Remarks by
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It is always a pleasure to come to Florida, but especially so after the kind of winter many of us just had. Most of us cannot hear the word "Florida" without thinking of the sun, the beach, and the good time we can have here -- a warm-weather, tourist paradise. That was not always the case, however. For most of its history, Florida was sparsely populated and agricultural, much like the other states that made up the Confederacy -- that's right, Florida, with its population of 150,000 in 1860, joined the Confederacy, and some of the 15,000 soldiers it raised fought at every major battle of the Civil War.

In fact, a group of Floridians was among the prisoners taken at Gettysburg. They were sent to a prisoner of war camp in northern Michigan. No prisoners had ever escaped from the camp, which was isolated in the wilderness and kept under strict discipline by the Union colonel who ran it.

When they arrived at the camp, the new prisoners were lined up for inspection, where the colonel examined each one individually, as was his practice.

Stopping in front of one of the Floridians, the colonel saw a suspicious lump in the soldier's bed roll. "Open it," he ordered, pointing at the roll.

The Floridian obeyed, and out dropped a snarling, snapping brown ball.

"Ah, so small, but so ferocious," the colonel exclaimed.

"He's never lost a fight," the Floridian said.

"Is that so," the colonel said, stroking the head of his mastiff sitting beside him, "I'll wager a U.S. ten-dollar gold piece that my dog here will end his winning streak."

"Done," said the Floridian.

The Union colonel removed his dog's collar -- and in fifteen seconds the colonel's mastiff was running to the other side of the camp, yelping furiously, his tail tucked between his legs."

"Heavens," the Union colonel declared, "I've never seen anything like that -- what kind of dog do you call that thing?"

"Well," said the Floridan, "before I cut off his tail and painted him brown, I called him a 'gator."

Florida has played major, though sometimes surprising, roles in the history of our country.

If anyone needs to be reminded why federal deposit insurance is important, he need look no farther than the experience of banking here in Florida in the 1920s and early 1930s. In 1926, the state had 336 banks holding $640 million in assets. In 1933, the state had 150 banks -- fewer than half the number seven years earlier -- and those banks that did survive held only $226 million in assets -- about a third of the total in 1926. Even in this earthly paradise, the outlook in early 1933 was bleak. By the end of that year, however, banking in Florida was on the upswing, reversing its seven-year-long slide. By mid-1934, total bank assets had risen to $253 million. According to Charlton Tebeau, Florida historian, the recovery had one cause. He wrote: "Within a few months after the creation of the Federal Deposit Insurance Corporation, all banks in the state but one had joined, and an air of confidence prevailed."

One does not have to turn to history books for further proof of the value of the world's oldest and most effective deposit insurance system -- we can turn to our own memories. Almost all of us, I am sure, remember the nearly 1,500 bank failures of the 1980s and early 1990s. Those failures did not cause panic and runs on banks -- as did the dramatic number of bank failures in the 1920s and 1930s -- because federal deposit insurance maintained the public's confidence in the banking system -- it was the bedrock on which public confidence was grounded.

Deposit insurance is one asset that everyone here today -- banker and supervisor alike -- holds in common.

From its very beginning the FDIC has recognized the community of interest it shares with other bank supervisors and with banks themselves in maintaining a strong banking system and, thus, a strong bank insurance fund. We are all in this together.

For the FDIC, bank supervision is a means of assuring the viability of deposit insurance and of maintaining the strength of the bank insurance fund, so that bank depositors and bankers can continue to enjoy its benefits.

From its very beginning, the FDIC has worked hand-in-hand with state banking regulators. We recognized that the dual banking system was a source of strength for the banking system.

We have a dual system of state and federal banking authorities for the same reasons we have a dual system of state and federal government: to provide checks and balances on the arbitrary exercise of power, to keep the system responsible to local needs, and to provide a range of choices to bankers and to bank customers. In banking, the result is a more diverse and a more innovative system -- and therefore a stronger system -- than would otherwise be the case.

The effect of the dual banking system -- unintended, but real -- is that it encourages banks to find better ways to serve the public. An institutional difference strongly supports and encourages competition -- it allows banks a greater degree of freedom to decide what they are going to do and how they are going to do it. In encouraging competition and innovation, the dual banking system benefits the public.

