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Remarks by

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This afternoon, I'd like to frame my remarks around some intriguing possibilities -- possibilities that should challenge the banking industry to explore what it can bring to the task of providing financial services to more American families . . . possibilities that force us to think about what banking, the country and the economy have to gain if we can find solutions to the challenge of serving a virtually unexplored and untapped financial frontier.

But before I speak to you as bankers, I want to speak to you as Americans.

Henry David Thoreau once wrote that frontiers are not east or west, north or south, but wherever a person fronts a fact. Here are some of the facts we all front.

Today, twelve million American households do not have deposit accounts with a financial institution. That's fully 12.5 percent of our citizens who are not fully integrated into the financial services marketplace -- more than the combined populations of Chicago, New York, San Diego and Dallas.

We don't know nearly as much as we should about these people. We don't fully understand their financial needs. We don't fully understand how they meet those needs, although we know they don't participate in the financial system as fully as the mainstream population. And although lots of people from a lot of different perspectives are quick to speculate, we don't really know much about why they choose not to participate in the banking system.

But we do know that full participation in the financial system brings very real benefits to households in the economic mainstream. Walking around with a wallet full of cash is more dangerous, physically and financially than walking around with a checkbook or a credit card. Cashing a check with a check cashing service characteristically costs a lot more than cashing one with a bank. Your chances of accumulating wealth and building a bridge to an economically secure future seem pretty clearly better if the place you keep your surplus resources is a savings account or a mutual fund, rather than a cookie jar or the underside of a mattress.

These things seem clear to me -- I suspect they seem clear to most of us. But, at least to judge from the choices they make in the marketplace, 12.5 million American households don't find them so clear.

Why they don't is an important question that demands a thoughtful hearing. It is also a question whose answer may open the doors to greater opportunities for financial services providers both smart enough to find ways to gain new competitive advantages and determined enough to forge relationships with different types of customers.

Stereotypes can't help us understand who comprises these 12 million households. They encompass many faces and many facets of today's America. They are minority families, one-third of whom do not use checking accounts. They are young Americans. One out of every six Generation Xers don't use checking or savings accounts and didn't grow up with the same affinity toward the institution of banking that their parents did. They include new and small entrepreneurs. Eleven percent of businesses with assets under \$25,000 do not pay their suppliers or employees with bank checks. They include the working poor. Sixteen percent of American families earning between \$10,000 and \$25,000 turn to sources other than banks to cash their paychecks -- and rarely get the type of financial advice that could enable them to manage their money better.

These are dramatic numbers, but they get even more dramatic in the context of some additional projections. By the year 2010, one-third of the U.S. population will be minority. In fifteen years, minorities will represent half of the population of our nation's largest state. Many of the fastest growing metropolitan areas are in California, Texas and Florida -- states with high percentages of Hispanic households and other minorities. Also, consider that the average size of firms is getting smaller, with companies between 20 and 500 employees the fastest growing segment of American business. These -- along with the growing legion of consultants and temporary employees -- are exactly the kinds of firms and individuals that one might think would value relationship banking and could benefit from bank assistance to establish credibility in other financial markets.

And here is another fact to bear in mind. By the year 2010, the segment of the population that has lived in the wake of the heralded Baby Boom generation will finally find that their influence on markets equals that of their aging counterparts. How those newly powerful consumers vote with their feet will determine the fate of many American businesses. But listen to what many of them are saying already. They are saying they don't fit our standard stereotype of America's young. In contrast to their image, young age groups are seriously thinking about their retirement years, and -- according to a recent survey -- 69 percent of those in their 20s "wanted help choosing investments to fund their retirement."

What kind of country and economy could we have -- today and in the future -- if these 12 million American households were better

served by the country's financial services industry?

We could have an economy in which 12 million more households had better opportunities and did a better job of accumulating wealth through more disciplined savings and more strategic investing -- wealth that could mean the difference between renting or owning a home ... wealth that could mean the difference between sending a teenage son or daughter out into the workforce or off to college ... wealth that could mean the difference between retirement years spent blissfully or tragically.

We could have an economy in which those who now spend more than they should have to just to cash a paycheck could stretch their hard-earned dollars just a little farther. In our toughest urban neighborhoods, the streets could be just a little safer if residents carried fewer of their assets on their persons and kept more of them in depositories. And our small business sector could be a bit more vital if the smallest businesspersons could tap better capital and counsel to help realize their dreams of expansion and growth.

