

Remarks by
FDIC Chairman Jelena McWilliams
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Hello colleagues. My name is Jelena McWilliams, and I am Chairman of the Federal Deposit Insurance Corporation. I am grateful for the invitation to address the conference today, and regret that I am unable to join you in person.

For more than 85 years, the FDIC's primary mission has been to maintain stability and public confidence in the U.S. financial system. The tools at our disposal include deposit insurance, a robust supervision program, and sound, tested strategies for resolving failed institutions.

Since the FDIC was founded in 1933, no depositor has ever lost a penny of insured deposits in the United States. And this history contributes to overall confidence in our financial markets.

Our ability to orderly resolve failing institutions plays a crucial role in our track record. Throughout its history, the FDIC has weathered several national and global financial crises and has overseen thousands of bank resolutions. Each has offered us the opportunity to learn and to fine-tune our approaches to bank resolution.

From the U.S. stock market crash in 1929 until the creation of the FDIC in 1933, more than 9,000 banks failed. The introduction of deposit insurance at the federal level gradually restored stability to the U.S. financial system and stemmed the tide of bank failures.

The U.S. banking system then experienced decades of relative stability, until the bank and thrift crisis of the 1980s and early 1990s. The FDIC faced an unprecedented number of failed and struggling banks and an enormous volume of failed-bank assets during that period. Our strategy at the time was to retain and manage those assets ourselves, which proved to be complex and costly.

The FDIC subsequently revised its resolution strategy to prioritize selling assets back into the marketplace promptly. In the most recent crisis, this strategy had the added benefit of conserving cash for the FDIC, which proved to be important as events unfolded.

Between 2008 and 2013, 489 banks failed, including some of the largest failures in FDIC history.

The size and speed of the failures made it challenging to sell failed banks and their assets. Once again, the FDIC had to adapt its approach – this time, to attract buyers.

As part of our strategy, we began including an option in failed bank offerings for the FDIC to share credit losses with acquirers in purchase and assumption transactions. This "loss share" feature appealed to banks because it meant they could buy assets without taking on all of the

associated risk. The FDIC benefitted as well because we were able to quickly return failed-banks assets to private-sector hands in a manner that was less costly than holding on to them ourselves to sell over time. And, as the markets improved, the cost of providing loss-sharing coverage dropped. As a result, in many cases, the FDIC's losses on loss-sharing resolutions were lower than original estimates.

But, overall, the crisis experience demonstrated that we needed to do more to prepare for the resolution of the largest and most complex institutions.

In the United States, the largest bank holding companies are now required to submit resolution plans outlining how they can fail in an orderly way under the U.S. Bankruptcy Code. Through this process, institutions have made significant structural and operational improvements to enhance their resolvability. They have developed a single-point-of-entry (SPOE) resolution strategy that, if successful, would enable subsidiaries to continue critical operations, while the parent enters bankruptcy. These industry efforts complement the FDIC's preparedness work.

We also continue to encourage firms to enhance and test their systems and capabilities. This will support the execution of their resolution strategies if and when they are needed.

The financial crisis reiterated for the FDIC that the fundamental goal of resolution should be to enable failure in the least-disruptive manner.

Markets work best when risk-takers are held accountable for both their gains and losses. When institutions benefit from the upside of their gains, but taxpayers bear the burden of their losses, the result is market failure and moral hazard. In such circumstances, institutions – and their shareholders and counterparties – benefit not from their business decisions but from political decisions. Resolution should work to break this cycle and to make sure that market discipline is real and imposed.

It has now been more than a decade since the onset of the financial crisis. In the United States, we are experiencing the longest economic expansion on record, and the banking sector is sound and healthy, but the future will not always be as bright.

At the FDIC, we are using this time to prepare for new and emerging challenges, including those presented by cyber threats.

The FDIC has not yet faced a resolution driven by a cyber incident. But we can anticipate some of the unique challenges it would present. For example, the disruption caused by a cyber attack could be particularly abrupt, which would compress the recovery and resolution planning timelines. We can also anticipate uncertainty regarding the severity of the impact, and the prospects for restoring systems and data. And we would face the possibility that the information we ordinarily rely on to conduct a resolution could be compromised.

We also are evaluating our resolution tool kit to address the underlying operational issues that a cyber incident might cause.

A cyberattack can produce consequences that spread globally by the minute. Therefore, it is critical that regulators continue to coordinate with each other, with banks, and with other members of the private sector. This is a top priority in the FDIC's supervisory examination program. Our work in this area is critical and ongoing.

I hope this challenge remains untested, but I cannot overstate the need to be prepared – by all of us. It is particularly crucial in the context of our interconnected financial system. That is why we continue to work with the Federal Reserve, other U.S. regulators, foreign counterparts, and firms themselves, to strengthen our ability to respond to future challenges.

In closing, I would like to share a personal story with you. I was born and raised 600 km from Vienna, in Belgrade. As the former Yugoslavia was falling apart, my parents' meager savings disappeared overnight when a local bank closed its doors. Yugoslavia had no deposit insurance, and my then 68-year-old father returned to work as a day laborer for \$5 a day.

I have seen first-hand what happens when financial systems are unable to withstand shocks. Under my leadership, the FDIC will continue to support the stability of our financial system. And I look forward to continuing our work with you to achieve this shared goal.

Thank you.