CHAIRMAN TANOUE
PRESS CONFERENCE REMARKS
DEPOSIT INSURANCE REFORM RECOMMENDATIONS
APRIL 5, 2001

The FDIC today unveils our recommendations for a stronger US deposit insurance system.

We will ask Congress to help us do our job better -- to work with us to make quality improvements in our system now, when the industry is healthy and the insurance funds are strong.

The study of our system that we undertook a year ago, tells us this: If we do not begin now, to change some of the rules that govern our deposit insurance system -- it is likely to take a toll on the safety and soundness of the banking industry. This will happen when the economy is such that premiums increase -- because banks are less healthy and losses are depleting the insurance funds.

That hurts the availability of credit in our communities at a time when Americans may already be feeling a financial pinch.

It doesn't have to be that way. In fact, it must not be that way.

We have the oldest enduring deposit insurance system in the world -- a model for other countries -- and it has served us well. When hundreds of banks and thrifts failed in the 1980s and 1990s, deposit insurance was the anchor for public confidence in the banking system. We still need that anchor.

The recommendations we are making today address these problems in the system. I want to mention two of them before I turn it over to Art Murton, Director of our Division of Insurance, to take you through the recommendations, and some of the potential costs and benefits of the changes we propose to make.

The first problem is zero premiums. Today, 92 percent of the industry gets federal deposit insurance, backed by the full faith and credit of the United States, for free. This issue has received much attention lately, as some brokerage firms presently are moving a great deal of funds -- very quickly -- into insured deposit accounts at their affiliate banks. Older banks can rightly say they are subsidizing insurance costs for newer or fast-growing banks.

The fact is that free insurance distorts market discipline. At a time when financial regulators around the world are coalescing around the idea that government should create incentives for industry to manage risk appropriately -- the Basel proposal, for example -- the US deposit insurance system is out of step.

We want to fix that.

ALL insured institutions should pay for insurance --and they should pay based on risk. The cost of federal insurance should differ among all institutions according to their probability of failure. That is the right thing for an insurance fund to do.

And to prevent the fund from growing too large, we recommend gradual rebates to the industry based on contributions to the fund. I would point out that -- in the example we give in our report with an economy as relatively strong as we have today, **more than 40 percent of the industry would receive more back in rebates than they would pay in premiums.**

The second problem with our current system that I want to highlight is the unnecessary volatility of premiums. Today, as many of you know, average premiums for most banks would jump from zero to 23 basis points were the fund to fall too low. New deposit growth, combined with increased bank failures, could cause that to happen in the future. And that is when high premiums would take needed funds out of communities.

The FDIC would rather see most banks pay small, steady premiums over time, which would mean that premiums would be unlikely to climb SO high during bad times. In the example we show in this chart, you can see that the highest premiums would be cut in half for top-rated banks under this scenario. Instead of paying 23 basis points during periods of high insurance losses, these banks might pay more like 10 or 11 basis points.

Now -- I just want to add that we will continue to work on how to best implement our reform proposals, to refine and sharpen them, with the input of bankers, consumer organizations and lawmakers and any other interested parties. We hope to work closely with Congress and others in the coming months to implement these proposals.

We feel confident that we have a comprehensive reform proposal -- an analytically sound proposal -- which will further advance the public policy debate.

Thank you.