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Remarks by

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These are exciting times for the financial regulatory community, as we prepare to meet the challenges of a changing industry. This meeting -- which brings together the leadership of the FDIC, OTS, the Federal Reserve and the OCC -- is a timely opportunity for us to learn from one another and discuss our shared objective of providing the nation the modern, competitive, accessible, safe and sound financial services it needs to prosper in the 21st century.

I have always had a considerable respect for the quality of supervision at our respective agencies. Though each of us has somewhat different traditions, our mutual dedication to public service and high quality sets the bank and thrift regulatory agencies apart. I am certain that working together we will be able to meet the challenges of an ever more challenging banking environment.

I want to use this time together to talk primarily about technology's implications for banking, but I'd like to begin by mentioning the Barnett case and the Supreme Court's recent unanimous ruling affirming the right of national banks in towns of less than 5,000 to sell insurance. Clearly, the decision is a significant milestone for the industry and the economy, giving greater numbers of consumers the benefits of competition in insurance and banks enhanced ability to compete against non-bank providers by allowing them to engage in a line of business that makes sense and can be delivered in a safe and sound manner -- benefits long overdue.

At the same time, however, the fact that in 1996 the ability of national and many state banks to sell insurance depends on a statute Congress enacted in 1916 -- eighty years ago -- is, in at least a couple of respects, quite noteworthy. First -- and this is the lawyer in me coming through -- it's noteworthy that a statute enacted so long ago, at a time when the business of banking and the marketplace for financial services were so different than they are today, can still speak to the needs of banks in the modern era.

I know there are one or two people out there who may think otherwise, but I think that fact speaks well of our judicial system and of our legal traditions. On the other hand, it's perhaps equally noteworthy that in this day and age -- when the business of banking has changed so much ... when the demands of the marketplace have evolved so enormously ... when technology is changing the face of financial services ... the debate in Washington over financial modernization legislation is so very narrow.

It is a sad commentary on the quality of debate in this area that like a broken record we are focusing our attention -- not on true financial modernization, not on safety and soundness and better opportunity for consumers and not a better economy -- but rather on the question of whether banks are able to provide insurance -- a basic financial services product -- to their customers -- a product whose provision raises few if any significant policy concerns. Indeed, from a policy perspective, failure to focus on true financial modernization may well have adverse safety and soundness implications. If banks cannot sell low-risk financial products and services such as insurance, they will have to look to higher-risk sources of earnings. Our experience with LDC lending, HLT lending and commercial real estate lending should teach us to be cautious about forcing banks to go farther out on the risk curve.

So while we all applaud the outcome in the Barnett case, to my mind the case underscores the need to elevate the debate on financial modernization. We need to take a long, hard look at the legal institutions that govern this country's financial services system -- not through the lens of what will satisfy one interest group or another, not through the lens of past studies that still to a large extent focuses on our inside-the-Beltway view of "financial modernization".

We need to take off the Washington-colored glasses, focus on the marketplace realities of today, see what today's and tomorrow's needs are, and set the reform processes in motion that can meet those needs. Our 20th century system may have served us well, but the 20th century is almost over. We must move forward.

Evolutions in the technology of banking in particular are posing significant policy challenges outside the box of what we have grown accustomed to labeling financial modernization issues. While Congress continues to debate what should and should not be permissible in towns of 5000, technology is rapidly rendering geography irrelevant. You hear that so much you might not have stopped to think what it means. Geography is becoming irrelevant.

But the hard reality is that while geography may be becoming irrelevant from a business perspective or from a communications perspective, it's still very much a part of the legal institutions governing the provision of financial products and services in this country.

Indeed, the laws and regulations governing our banking system -- and much of the rest of our financial services system -- are integrally bound up in geography. Geography determines much of what both national and state banks can and cannot do. Geography drives much of the allocation of responsibilities between different regulatory bodies, not only in banking, but also in insurance, securities, and other financial services areas. Geography has a lot to do with the protections consumers of financial services enjoy. Geography has a lot to say even about the very enforceability of the commercial transactions that constitute the business of financial services.

So on the one hand, we have the commonplace observation that marketplace developments -- new technologies already in place or coming into place in the near future, electronic banking, electronic money, the Internet -- are making geography irrelevant. But on the other hand, the legal structure that governs our activities as regulators and the activities of the institutions we regulate still has geography at its core.

What conclusions should we draw from this juxtaposition? Let me suggest two. First, we as regulators and policy makers have a lot of work ahead of us if we intend to take seriously the task of bringing our financial system into step with these emerging realities of the marketplace. And, second, that task -- far more than any of the proposals that are now or have in recent decades been debated in the Congress -- constitutes the real work of modernizing our financial system.

With those preliminary observations in mind, let me turn to the subject of electronic money. The term electronic money is frequently used, and used to mean many different things. It covers some activities that have been with us for some time now -- such as the use of personal computers or telephones to pay bills, transfer funds and obtain account information -- and others that we're just beginning to consider -- such as electronic commerce on the Internet, stored value cards in lieu of cash, and using technology to dispense federal and state benefits. But within the scope of these many meanings are a number of issues that force all of us to advance and refine our thinking about the business of banking, and the business of bank regulation.

Like all financial services institutions today, the banks the OCC supervises are keenly interested and deeply involved in the development of these new payment technologies. And we all want the institutions we supervise to be on the cutting edge of innovation and competitiveness. But at the same time, we must recognize that some of these new technologies present issues and risks that are not yet fully understood -- either by the financial services industry or the regulatory community.