These are not pipe dreams. They are very real possibilities -- but possibilities that can only be realized by making the pursuit of solutions a priority. Secretary Rubin has long advocated the importance of equipping today's financially underserved and unserved for the economic mainstream. As the Secretary said in Los Angeles earlier this year, " . . . unless we succeed in that endeavor, all of us -- no matter where we live or what our incomes -- will be powerfully affected, in lost potential for our economy and in a worsening of the conditions in which we live." Deputy Secretary Summers and Under Secretary Hawke have also been strong leaders on these issues. Under Secretary Hawke currently heads the Treasury's Electronic Funds Transfer working group, which is responsible for implementing new legislation requiring that all federal payments -- everything from federal wages and retirement payments to social security and veterans benefits -- be made by electronic transfer after January 1, 1999. Clearly, how this law is implemented could significantly change the way in which many of the 12 million households I have described interact with the existing financial system.

Let me now speak to you as bankers.

The increasing importance and success of the Consumers Bankers Association reflects the fact that the business of banking is increasingly consumer focused and increasingly successful in serving the needs of middle-class American consumers. In response to the realities of an evolving financial services marketplace, America's commercial banks are becoming increasingly central in the financial needs of American families. To an unprecedented and still growing extent, our commercial banks are playing enhanced roles as providers of home mortgages, mutual funds, credit cards and insurance products. As a result, today -- for the first time in American history -- consumer loans outpace commercial loans as a source of business for commercial banks, with consumer loans accounting for 27 percent of bank assets compared to 25 percent for commercial loans.

The largest and fastest growing area of consumer lending is in loans secured by residential real estate, a segment of bank business that has more than doubled since 1986. Mutual fund sales have also grown rapidly, with the volume of mutual funds sold through banks more than quadrupling from 1990 through the end of last year, up from \$86 billion to nearly \$400 billion. As you are well aware, the OCC has worked closely with the industry and consumer leaders in a way that has both facilitated that growth and protected consumers.

Banks are also beginning to serve middle-class consumers in new ways. Although credit card loans account for less than 5 percent of total commercial bank assets, the growth has been dramatic over the last three years. And again, the OCC is working with industry and consumer group leaders to ensure that this market develops responsibly and functions with the consumer's interest in mind. Last week, we issued an advisory letter on preapproved credit card solicitations, reminding national banks of the risks of some of these programs and identifying specific steps to address possible weaknesses in credit card portfolios. And banks are beginning to provide their customers with more insurance products. Today, one out of five Americans has purchased life insurance from a bank, and that number will only grow in the years to come. The OCC has been working closely with the CBA and other bank trade groups to ensure that the expansion of the banking business into these areas goes smoothly for banks and consumers alike.

Home mortgages, mutual funds, credit cards, life insurance -- bank entry into these markets has given middle-class consumers the benefits of a more competitive financial services marketplace and has challenged the banking industry to be more customer-focused and consumer-sensitive.

Competition and industry focus have given thousands of mainstream consumers greater options, lower prices, and better services -- and, not coincidentally, helped fuel record profits for the nation's banks. In all of these areas -- mortgage lending, credit card lending, insurance sales, mutual fund sales -- the banking industry has in recent years made a convincing show of its ability to develop and apply new competitive skills to new market areas.

But what about those 12 million households? Is it possible today that some of the new competitive skills the industry has gained in these product markets could be applied to accomplish greater, profitable involvement in a new demographic market? Is it possible that new innovations in product design or delivery, or new technologies, could enable the banking industry today to extend the reach of its service profitably beyond the middle class of consumers and into the unserved portion of the consumer marketplace?

Is it possible?

I don't know. It's an important question -- a question worthy of serious discussion, both as a policy matter and as a business

proposition. But I don't have all the answers.

Clearly, there are a number of reasons why banking has not fully addressed the needs of this market segment before. First, we regulators and other government policymakers have too often been part of the problem, discouraging -- not encouraging -- innovation. For example, at the end of the last century we essentially prohibited commercial banks from making home mortgage loans. In the 1920s our examiners viewed auto loans as a basically unsound business. Moreover, banks have been so restricted by laws and regulations in the products and services they could offer for so long that I believe the innovative spirit of banking had been stifled.

Second, the underserved and unserved market itself is different today than it was even 25 years ago and it continues to evolve so that new understanding and new approaches are continually needed.

And third, the cost structure of retail banking is such that it often stands as a barrier to investments in traditional brick and mortar delivery channels.

