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Remarks by

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Thank you for inviting me here today to talk about "Financial Modernization Issues and Recent Bank Regulatory Developments."

At the core of financial modernization and contemporary regulation are the two issues I'd like to talk about today: the impact of technology and the importance of international cooperation among the world's financial regulators.

Too often, when we think about financial modernization in the United States, we think narrowly ... in terms driven by legislative proposals advanced to correct historical inequities, rather than with an eye on the industry as it looks today and where it should be headed in the future. But today, the banking industry, its regulators and financial services policy makers must think about financial services modernization in broader terms than we have in the past. Because in focusing narrowly on subjects such as Glass-Steagall reform, as we have here in the U.S. in recent months, we are missing the more compelling public policy questions that we must address and answer if we are to truly modernize our financial system for the coming century.

What we should be doing is vigorously addressing the new realities of a new environment -- an environment being shaped by technology. Technology, what Alvin Toffler has called "that great growling engine of change," has changed the nature of banking and financial services and is changing the way consumers purchase goods and services of all types. The financial modernization issues of today and tomorrow will flow from this technological revolution in financial services. And I'm convinced that our ability to bring banking and financial services into the 21st century will determine how fast and effectively we realize technology's untapped potential to fuel economic opportunity for businesses and consumers.

Just think of the pace of innovation we've seen since we began our careers. We've seen the cost of computing power cut in half every 18 months -- or, put another way, we can buy double the computer power for the same money every year and a half. We've seen personal computers with floppy disks holding 180,000 bites of information replaced with today's standard CD-ROMs holding over half a billion bites -- on disks the same size.

We've seen the Internet and the World Wide Web become the phenomena they are today -- technological advances that rival the advent of the telephone. The Internet's reach grows with each passing day. In the next five years, media and telecommunications companies plan to invest upwards of $70 billion to bring a truly customer-friendly Internet to millions of households.

Just last week, Motorola and Sun Microsystems announced plans to build high-speed Internet access for home use. And on the same day, Oracle Computers gave the first public demonstration of their network computer. These appliance-like machines would plug into the Internet to get their computing power, and would be considerably less expensive than personal computers. Other devices on the drawing board include TV set-top decoders and hand held devices that would draw their appeal from connecting directly to the Internet, and further expanding its access and influence.

Ultimately, the success of these innovations will depend on the services they can tap and the opportunities they afford the consumer. And while it can sometimes be difficult to separate the hype from the reality, it seems clear that significant market potential is there. Already, nearly every Fortune 500 corporation is connected to the Internet, and 85 percent of companies with sales of $300 million or less are developing connections. By one estimate, there will be 200 million Internet users by the year 2000.

For bankers, technology means more than an avenue to potential customers. Totally electronic trading, e-money, a paperless payments system, vastly more sophisticated risk pricing and risk control models are all on the horizon. And as with the Internet, we're only just beginning to imagine the possibilities.

Technology has also proved to be a great leveler in the financial services arena, blurring the distinctions between the products and producers of financial services, and unleashing intense global competition between other banks and other non-bank financial institutions. The extent of that leveling is apparent when one considers the contestants in the current gold rush to develop electronic money and payment technologies. Scores of non-banks are prominent in this race -- including software producers and telecommunications firms.

Right now, a number of firms are racing to bring sophisticated stored value cards to market here in the United States and elsewhere. These cards could be used to purchase goods or services in both the marketplace and the market space of the Internet. There is little doubt that electronic commerce will grow rapidly and new payment technologies will emerge with them. This reality raises the prospect of non-bank issuance of stored value cards and poses public policy questions of considerable significance.

Let me offer but one example. Imagine, if you will, a country where there are no restrictions on what kinds of firms can issue stored value cards. In such a country, buyers and merchants discover too late and to their dismay that some issuers disappear as soon as sales reach a few hundred thousand dollars. Some merchants begin to discriminate against card issuers, taking off more than the cost of goods purchased to compensate for the risk of loss. Other merchants refuse to accept cards from issuers they do not recognize. Honest issuers find exact copies of their cards circulating freely and face huge losses. The growth of commerce slows. It is not long before consumers and merchants begin searching for a more reliable medium of exchange.

We've already seen a country like that. Instead of stored value cards, think of bank notes -- and you have the United States from 1830 to 1863, when Congress finally created my office, the Office of the Comptroller of the Currency, to charter national banks to issue national bank notes. And the world of stored value cards could be even more complicated than the world of the mid-1800s, because there is no guarantee that technical glitches will not also short-change consumers or merchants, despite the best efforts of honest issuers. Clearly, policy makers and bankers should carefully consider the implications of non-bank participation in electronic money and payments systems.