Certainly, there is a price for these benefits -- fifty-plus state banking authorities and four federal authorities are a more complex system of regulation than, say, one federal regulator obviously would be. The system, however, is not quite as complex as it appears on the surface. In acting as a "clearing house" for regulatory initiatives and policies, the Conference of State Bank Supervisors provides a nexus for state and federal regulators -- particularly the FDIC and the Federal Reserve as primary federal regulators of state-chartered institutions -- making our jobs as supervisors easier than would otherwise be the case.

The FDIC has promoted a working relationship -- teamwork -- with state bank supervisors practically from the moment it opened its doors. Working together made sense then -- and it makes sense now. Over the years the FDIC and the states have taken many steps to improve cooperation and coordination to meet three common goals: improving supervision, reducing the regulatory burden on insured institutions, and adapting to a banking industry that was itself evolving to meet changing conditions and the public's changing needs.

Since 1972, the FDIC has provided training to examiners of state banking departments. In fact, during the last three years, the FDIC has trained 1,302 state bank examiners from 44 states.

In 1980, the FDIC began a formal effort to expand cooperation with the states. Since that time, working through the CSBS, the Federal Financial Institutions Examination Council, and other avenues, we have addressed "alternate" examination programs, common examination and application forms, processing examination reports and applications, joint enforcement actions, information exchange, examination training and access to the FDIC's computerized data base. In my first year as Chairman, I was privileged to chair the FFIEC and work closely with its statutorily established state liaison committee, headed by Cathy Ghiglieri, Banking Commissioner of Texas.

In 1992, the FDIC and the CSBS entered into a joint resolution to encourage the negotiation and formation of working agreements on examinations between the FDIC and the state banking departments. The agreements cover who would examine what banks, as well as examination frequency, pre-examination procedures, examination report processing, joint applications, and enforcement actions.

At present, we have entered into formal written agreements with 41 states and into informal working arrangements with six others. We work to the maximum extent possible with every state.

In addition, virtually every state banking department has access to the FDIC's data base of call reports, examination and structure information; the automated report of examination; and CD/ROM files containing the Uniform Bank Performance Reports, the Uniform Trust Performance Reports and the FDIC manual for safety and soundness examinations. Our data base can make examinations both more effective and less burdensome.

In May 1995, the 50 state banking departments and the CSBS approved guidelines outlining in general terms the roles and responsibilities of the states in coordinating the supervision and regulation of interstate banking organizations. In October 1995, the FDIC, the Federal Reserve, and the CSBS formed a state-federal working group to streamline and improve the coordination of the examination and supervision of state-chartered banks operating in an interstate environment. As you know, the working group's mission is to recommend actions addressing supervisory policies, procedures, and practices that are unnecessarily burdensome or duplicative, and to develop a system of seamless supervision of state-chartered institutions.

Just days ago, the FDIC entered an agreement with the states and the Federal Reserve that will provide a basic framework for supervising and examining state-chartered banks with interstate branches. The agreement outlines the responsibilities of the federal agencies and home state supervisors.

The cooperative spirit of that agreement, I believe, has already been reflected in what we do -- for example, we recently worked with two state banking departments to coordinate our concurrent examinations of a $10 billion multi-bank, multi-state institution. Last year, each of us conducted examinations of the banks separately. In conducting our examinations together this year, we expect to cut our on-site examination time in the banks by half.

State and federal regulators working together can provide effective safety and soundness supervision with the greatest possible degree of responsiveness to the needs of banks and to the individual, local, and regional differences among them.

The FDIC is looking at a number of ways to enhance and improve our process of bank supervision -- reducing the regulatory burden on insured institutions, while focusing on the risks to the banking system and to the insurance fund that each individual institution presents. Some of our initiatives focus on leveraging technology -- others concern procedural changes to enhance the examination process. If the past is any guide -- and it is -- we will work closely with our state colleagues to assure that we all benefit from our initiatives at the FDIC. If training is needed, we will offer it. If more access to our data is desired, we will deliver it. If greater coordination is required, we will assure that it happens.

