants to drive ahead with privatization of the entire sector, not only the banking sector but the industrial sector. On the other side of the coalition, but within the coalition, you will have the ex-communist party who are ostensibly democratic, want to go slow, do not want to disturb the power settings that were already in existence, and do not want to have the economy move too quickly until they are fairly certain that, if one were to be skeptical, they were substantially in place to inherit the wealth of the new economy. If one wanted to be more objective, they really do believe that the socialist system still has many positive attributes and they don't want to become completely a capitalist system.

They get a lot of help from the international community. One place they've gotten a great deal of help is from the Polish Bank Privatization Fund which was anchored by the United States. We put up close to \$400 million. England put up about \$150 million. The Japanese put up roughly \$2 or \$3 billion. Australians put in some money. Altogether, the fund represented about \$600 billion dollars. This fund was put together to help the Polish government recapitalize their banks and the way they did it is the Polish government issued bonds and put the bonds in the bank. So, they recapitalized the bank by creating instruments that they gave to the banks, essentially. The problem was, how were they going to, in effect, deal with that hit on their budget.

So, the western governments got together, built this fund, and this fund is currently being used to amortize this debt that the Polish government took on in order to recapitalize their banks. It is basically set up as a defeasance program.

They've had strong real growth. They are growing at roughly over 6 percent, as I said, and that is helping a great deal. The EBRD is also taking an active role in the reconstruction of the banking system. They don't do it directly. They're very careful about not becoming owners, owners in the sense of being directors and managers of the bank. But, as the Poles take their banks to the private sector and to the stock market, the EBRD usually takes a standby position in an IPO investment. So, in effect, if they go to market and the IPO is 80–85 percent successful, the EBRD will step up for the remaining 15 percent. They will become a passive stockholder with the expectation that there will be a take-out within five years.

There is substantial foreign interest in Polish banking. It is an interesting fact that Poles don't trust us and probably with good cause. They understand that their banking system is near and dear to their economic growth. They need us. They need foreign investment, and they need foreign know-how, but the Poles' history, their thousand-year history suggests to them that many of their neighbors are not always kindly disposed towards them and one of the old sayings in Poland is that first they invaded us with tanks, and now they're invading us with their money. Probably true.

They also, in terms of foreign investment, they do not know how to deal with it. Along with the investment comes very active participation, as you would expect. The foreigners who invest in Polish banks want to move the banks along much faster in terms of what the Poles are willing to do, or even can do, given their coalition government. What you find is that a foreign investor will come in. It's not unusual to have a bank in Poland have something in the neighborhood of a billion dollars in assets and maybe 5,000 employees, which would be unheard of here. They may have 200 or 300 branches in these banks that were spun off from the National Bank of Poland, each one operates like a unit bank. It's very reminiscent of Texas. So, you have the headquarters bank, which is usually located in one of the major cities, usually Warsaw, a few in Krakow and then Gdansk, but largely in Warsaw. Then they have branches all over the country operating as unit banks. They have their own P&Ls. They give very limited information to their headquarters bank. It would be almost impossible for them to roll up any significant information in less than two weeks, and often it takes a month to find out what their financial position is.

In short, it's a difficult situation. They have a good and a well-organized stock market, patterned very much like ours. The problem with that is it's very young, it's highly volatile and 50 percent of the stocks in their market are banking stocks. So, as they privatize more banks it makes it difficult for the next generation of IPOs because the market is not balanced and there are entirely too many bank stocks.

**Slide BR-5**

Now, the challenges are significant. The deposit insurance, those of you here and particularly my colleagues at the FDIC will find this interesting. The deposit insurance responsibility is split among three agencies: the Treasury, the Ministry of Finance, and the National Bank of Poland. Then they have a staff called the Deposit Insurance Staff. Now, for those of you who have gone through the last 20 years at the FDIC with me, can you imagine what it would have taken for us to do some of the things that we needed to do in the banking crisis and the thrift crisis if we had a board compiled of this group of people who all had good intentions but different agendas? So, the deposit insurance responsibility in Poland is going to be a difficult proposition, I believe, for them to figure out how they're going to handle the crisis when they have the money to do so.

