Remarks of
Leslie A. Woolley
Deputy to the Chairman for Policy
Federal Deposit Insurance Corporation
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Thank you. I'm delighted -- once again -- to join FDIC Chairman Helfer as a speaker at the Institute's annual Washington conference.

Foreign banking organizations play an increasingly significant role in the U.S. banking system. With the growth of the Internet and other electronic communications networks, the business of banking is becoming increasingly global. As of the end of 1995, foreign banking organizations in America held about $974 billion in total U.S. assets.

During the past year, to better focus on international banking and bank supervision, the FDIC created an International Branch within our Division of Supervision. We're very excited about this new branch and the services it is providing, and we know that you will benefit from its work.

Christie Sciacca, a veteran of many years in bank supervision at the FDIC, is the new Assistant Director heading up the international branch, which opened for business here in Washington in September of 1996. If you haven't met Christie yet, you should!

This new branch is the central area at the FDIC for gathering and analyzing information about the strength of individual foreign banking organizations in the U.S. and worldwide. We are working closely with the other regulators in this process -- sharing information, coordinating examination schedules, developing regulations, and so on.

The new branch also is monitoring today's "hot topics" in international banking, and anticipating what could be important tomorrow to the banks we supervise.

The branch is not yet fully staffed, but we expect that within the next few weeks it will be at full strength -- with analysts focusing on different regions of the world, and review examiners focusing on individual institutions. But even with the small crew of employees on board so far, the international branch has already been very busy and, we believe, very productive. I'd like to tell you about some of the programs and issues we are working on that could directly affect foreign banks in the United States.

One of the top priorities of the FDIC and the other U.S. bank regulators is to reduce the regulatory burden on the industry. In fact, Chairman Helfer believes so strongly in reduced regulatory burden that she gave Joe Neely, an FDIC Board member, the day-to-day responsibility for monitoring our progress in that area.

We know that laws and regulations governing safety and soundness, criminal activities, consumer protection and yes, international banking supervision, impose significant costs on banks. We have been working hard to reduce that burden.

Last year, the FDIC began reviewing each of its 120 regulations and written policies to see if they could be simplified or eliminated completely. In April, the FDIC completed the reviews and began implementing the recommendations. Since then, the FDIC has streamlined 25 of its rules and written policies, and eliminated 15 others. FDIC staff have identified 45 more rules and policies they believe can be trimmed back or abolished. We hope to get these proposals out for public comment before the end of this year. When this process is over, we expect that the FDIC will have revised or rescinded two-thirds of the rules and policies on our books.

In the international area, the FDIC's new branch is doing its part by reviewing all of its relevant regulations and closely coordinating with the other banking agencies to ensure consistent regulation.

Also among our top priorities in terms of reducing the burdens on banks is to simplify and speed up the applications process.

We recognize that, in some respects, the applications process in international banking supervision has been cumbersome and, at times, frustrating. We know that delays in getting regulatory approvals can mean lost business opportunities for international banks, and we don't want the FDIC applications process to put them at a competitive disadvantage.

That's why our international branch is looking into options for streamlining our applications process for well-capitalized, well-run banks. Some of the ideas under consideration are pretty basic. They involve such things as having our front-line supervisors in the regional offices share applications immediately with our Washington staff. This will create a "parallel track" -- two levels of review occurring at the same time, and not one after the other.

Other ideas include changing some applications from well-managed banks into notices that do not require specific approval from the FDIC. Or, perhaps giving regional FDIC offices more authority to approve certain applications. Or, allowing well-managed institutions to obtain what securities regulators in the U.S. call a "shelf" registration -- essentially, advance approval to engage in certain activities if and when the bank later decides to conduct them.

These are only staff ideas under consideration. They have not yet been endorsed by the FDIC's Board or our Division Directors. But we are actively reviewing our application process and working to improve it.

Still another important part of our work to reduce regulatory burden involves bank examinations.

The U.S. banking agencies recently adopted an interim rule enabling well-managed banks with $250 million or less in assets to be examined every 18 months instead of every 12 months. The agencies have asked for comment by April 14th on how to implement that rule for U.S. branches and agencies of foreign banks, and we encourage the Institute and your member banks to write to us. We have no preconceived ideas about this, and all comments received will be given full consideration and analysis. We expect that the banking agencies will refine the rule and begin applying the new standards with examinations of foreign banks by 1998.

As you can see, the FDIC is committed to reducing burdens in the examination process. But we also must remember the lessons of the 1980s -- the worst period of bank failures since the Great Depression. From the '80s, we learned that there are no substitutes for regular, on-site examinations and strong internal controls. This has been highlighted recently by the Daiwa situation. Because of the critical importance of internal controls, our examiners are making sure that weaknesses found in external or internal audits are being addressed and corrected.

Another area we closely review during examinations is management. Many foreign banks use management from the home country on a rotational basis. We know that moving new managers in and out of the bank may be good training, but it may pose a potential problem for the continuity and consistency of the bank's U.S. operations. That's why FDIC examiners will continue to pay attention to how effectively the bank's home office monitors its U.S. operations, and how well the U.S. managers are performing.

And finally, in our overall review of newly chartered foreign institutions, we try to determine whether managers have a good understanding of the U.S. rules and regulations that apply to them.

With our new international branch in place, the FDIC is proud to be expanding our representation on the Basle Committee. We are actively involved in each of the Basle Committee's five subgroups and task forces -- with FDIC experts in accounting, capital markets, policy, international issues and other areas contributing significantly to those groups.

Additionally, we have been working closely with the Basle Committee on issues related to electronic money and banking. The regulators in America are actively monitoring the risks and issues associated with electronic banking, specifically stored-value cards, electronic cash, banking over the Internet, and other emerging technologies.

The FDIC has been keeping up-to-date with developments in electronic banking. In July of 1996, our Board of Directors approved a legal opinion -- General Counsel Opinion Number 8 -- clarifying the conditions under which the funds underlying stored-value cards may be considered deposits for insurance purposes. We followed up on that announcement with requests for written comments, and we held a public hearing, so that we could hear from bankers and consumers about their concerns with electronic banking.

The comments made clear that bankers and consumers wanted additional guidance from the FDIC about how electronic banking programs could operate effectively and safely. As a result, the FDIC has issued procedures to guide examiners -- and bankers -- in evaluating electronic banking activities in areas such as strategic planning and internal controls. These new procedures have been made publicly available and may serve as an excellent resource for bankers. This and other valuable supervisory information is available on the FDIC's Internet site at www.fdic.gov.

I know I've covered many topics in a short amount of time. However, I hope my comments have been helpful, because we believe we can all work together to foster growth and prosperity while maintaining the safety and soundness of our financial institutions.

Thank you very much.

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