



NEWS RELEASE

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Administrator of National Banks

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Technology Enhances Banks' Ability to Segment Banking Business, Play to Strengths, Says First Senior Deputy Comptroller Julie L. Williams

WASHINGTON -- In a financial world increasingly influenced by technology, one key to a bank's success may be its ability to segment products and services into component parts that can then be marketed separately, said Julie L. Williams, First Senior Deputy Comptroller and Chief Counsel.

Addressing a conference on the emerging law of cyberbanking and electronic commerce, Ms. Williams referred to that approach as "deconstruction" and said it has been used in the past by banks' competitors to 'cherry-pick' segments of their business.

"If banks' competitors gain advantages by 'cherry-picking' segments of their banking business, why shouldn't banks do the same to themselves?" Ms. Williams asked.

By dividing their business into component parts, banks can play to their strengths, commit resources to areas in which they do best and have a comparative advantage, and gain access to skills, expertise and products without developing them in-house, Ms. Williams said.

The effects of deconstruction on the banking business and the impact of technology on this trend can be seen in four basic ways, she said:

- Engaging third parties to perform functions on behalf of a bank;
- Using "finder authority" to provide bank customers with access to products and services from other sources;
- Marketing activities and functions in which a bank has particular expertise to third parties; and
- Franchising the bank's attributes, including its name and its status as a regulated entity.

While banks have traditionally purchased some services from third-party providers, Ms. Williams said that in the future they may seek products that are still being developed. In that case, she said, banks have an interest in guiding product development of third parties and may find it useful to make strategic investments in those companies.

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“In this context, the OCC’s minority investment precedents are significant because they recognize that non-controlling investments by national banks in companies where the purpose of the investment is linked to a business purpose of the bank, are ‘incidental to banking’ because they are ‘convenient or useful’ to accomplishing a bank’s banking business,” Ms. Williams said.

“Given the pervasive implications of technology on the banking business, such investments could easily be viewed as *necessary* to the future success of banking firms,” she added.

Ms. Williams also noted how banks have acted as finders to bring together buyers and sellers for many years. With advances in technology, however, banks have been able to use their finder authority on a much broader scale. Some, for example, have used finder authority to establish electronic marketplaces on the Internet.

“The finder authority is not limited to provision of financial products and services, so these activities could pertain to transactions involving *anything*,” Ms. Williams added.

Banks also develop specific areas of expertise or competence which they can then market to others, Ms. Williams said. For example, the OCC has authorized a national bank that developed extensive expertise in digital imaging to market that product to other financial institutions.

In another application, banks or thrifts fund “payday” loans marketed by a third party, enabling the vendor to avoid application of state consumer laws. In such cases, Ms. Williams said, banks can put their reputation at risk if the vendor does not follow the same standards of customer service which banks employ.

“Unfortunately, in recent examples of this type of deconstruction, we have seen banks associate their name and special status with products that were abusive to consumers and with third party vendors that did not conduct their operations with the diligence expected of a regulated financial institution,” Ms. Williams said. “The result was both credit losses and damage to the banks’ reputation.”

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The OCC charters, regulates and examines approximately 2,200 national banks and 56 federal branches of foreign banks in the U.S., accounting for more than 55 percent of the nation’s banking assets. Its mission is to ensure a safe and sound and competitive national banking system that supports the citizens, communities and economy of the United States.

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- [Emerging Law of Cyberbanking and Electronic Commerce](#)