As I indicated, the coalition government is slow to act. They are also reflective of the constituency in their coalition. There is high difficulty in doing anything that strikes as somehow undermining the social program that is in place there. As a side note, one thinks of our social security program and how much we have to worry about that. Over 25 percent of the Polish GDP goes to their social programs. So, they have a huge social program, high unemployment, and many people in retirement at age 50. So, it is a huge problem and those people do know how to vote.

The government has been inconsistent and confusing in its privatization efforts. They started out doing IPOs. The last IPO they did almost failed, then they switched to creating a Phoenix. We had great difficulty convincing them that was a bad idea, but

they thought they could take all of their bad banks, put them together into one huge bank and somehow create gold out of lead.

They really did think that they knew more about market allocation than the market. I've tried to persuade them that generally if you could get the market to resolve your problem, even though the market was young and still forming, that it would be a better result than trying to engineer a solution themselves. However, they have had many fits and starts. They had a recent transaction where they put a bank up for sale under a competitive bidding process, much like we would do a failed bank transaction. They had very competitive bids. One from a German bank, one from a Dutch bank, and the winner was a Korean bank. They promptly took those bids into the inner sanctum and they came out with no winner and they did not privatize that bank. So, they disappointed their foreign investors. The foreign investors spent a lot of money doing due diligence, involving themselves in the process, stepping up to bid, and then the government changes its mind. So, they have had a difficult process in trying to gain some equilibrium in going forward.

The legal infrastructure is not conducive to safe and sound banking practices. Mortgage liens are not centrally recorded, if recorded. Many properties were confiscated by the communist government and the German occupation forces before them, and there is a lot of litigation in the courts about who owns property and therefore getting a mortgage and getting a free and clear title to a piece of land is quite difficult.

There are no UCC filings. There is no UCC program. It is difficult, therefore, to put any kind of a lien on rolling stock or anything that one might want to repossess if one could repossess. There are no credit bureaus. The banks now exchange information among themselves and largely it is that informal system that represents their credit bureau system.

**Slide BR-6**

I'll show you a typical Polish bank that is in that private group that is going to be privatized. This is PBK. If you look at the amount of cash and due, it is substantial. Loans—substantial, but I'll explain that in the next slide. Securities—those are government securities. No investments by and large. Small fixed assets and other assets.

**Slide BR-7**

If you look at the loans, you'll see that consumer loans are minimum. Consumerism, the average consumer loan in the Polish banks, and it is not average—average is a bad measure here—the average Polish citizen owes about \$182, which is roughly 50 percent of their monthly disposable income. So, they're not heavily in debt yet. If you look at commercial loans, you will see up there I think it says about 28 percent are in what are called government-directed loans. These are loans that are ostensibly guaranteed by the government. They are loans that were directed to state-owned enterprise. Most of these loans, if you were to go in and examine these banks, look at the state-owned enterprise and then look at the value of the loan, most of them would be classified as loss.

The reason that they are carried on their books and that they are current is because they are fully guaranteed by the government.

**Slide BR-8**

You look at the reserves. They don't have much in the way of classification. Below standard is reasonably small. Doubtful—very small. They only started using doubtful as a measure after they started working with largely folks from the U.S. over at the National Bank of Poland. You'll see at the bottom there it says lost. I had a lot of trouble with my Polish colleagues. I kept saying make that loss, and they kept wanting to change it to lost. I kept saying, no, no, it's loss. They said, no, but we've lost it. So, finally I just gave up and left it as lost. What you also find is they don't recognize classifications hardly at all until the judgment day, and then it goes immediately to loss.

**Slide BR-9**

If you look at their liabilities, "due to" is not substantial; deposits are very substantial. The Poles have virtually all of their money in banks, but it is not in any kind of accounts that you would recognize. I will tell you a little bit about that later. Their other liabilities are relatively small.