In leveraging technology, this year we will put into operation an automated examination package that will allow us to do a significant amount of analysis off-site. This package will produce at least four benefits. One, bankers will have us on-site for a shorter time. Two, examiners will spend less time traveling away from home and more time comparing notes with colleagues in field offices. Three and four, by leveraging technology, this approach will improve the quality of supervision and hold down the FDIC's costs of operations. Through this leveraging of technology, we are aiming to reduce on-site examiner presence by 25 percent.

We are also leveraging technology through our new ALERT program for automating examinations. In cooperation with the Federal Reserve's automation team and with state banking departments through CSBS, we are committed to improving examinations for all state-chartered institutions and are working toward a final product that will be compatible for all state examinations. Moreover, the FDIC will train state examiners in automation with the same level of commitment we have shown in other areas.

ALERT is a cooperative effort of the FDIC's Division of Supervision, headed by Nick Ketcha, who is here today, and our Division of Information Resources Management, headed by Don Demitros, who is also here. I want to publicly commend them and their staffs for this outstanding effort, and particularly Tom Saxen, of the Division of Supervision's Kansas City region, and his team. Their zeal on this project has been an inspiration to all of us.

Speaking of computers, I have to add here that we have a major presence on the Internet -- a presence we significantly expanded earlier this week. As you know, we publish the Quarterly Banking Profile -- the best, in-depth, statistical profile of the banking industry available today. Over the last several quarters, we have put this Profile on our homepage when it was released. Along with the Profile, we have published a large book of graphs that clearly illustrate the most important statistical trends in the Profile. As of earlier this week, that graph book is on our Internet homepage, too. I recommend that you look at it; it includes state specific data. I believe you will find it informative and useful.

In addition to leveraging technology in our examination and supervision process, we are leveraging economic, financial and banking data.

We are headed toward a diagnostic approach to bank examinations -- a combination of observation at an individual institution with the use of more general -- or macro -- data provided by our new Division of Insurance that will result in a more effective and accurate assessment of an institution's ability to identify, measure, monitor and control the range of risks it faces. It will also provide a structured framework for our discussion of specific strengths, weaknesses, and possible improvements with management and boards of directors.

To that end, we are developing "decision charts" for our examiners to use that will provide more structure and consistency to the risk assessment process. The decision charts -- for credit risk, interest rate risk, operational risk, and other relevant risks -- outline the diagnostic process. This involves a graduated approach to examinations based upon the level of risk at the institution -- on a risk by risk basis. If no symptom is found in one risk area, the examiner will shift attention to the next area. The charts are a tool that will lead to more analytical and more fact-based thinking.

In short, using this approach, the scope and focus of our bank examinations will become more a flow of forward-looking risk evaluations -- some based on economic data and all based on the individual facts of each financial institution -- and less a checklist of procedures to be followed. I want to stress, however, that we are enhancing what we already do in examinations, not substituting something else for it.

Just as practitioners in medicine specialize, we are creating "risk specialists" on emerging risk areas. We will enhance our supervisory expertise by making these specialists available where new risk areas emerge in the course of an examination or in analyzing aggregate examination information. We will start by creating risk specialists in the areas of interest rate risk management and capital market accounting. We already have capital markets instruments specialists and risk modeling experts. Events in these areas are moving so quickly, we want to make sure we are ready to deal with them and to help you -- state banking departments and bankers alike.

We are also creating "case managers" in our supervisory regions who will specialize in specific institutions. They will review all off-site data and regulatory findings concerning these institutions to assess the risks posed to the insurance fund. Case managers will also provide one contact with the FDIC for a bank's management.

In talking about examinations, I want to point out that -- for a number of years -- proposals that the FDIC explicitly charge for its examinations have been made. The costs of our examinations have always been included in the insurance assessment. I have opposed -- and will continue to oppose -- the idea that we explicitly charge banks for our examinations.

For three generations of Americans, federal deposit insurance -- with the full faith and credit backing of the U.S. government -- has provided a reason for unconditional faith in the banking system. It is a certainty in an uncertain world. Working together as bank supervisors, the FDIC, the Fed and state authorities make sure that the public's faith continues to be justified. We at the FDIC will assure that our colleagues in the states and other interested federal agencies will also benefit from any improvements we make in our supervisory process. We also want to benefit from the new ideas of others -- inside and outside government. Our community of interests gives us a unity of purpose.

Thank you.

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