As I said a minute ago, I don't come here today with all the answers. But even without the answers, I can bring more than questions to the table.

So let me close with two concrete actions we're taking at the OCC to explore the possibilities, seek market-based solutions, and provide incentives for banks to forge relationships with those who are outside the financial service industry's current reach.

First, we will convene an educational forum to seek ways of using new technologies and other new approaches to serve those without banking relationships. We will seek input from a variety of sources, including financial services industry management; developers, manufacturers, and vendors of new technologies; social scientists; and consumer representatives -- all focusing on the question of what seems to work and what seems not to work in efforts to extend the mainstream market for financial services to those currently outside that market. This one-day forum, which will be held this coming winter, will highlight a number of key topics that require greater attention. I am pleased to say that the Consumer Bankers Association has agreed to co-sponsor this event.

My hope is that in the course of that discussion, we can get a better understanding of some of the aspects of this challenge that seem to get less attention than they probably deserve, such as the effects of culture and language differences. A member of my staff recently pointed out to me that in many immigrant communities, one of the key virtues of a financial institution may be its ability to reliably transfer funds to family members in an immigrant's native country. Simple facts like that may provide insights into appropriate product and service design: perhaps the provision of fund transfer services to immigrant populations could prove an effective point of entry into a more

robust relationship with a financial institution.

We may also find that some of the conventional notions about why certain populations do not use banking services may be no more than notions. For example, I have often heard it said that those who do not now use banks have a cultural aversion toward the institution of banking, or are uncomfortable with technology, or are unable to manage bank services without extensive training. In fact, it's not at all clear how many of these notions are true. When asked, many of those without checking accounts say the real reasons are just simple economics -- initial or minimum balance requirements they just can't afford. By deepening our understanding of this population, we can refine our judgments about whether and how it is possible to bring it into the mainstream of financial consumers.

I also hope and expect we will discuss the role technology might play in reaching out to these 12 million households. As technology lowers unit costs, it may become feasible to provide certain services at significantly lower cost than ever before. Perhaps in conjunction with product design innovations, price reductions flowing from technological innovations may enable the extension of the financial service marketplace to many low-income households.

These are just a few of the topics we need to explore. My hope is that the OCC might assist that exploration by stimulating discussion, collecting information, sharing it with the industry and enabling banks to conduct their own -- more targeted -- research to design products and delivery methods most appropriate to the emerging markets and niches they wish to reach.

In addition to providing a forum for extensive dialogue on the challenges of the underserved and unserved, the second concrete action we're taking is to make it easier and less costly for banks to do business in these communities. Because while research and analysis is important, there's no substitute for relationships and understanding built on face-to-face, direct contact with existing and potential customers.

So today I am announcing a policy change that will encourage national banks to locate in underserved communities. The OCC is waiving fees for applications for new charters and branches in low and moderate income census tracts not currently served by a depository institution. This is a small step, not a big one. Of course we hope it will have positive effects, but I don't delude myself with the thought that the elimination of some fairly minor fees will eliminate access to financial services problems in the inner city. But what I want you and everybody else to see is this: I believe there is an important chunk of our society that could benefit from greater interaction with your industry, and I am committed to the notion that the OCC should not put barriers in the way of that interaction.

Conclusion

For banks today, success is not simply a question of gaining new

powers -- it is a matter of gaining new insights, new products and new capabilities to take advantage of both emerging market opportunities and previously untapped markets. And for banking today, success in the retail area is not simply a question of serving part of its potential market but reaching out for underserved or unserved customers and turning them into profitable or more profitable relationships.

The country's banking industry must develop relationships now with the fastest growing segments of our population if it is to occupy the same place and fulfill the same role in the 21st century as it has for much of this century -- center stage in financial services and the driving force for economic advancement. Yes, there are other providers of financial services today -- there long have been and there always will be. But I still believe that banks offer the best opportunities for the greatest number of this nation's individuals and enterprises. Banks have helped generations of American families and communities achieve their dreams, providing them the means to get a start in life or to reach the next rung on the ladder of economic progress. It is time now to focus on serving America's next generations and tomorrow's consumers. I'm confident that, working with those of you who feel the same way, the banking industry can explore the many possibilities, and make the possible achievable.

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The OCC charters, regulates and supervises approximately 2,800 national banks and 66 federal branches and agencies of foreign banks in the U.S., accounting for more than half the nation's banking assets. Its mission is to ensure a safe, sound and competitive national banking system that supports the citizens, communities and economy of the United States.