**Slide BR-10**

If you look at the deposit breakdown, individual deposits are reasonable. They do not think of a deposit as a transactional deposit, even though you'll see that some are current and some are term. Their current deposits are largely deposits that are put in that can be withdrawn on demand. There are very few checking accounts in Poland. These are just savings accounts that you can go to and have immediate withdrawal privileges. This is very painful as it usually takes you 35–40 minutes to go in and do a bank transaction in Poland.

Corporations and non-government—again, split. Some are term. Some are current. About 60/40. The current deposits are largely deposits that are in for a short period of time and would represent working capital or would represent compensating balances that are held for purposes of some lending that is going on.

In summary, if you take what's going on in Poland and you expand it to the other Visiguard countries which are Hungary, Czech Republic, Slovakia—they are largely in the same boat. They all had mono-banks. When their mono-banks converted, they split out to specialized banks and to these so-called commercialized banks, and they have all attacked the problem roughly the same way. Hungary and the Czech Republic privatized much quicker. They got their hands around the problem ostensibly and got the banks in the private sector. They have regretted it to a certain extent. Many of those banks were not adequately capitalized. They are having to re-visit a number of those transactions, and where they were good transactions, the banks have not fared extraordinarily well because of the difficulty in getting the population to engage itself with the banking sector. In Poland, they've gone slower. They've made fewer mistakes, but they have not privatized.

A side on the specialized banks—the ones that represent 40 percent of the assets—there are only seven banks there. Those banks are gargantuan—they're huge. Literally among the seven banks there are probably somewhere in the neighborhood of 2,500

branches. Three of those specialized banks, three of the largest—one is called Vigized—that is an agricultural bank. The other is PKLSA, which was a foreign investment bank. And then they have PKLBP, which was their mortgage bank. All three of those banks, by our standards, under our examination, would be insolvent. The government has recapitalized them and even under the recapitalization going forward, it is problematic how they are going to deal with those problems because all of the loans they hold are old agricultural cooperative loans, many of which don't exist any longer. The mortgage loans are to co-ops. There is no equity in these loans. The co-ops themselves are hard to split up. There is no actual ownership interest in the co-ops. You cannot evict. There are a number of legalistic problems associated with these loans that make them uncollectible.

So, they have a big struggle. They are going to have to work on those big specialized banks and they're going to have to solve that problem. My confidence is that they will. They're going to do a good job. It's going to take a long time. If their economy keeps growing, they'll make it.

One thing that I would point out as well in one of the slides, the bank management, the young managers, the people that have studied western economics and finance are very capable. They are extremely capable. They need leadership. The old entrenched senior management and directors in these banks came from the old communist system. They are not good bankers by our standards. They understand the system extraordinarily well. They know how to negotiate and operate within their old system. They have great difficulty dealing with the new reality of a privatized system where the banks are supposed to allocate credit and direct capital flows to the most needy. They want to continue to do the direction by feel-good old relationships. They would still want to put money into some of the state-owned enterprises where they have high connections and high confidence in their friends that are in those state-owned enterprises.

Overcoming that is a large struggle for the National Bank of Poland. I think, under their new supervision program that they are rolling out in the next year or so, they will come to grips with this. But, if you can imagine, if countries like the Visiguard countries have lived under a form of government where the banking system was nothing but a check writer to state-owned enterprises and simply an allocative mechanism that was determined by a central committee, to one day drop that Iron Curtain and say, now, we're going to split up the mono-bank into commercialized banks and go forth and do commercial banking—it was a tall order. Almost impossible but they're doing well and they will succeed—I think. It will take time, again, and I think the one last thing I would say is that they are getting a lot of advice from people like me and some of you out there. Most of it is good. Some of it is bad. They're overwhelmed with advice. Probably one of the nicest things we could do is back off, give them help when they ask for help, and otherwise let them try to learn and sort out their problems. They are overwhelmed with advice.

Thank you very much, I appreciate it.