Now, in addition to the payments systems, technology also touches the issue of geography. Technology is making geographic borders less and less important in the provision of financial services and making cooperation more and more critical to supervision and the task of ensuring safety and soundness. That's true both domestically and internationally.

Imagine a world in which the Internet has nearly completed the erosion of national boundaries as obstacles to international flows of capital. Let's say, hypothetically, that one of our significant trading partners accuses a U.S. bank of violating its laws and insists that the bank no longer offer financial services within its borders. The U.S. government wants the bank to comply, and the bank agrees to comply. But from a realistic standpoint, what can the bank do? How does it hermetically seal off the offended country from the rest of its customers in every other country that the bank serves over the Internet? We are fast moving into a world where joint ventures are the reality, where trade and finance are so interconnected that it may be virtually impossible for a bank to guarantee it will not provide financial services to businesses and individuals in a particular country.

The shrinking of the globe from a practical, commercial and financial perspective is also giving rise to very important issues domestically in the United States.

Since our inception, the United States has been committed to a legal infrastructure that ties the activities of all manner of banks closely to state laws. Even national banks draw many of their authorities from state laws. But technology has put this legal infrastructure under increasing strain. For example, who should we say has jurisdiction over a loan issued by a depository institution with offices in State A to a consumer in State B who applies for the loan through a Web site maintained on a server in State C ... or country C for that matter?

Yet another implication of the technological revolution and the shrinking globe is its impact on safety and soundness supervision. Today, none of the world's financial regulators can operate in a vacuum. We live in an age when technology links international markets and our financial institutions, at a time when we're frequently reminded that a financial event in one country has immediate impact on markets around the world. As a result, regulators are responsible -- not just for maintaining public confidence in financial systems in our home countries -- but for helping to ensure the safety and soundness of the world's financial system.

I am convinced that all regulators today share a common concern that spans geographical boundaries and transcends cultural barriers. All of us speak the shared language of safety and soundness.

In the past decade, we've seen a strengthening union of the world's regulatory community and an enhanced understanding of the importance of sharing information with one another. Certainly Barings and Daiwa reminded us all that there is room for improvement in the state of international cooperation between banking regulators.

But it's important to remember that we have seen a number of successful international efforts in recent years -- efforts made, not in the wake of crises, but in proactive attempts to make international markets work more efficiently.

The Basle Committee, on which I have been proud to sit ever since I became Comptroller, was formed following the failure of Germany's Herstatt Bank in 1974. But over the past 20 years, this committee has become an invaluable forum for the international regulatory community to address immediate and emerging issues. Originally designed primarily for sharing information, the committee's role has evolved considerably beyond its original mission.

Today, because the world's banks and financial institutions are so closely connected and their actions so interrelated, the committee's focus includes developing common supervisory standards through sharing "best practices" papers and developing standards of practice -- in capital, for example -- to which member nations have voluntarily agreed to adhere.

But as constructive as the Basle Committee is, I believe supervisors must take other steps to share information about financial developments in their own markets. During the past year, with respect to e-money and electronic banking, for example, OCC officials have had face-to-face meetings with supervisors in France, the UK, Germany, Denmark, Finland, Belgium and other countries.

We've discussed how e-money systems are evolving in individual markets and the major policy issues that supervisors are working on. In this area, as with sharing supervisory best practices, our shared objective is how to best ensure the evolution of a safe and sound market without impeding private sector efforts to use this new technology to benefit businesses and consumers worldwide.

Conclusion

Technology has truly changed the nature of banking and financial services around the globe. It has made geography increasingly less important and has made international cooperation increasingly more important. So as I think about the broad issue of financial modernization here in Washington, I am convinced the objective should be the same as the one I share with my peers in the international regulatory community -- to ensure safety and soundness without impeding innovation and competition.

And that applies not only to questions of electronic commerce, but also to the questions of the structure of financial institutions and the products and services they provide. We can indeed, learn a great deal from working together, and as I've talked with other supervisors and observed financial systems in other countries, it's clear that what matters most is not what particular products or services financial institutions offer or how those institutions are structured. What matters is how well institutions identify risks in their operations and the effectiveness of their internal controls in managing that risk.

The goal of financial modernization must be to provide effective, low-cost delivery of today's array of financial services and products in a way that minimizes risk to the consumer and taxpayer. To that end, government's primary role should be in ensuring that financial institutions are controlling risk to protect the institutions, the consumer and the taxpayer -- not to dictate basic business decisions such as how to organize or what products to provide the public.

I am confident that working together -- and taking technology's impact and our changing, shrinking world into account -- we can have both a safe and sound financial services industry and one that is increasingly vibrant and capable of serving our economies, businesses and citizens.

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