The need to assess technology's impact and share information and perspectives lies at the heart of the Treasury Department's activities on electronic money issues, which Secretary Rubin asked me to coordinate last August. The primary purpose of

this effort is to serve as a clearinghouse for information, analysis and shared concerns. Because Treasury is a large, disparate organization -- with a lot of connections to and interests in the electronic money arena -- the task force is currently focusing on three broad areas: law enforcement; government operations; and financial stability.

First, as you know, Treasury plays a major role in law enforcement, with a special focus on counterfeiting, money laundering and tax evasion. As a result, we are naturally concerned about the possibility that certain electronic money technologies could be used to facilitate such crimes or perhaps to invent new types of financial crimes.

Second, Treasury has several operational interests in this area. For example, Treasury processes huge volumes of government payments annually. Any technology that can provide a more efficient payment process is, therefore, of interest.

Also, Treasury currently manufactures both bills and notes, and must consider, at least as an administrative matter, how to plan for any reductions in demand for those products that might flow from the introduction of electronic money products and systems.

Treasury's third area of focus is, of course, in the area of financial stability -- more specifically, the stability of financial institutions such as banks and savings and loans.

Technology's foes have expressed a great deal of anxiety about the dangers it presents and the possibility of --what one commentator has called -- an "economic Chernobyl." While concerns are understandable, those of us who have delved into this area fairly aggressively over the past couple of years have concluded that we are probably not looking at an electronic money meltdown, and certainly not any time in the foreseeable future.

In fact, when we step back and consider the issue in broad perspective, it's pretty clear why not. Let me suggest two reasons. First, even at very extraordinary growth rates, the use of electronic money -- and here I'll use the term to include not only electronic cash, but also various retail-level electronic credit applications currently in development -- seems unlikely to achieve within the next several years the sort of volume that would be required for catastrophic events to occur.

We've all heard the predictions -- at current growth rates, according to one respected scholar, everybody in the world will be on the Internet by the year 2004. A major consulting firm recently projected that in the U.S., at least, 20 percent of household spending will take place on the Net by the year 2005.

I think we need to take projections like these with a large grain of salt. Just to put things in perspective, if we were

going to have 20 percent of U.S. household spending occur on the Internet by the year 2005, we'd need to see a compound annual growth rate in Internet commerce of over 130 percent for the next ten years.

Maybe that's not inconceivable, but I think it's unlikely. Consider the growth of some other recent technologies. For example, the sales of compact discs between the years of 1986 and 1995 reached a compound growth rate of 30 percent. Sales of color televisions increased at an annual compound growth rate of 10 percent from 1970 to 1985.

Second, even if tsunami-like growth projections enable the entire population to surf the Net in the next century, the likelihood of catastrophic failure would remain small so long as consumers can turn to alternative remote payment mechanisms -- like the combination of credit cards and toll-free telephone numbers -- if there's a systemic shock in the electronic commerce environment. The costs of systemic failure in the world of electronic commerce will be borne largely by those whose businesses depend completely on the existence of electronic payment technologies. That's an interesting, cutting-edge class of businesses, to be sure, but an extremely small class today. Even assuming completely implausible rates of growth, it seems at best unclear whether this class of businesses will ever achieve macroeconomic significance.

But while an economic Chernobyl does not appear to be imminent, emerging electronic money technologies do raise a number of important public policy questions that must be answered sooner rather than later.

Questions such as:

- Should government take a laissez faire posture and get involved only when and if a sufficiently large problem demands attention, or should it install a legal and regulatory framework to guide the development of the private market for electronic money products?
- Who should be permitted to issue E-cash? If nonbanks issue E-cash, what form of regulation and supervision is appropriate?
- Should government require E-cash transactions to be auditable for law enforcement purposes?
- What about consumer privacy and protections? Should the emphasis be on disclosures? Should the government limit how issuers and accepters of E-cash can use information about a customer's spending habits?
- How will Internet banking and commerce affect local and national sovereignty?
- How should the world's financial regulators and law enforcement agencies allocate responsibilities for

monitoring and acting to prevent the commission of financial frauds on the Internet?

- How can consumers be sure, in the Internet environment, that the financial institution they believe they are dealing with is legitimate, or that the transaction in which they are engaged is enforceable?

As regulators, we have to push forward, asking ourselves not only what risks these new products and technologies pose to banks, but also how we should respond to them.

That is why the OCC recently established a Bank Technology Committee. I've asked this committee to provide guidance to banks on how electronic money products can be offered in a safe and sound manner, and to evaluate our examination procedures and training programs to ensure that they address emerging electronic technology.

In addition, they will develop disclosure guidance to help banks explain consumer liability and privacy rights associated with electronic money products. Our Bank Technology Committee is comprised of people from a variety of OCC departments and divisions, including district offices, the multinational banking division, economic and policy analysis, consumer and fiduciary compliance, information resources management and the legal department.

#### Conclusion

Today, it is clear that the questions technology raises outnumber definitive answers, and the panel that follows will also -- I'm sure -- raise many interesting issues for us to think about. However, it is incumbent upon us to address with some sense of urgency the public policy issues technology has created.

I certainly do not believe that we should focus on these new technologies with some Luddite-like desire to stop progress -- quite the contrary.

At the same time, these new technological products and services are not pure speculation -- they are real.

In many ways they are the future of the industry we are obligated to supervise. And, like any financial products, they will present risks -- risks for the financial institutions who use them, for those that do not, and for non-regulated financial institutions that are allowed to compete. In short, this is an area we should approach with great seriousness.

As I look around this room, I'm confident we can and will address these issues appropriately through debate, discussion and prudent action. Thank you.

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