### L. William Seidman, Chief Commentator CNBC-TV

It is a great pleasure to be back at the FDIC. To be here and listen to board member Neeley eloquently describe what most of you went through in the past is a real pleasure, and it's just an honor to be here with the old FDIC and RTC heroes—Bovenzi, Cooke, Glassman, Stone, Roelle, Rose—those are all the people who really pulled us through. I'm amazed as I go around the world that everybody knows the RTC but not too many people know the FDIC. I have to point out to them that the RTC cost the government \$100 billion which the taxpayers paid, but the FDIC has never cost the taxpayer a penny. So, the real hero in this ought to really be the FDIC who weathered more failures than the RTC handled.

My assignment is to tell you about the countries that I've been to. That includes Saudi Arabia, Russia, Japan and just beginning with China.

Let me start with Saudi Arabia. Their challenge is they have so much money they have trouble knowing what to do with it. The second challenge is that they have what is called Muslim banking which makes paying/charging interest illegal. Now, if interest is illegal, I want all of you great bank supervisors and those who value banks to go into the bank and determine the condition of the bank when every deal is based on a purchase and sale, even though it may be figured like interest. It is an exciting way of banking and it's a challenge to do, and if you have as much money as they have, you can do that. But, my role there is merely to help them spend their money. That is not all bad.

Let me say this about Russia, 90 percent of what you heard from Bill Roelle about Poland applies to the Russian system. In fact, the Russian system reminds me of this story they tell over there. Ivan asked his mother—mother, why have I got the biggest feet in the third grade? Is it because my dad was communist? She says, no son, it's because you're 19.

Well, the fact of the matter is, Russia is a huge country, but it has a banking system that is in the third grade. It is just really beginning and the biggest difference between what you've heard from Bill Roelle about Poland and Russia is that Russia has started a lot of new independent banks which are truly trying to be banks in the same sense as we have in our country. The difference is that they're very small and, if you took a look at the United States in 1870, you would get a pretty good picture of their banks today. They are small. Their longest loan is 90 days. A lot of what they do is really just foreign exchange. I went into one small bank and there were three or four of the tougher looking Russians sitting around with AK47s and I said, I know that crime is awful around here, but do you need to have a real army here to defend this small of a bank? They said, well, they are not here to defend the bank, those are the people who collect our loans. That is essentially the way banking was done earlier in our country. So, the Russian banking system is just beginning to develop.

I was there for The World Bank and we had \$2 billion to spend, and if you want to really be treated royally, just wander through Russia with \$2 billion that you can provide

them. I got so full of caviar that I couldn't look at a fish egg again. We ultimately ended up with a program that took 200 selected banks around the country, small banks that were developing, and tried to bring their people over here and train them, capitalize them, and turn them into real banks. That program is actually working fairly well. They are developing a whole new system of banks outside of the kind you heard about from Roelle, the old Russian communist banks. So, that is all I'll say about Russia.

I'm a TV broadcaster and I'm used to three minute pitches, so I can't go on for too long on one subject or I'll ruin my status as a TV man.

Let me go on to Japan which, of course, is far more important to us—the second largest economy in the world. I think what Japan proves is what I have found everywhere I've gone in the world, that while many things are the same, many things are different. When you go to these countries, one of the first things you try to do is sort out what is the same and what is different. Certainly, Japan is a good place to do that. I've been going there ever since I left the FDIC and it kind of reminds me of the bad news/worse news stories. A doctor calls up his patient and says, I have bad news for you and worse news for you. You have only 24 hours to live. The patient says, oh, that's terrible. What could be worse news? The doctor says, I've been trying to get you since yesterday. That is pretty much where the Japanese banking system is. They've been getting bad news and every year it gets worse.

If you looked at their system, you could see many things that were comparable to problems we had, particularly in the S&L industry. First, they had a real estate boom. Their banks had huge conflicts of interest with borrowers. They had poor to no supervision. The Japanese were the original inventors of “not on my watch” and would do anything to push it off until the next guy is in office. They tried to deal with it by, in effect, having strong institutions take over weak institutions. So, all of you will recognize their situation was comparable to what we saw, particularly in our S&L mess.

But, there were major differences, and are major differences. First, they don't have any holding company structures and in many ways, that makes taking over a bank if it has failed, much easier. If you remember the bridge bank mechanism to handle failures. If there were no holding companies, it would be very easy to take over an organization of any size. You simply would change the ownership of the bank. You wouldn't have the kind of problems you have with holding companies. So, that makes it much easier. But, the thing that makes it much harder in Japan is that 40–50 percent of the capital of the banks is ownership of other bank stocks. So, to the extent that you fail a bank and make the stock worthless, it reverberates throughout the system because other banks lose capital. In that way, their problem is much, and I mean much, more difficult than the problems that we had.

They have fewer institutions than we have and that, of course, makes it somewhat easier, although I will say, Arne, that I was consulted by the Swedish group in 1990 and when I looked over the situation I said, well, you have five or six big banks and they're all busted—that is too tough for me—go get somebody else to handle it. They were really in the soup.

Above all, the Japanese culture is much different than ours and when I began going there, their basic approach was that time will correct this, that prices are depressed—that this is just a cycle and over time this will take care of itself. Well, as all of us who have been in the business know, if on the asset side of the balance sheet you have 15–20 percent of assets that are producing no income, and on the liability side you're paying for holding those assets, then it is unlikely that time is going to cure that in any period. Of course, the only reason the Japanese banking system is actually operating today is due to their central bank reducing the short-term interest rates to a half of one percent so that the banks can borrow from the central bank at a half of one percent and lend it to us at 5–6 percent. That spread is the income that has essentially been keeping the banking system alive in Japan. Without that, there would have been a crisis which would have demanded an overall correction immediately.

“Too big to fail” is something that doesn't worry the Japanese. As soon as they had their problem, they guaranteed all bank deposits in all banks. That is the way they are operating today. It is almost amusing to hear people discuss, is too big to fail really alive and well? In every country in the world that has had major problems it is not only alive and well, but we're in the position now that Korea is too big to fail and Indonesia is too big to fail. We, and the IMF and others are out saving banking systems all over the world because they're too big to fail and they'll jeopardize the world's financial system. So, too big to fail—the Japanese have no problem with that. They have already guaranteed all bank accounts, all deposits in all banks and they're right in step with the rest of the world.

For many years we have been telling them that what they were doing to meet their problems was not really going to work. You couldn't keep those interest rates down there forever. As long as you have a banking system that didn't work, you weren't going to have an economy that recovered. Finally they had runs on some banks. Much as we found at the FDIC, it really moves you into action when a big bank has a run on it. The Japanese have not done anything with an insolvent bank—any bank, unless there has been a “run” on the bank. Only at that time have they taken action and so far that has involved three or four institutions, a large credit union, and one relatively large bank.

So, as far as the kind of action that we talk about and you study here, you don't need to spend a lot of time in Japan because the net result of what they've done is to subsidize their banks through monetary policy. They really haven't taken any action in the past.

Now, all that is being changed. They decided they would have a “Big Bang,” like the big bang they had in London, and free their markets, and put their system on what they call world standards of banking. So, what have they done? They've created a new independent supervisory institution which is not under the Ministry of Finance. It reports to the Prime Minister. It is independent, and the law requires it to use international banking standards and to institute “prompt corrective action.” Well, they marched up to that requirement and took a look, and the first thing they did was defer it for a year because if you took prompt corrective action using international accounting standards, you would maybe have only one or two solvent banks. The size of their banking problems, no one knows for sure because they have not had an independent bank supervisory

group. You've heard about several bank supervisors who are now being indicted. The Japanese have a very small on-site type of supervision that clearly wasn't effective. For an advanced country they have some of the weakest and least computerized banking and supervisory systems. So, the answer is they don't really know today how badly off they are. They know that it's bad. They've admitted to \$600 billion of nonperforming loans. But, they have had pretty much the same experience that we had with the S&Ls which was if they reported that their loss was \$50 million, when we liquidated it, it was \$150 million. I believe, they are going to find when they get this new supervisory agency going, that their problem is much larger than they so far have acknowledged.

So, how are they going to handle this? Well, they looked at what we did in the United States and they decided they would take it all. They would set up an FDIC which they called the Deposit Insurance Corporation of Japan. They set up an RTC which would handle assets, and they would set up an RFC, which we used during the Great Depression to refinance all of our banks. The RFC would handle any preferred stocks in banks that were "well run" and had some capital, even though they were undercapitalized.

That is approximately the situation a few months ago when I was there. They passed the legislation and the first thing they did was say, well the RFC investments looks like the way we ought to go first, so we'll start putting money in the weaker banks to boost their capital. This is where the Japanese culture comes in. They said, we can't put capital into just the problem banks—if, for example, the Fuji Bank comes in and wants this capital and the Mitsubishi Bank doesn't, that will make a distinction between the two and it will label Fuji Banks as weak. So, what has happened? All the major banks have come in and the government has put preferred stock in all of them—good, bad and indifferent. So, the government is now providing what we call open bank assistance to all the major banks "whether they need it or not." They've said, we can't have any distinction because if you did there would be a run on those banks labeled weak and the system would be in trouble.

They've also started to dispose of assets. The sales have been by the banks themselves dealing with all our old friends at Bankers Trust and Goldman Sachs and all the rest. The government agencies, which have \$230 billion in funding, have not yet, as far as I can see, done anything in that regard. I'm going over there again in another month and maybe by that time they will have started to move in that direction.

They are looking at commercial real estate securitization. We will have to see whether having talked the talk, whether they are really actually going to walk the walk. So far, it is not too encouraging.

One of the key questions is, why the Japanese government is not more concerned about their economic problems? They've been in a non-growth economy for seven years now. Their GDP growth is zero to one percent, and you would think that if something like that was going on in this country, there would be a revolution. The fact of the matter is in Japan, the average Japanese citizen may be better off than he was seven years ago. They have had full employment since by the nature of their system they don't fire people,

and they don't cut anybody's wages. Since they have experienced deflation in effect, the average person in Japan is living as well or better than he did in the past. As a matter of fact, the crash in real estate prices has allowed lots of Japanese to now live somewhere closer to their work than a two-hour commute by train to Tokyo. So, they have a word over there that describes why the Japanese aren't doing anything—it's something like *nooroomaya*, and it sort of means, I'm in a lukewarm bath and it's cold outside—I don't think I'll get out. There is no political will to do any of the tough things that we were required to do. Yet, it is obvious that they can't continue. Many of their banks are not capitalized at world standards and their credit ratings have been lowered. Eventually they will have to do something if they want their economy to recover.

When you go over there and talk with the average person in Japan and ask them why they are not yelling for the heads of their politicians, and they all say, "things are not bad. I have my job. My pay is good. I'm not going to be fired. I'm saving money for my old age. I don't trust the politicians. I'd rather let things go the way they are." So, we'll see what happens. The key to it is that they are in the world economy and slowly the world is impressing on them the costs of having a system that isn't up to world standards.

Thank you.

**Rose:** I have a couple of questions that I was going to ask, but I would like to, at this point, defer to the rest of you, the participants. Does anyone have a question they would like to ask of the panel?

**Question:** This is for Mr. Berggren. Will the Euro, the whole method of changing Europe and their economic union, effectively convert European countries into closed economies, more like the United States, and cause some of the problems that you experienced to not occur in such a dramatic fashion?

**Berggren:** You have many mergers going on in Europe right now. It is not only between banks and insurance companies, it is going on all over the place. You have the same thing going on here. So, I think you will continue to have lots of mergers going on in Europe. I think it will be a fragile situation in a way. I think any future problems would not come to a situation with many small banks, as you had in the U.S. I think it will be with the larger banks. But, of course the macroeconomic shocks will be less because the whole European economy in a sense will be closed as the American situation.

**Milton Joseph:** For the whole panel, in the United States we obviously have really adequate disclosure for people who want to look at banks in terms of call reports. Is there anything going on to standardize accounting and disclosure among international banks in these countries?

**Seidman:** Well, the Japanese system as they have now announced it would move them into full disclosure using international standards for their banking system. So, if they actually put into effect what they said they're going to put into effect, that would be a very important change to improve transparency. But, they haven't done it yet and based on their past record, we'll have to wait and see whether they actually do.

**Roelle:** In Poland and the Visiguard countries, they have adopted international accounting standards. They have difficulty making the transformation from the current

accounting system, which was French inspired, difficult to figure out, and done substantially differently than most of you all would recognize, in particular, the way they handle reserves and some other things in the accounting statement. However, the Polish National Bank, and I think it's true of Hungary and the Czech Republic, have all adopted international accounting standards. So, you will eventually see that all of their balance sheet and income statements will look the same. But, I think it is probably a year or so away before that happens.

**Berggren:** Although some countries claim to be adopting international accounting standards, if you have a close look at it, maybe they are not really international accounting standards. There are also other problems. In many countries, you don't require consolidation of industry groups. So, you can have a lot of funny stuff going on in accounts outside the bank balance sheet and that takes some time to figure out. You can also have very weak accounting professionals in the country. Many of the local accounting companies do not apply the American or European standard of accounting. So, there are a lot of questions and difficulties when you try to go to a foreign country and assess the situation.

**John Quinn, FDIC:** This question is for Bill Seidman. You mentioned that you're starting to work in China. I was wondering if you've been able to identify any models that the Chinese government is interested in pursuing with respect to privatizing their banking sector, supervision, regulation, or deposit insurance?

**Seidman:** As I said, they're just getting started. The central committee has ordered that the banking system become a sound banking system in terms of world standards and they've got all the problems of a communist state which has made huge loans to government industries and they are looking now at starting, not by privatizing the system, but by actually taking out the bad loans, taking out the security on the bad loans, and selling it in a securitized method, mainly with foreign capital. That is where they are at the moment. Then actually privatizing the banks—they do have private banks in China now and they supposedly, Price Waterhouse has been over there for I don't know how many years trying to help them set up a system. So, the first step is going to be to try to take the bad assets out and after that, apparently they're going to try to privatize some of the larger banks. But, they haven't done any of this yet. So, it is all in the talk stage.

**Don McKinley, FDIC:** To Bill Roelle and Bill Seidman, maybe you can describe what opportunities, if any, there are for European banks or U.S. domestic financial services industries to operate in countries like Japan or over in eastern Europe in terms of making consumer loans or taking deposits and basically interacting with their economies?

**Roelle:** In eastern Europe and in Poland, as I indicated, you have a lot of foreign interest. I think there are difficulties however. One is, as I mentioned, virtually all of the Polish banks are unit banks. Each branch is a unit bank. They do not have very sophisticated computer systems. They do not operate in a check environment. It is still a cash based economy. There is heavy consumer demand as they come out from the Iron Curtain and as real wages and disposable income have increased. The Poles, for example, the Polish automobile sector was the fifth largest in terms of sales in Europe in 1996 and was almost the fourth largest in 1997. That shows a lot of pent-up demand. The answer is

yes—there is a lot of opportunity for foreign investment in Poland. There is a lot of opportunity in consumer lending. I think until they get some of their infrastructure fixed so that you can have liens on cars that will be centrally registered, so that you can actually repossess the property if necessary, that it is going to go slow. Any foreign investor is going to have to put a huge investment in terms of computer systems and technology into the Polish banks. The Poles want to sell these banks. They view them as crown jewels so they want a high premium. So, if you're looking at the premium you have to pay the Polish government to get the bank and then the investment you have to make in it and the kind of returns that your investors are probably going to want, your stockholders or shareholders, it's a tough proposition. But, there is a lot of opportunity.

**Question:** I have a question for Mr. Seidman on Japan. You mentioned that some of the companies bidding to be the initial buyers are American companies. What are some of the obstacles and challenges they are facing for acquiring portfolios in Japan and what kind of competition do you see for them by either other Japanese companies who want to get into the business, or perhaps other countries?

**Seidman:** Right now the biggest challenge is to get the product. The government has not yet put any product on the market, so it all has to be negotiated from the private banks. That is, at least so far it has, just really gotten started in the last few months. So, it is just getting underway. I think longer term there will be lots of opportunities for people to bid for assets much in the way they did here. So far, there hasn't been, as far as I know, Japanese bidders for what is essentially nonperforming real estate. So, it is pretty much in the same state as it was at the RTC when Bill Roelle took it over and got it going. They are just establishing the market. They hadn't allowed securitization or any of those things up until these new laws were passed. So, there will be a lot of opportunities, I believe, in the future.

**Bert Ely:** For Bill Seidman with regard to Japan. Bill, my sense is that things have continued to roll along as they have in Japan because the Japanese government is running some very substantial budget deficits, and its ratio of government debt to GDP is starting to reach very high levels. I heard someone refer to Japan recently as the Italy of Asia in that regard. How much longer is Japan going to be able to keep doing that? Is it possible that it will break the back there, that their debt levels will get just too high, and in that regard, I believe I read recently that one of the major credit rating agencies, either Moodys or S&P, put Japan on credit watch. What are some of the longer-term implications of that, not only for the Japanese government debt, but also for private sector debt in Japan?

**Seidman:** I think Japan is on a road that if they don't change, eventually will lead to real financial chaos because they won't be able to maintain this full employment. Some, like the chairman of Sony, have already said that if they don't do something very soon, the average citizen is going to feel the problems that they have. So, they have to change because as I said in my remarks, the world is not going to accept them as a sound player in the financial markets unless they do something. On the other hand, they have larger savings than any other nation in the world. Their pool of capital is tremendous so that I

don't think this is a near-term problem. It is a long-term problem, which is just beginning to show up. I would guess that before it really starts to become a major problem for them, they will do something. They are living today on exports and the rest of the world is not going to live with them trying to maintain their economy solely on exports and running huge surpluses in a balance of trade. So, they will have to change, but because of the tremendous reserves they have, they can run quite a while without it.

**Question:** There has been a lot of talk today about some of the similarities and differences in the methods in which various countries have dealt with problem institutions. There has also been a number of people calling for a uniform system on resolutions worldwide. Do you have any feelings, any of you on the panel, any comments with regard to a uniform system of resolution?

**Seidman:** I have to go and make a broadcast now. Time, tide and broadcast wait for no man. So, I have to leave, but I would just say that what impresses me is that uniform resolutions of banking problems, we don't have them in this country and I can't imagine having them in the world.

**Berg:** My name is Dick Berg, and I'm with First National Bank of Ordway, Colorado. We've heard that the European banks do not have or have not taken any real action on the year 2000 problem. Do you have any comment on that?

**Roelle:** I don't think that is accurate. We spend a lot of time discussing, in addition to all the other things that I had talked to you today, about that. The Polish government, for example, and I know from my current affiliation with our activities in Europe, there is truly a huge amount of investment in time being spent on the year 2000. So, I can't speak for every European bank, but I can certainly speak for most of the U.S. interests in Europe. We're spending a huge amount of money and time on the year 2000 issues, as well as Euro issues. It may be that some of the European banks are not paying attention, but I doubt it.

**Berggren:** Actually, I'm not familiar with what is happening, but I know how much focus we have on it in many of the Scandinavian countries. I think the conversion to the Euro (currency) is what people are most concerned about. They need to have systems to handle that. A related issue is for the countries that will not join. Sweden is one of those countries. We will have to have parallel systems.

**Rose:** Thank you all very much. We appreciate your participation in today's panel. Thank you in the audience for being active participants. We are going to have a short break now until 11:15. Thank you.

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