NEWS RELEASE

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There has been much discussion in financial industry forums these days about how the new financial modernization legislation -- the Gramm-Leach-Bliley Act -- will change the financial services business. While it is true that the GLBA will ultimately change the way that financial services companies are *structured*; in fact, more far-reaching changes are occurring in the financial services industry as a result of developments in technology. Ironically, the long-sought repeal of the Glass-Steagall Act may not be the main event of financial modernization.

The GLBA does not change the nature or range of available financial services. It does allow some types of companies directly to provide products that previously were provided only by other types of companies. The bigger story of financial modernization is how the Internet and new technologies are transforming how financial services are produced and delivered. More profoundly, as the potential of technology is being realized, the essence of what constitutes a banking and financial activity is transforming as well.

We shouldn't be surprised that the business of banking is changing. History reflects that banking is a business that has continuously -- and constructively -- evolved over time. We have come long way since the "real bills" doctrine of the 18th, 19th and early 20th Century, which held that a bank could maintain public confidence and liquidity only by balancing maturities on both sides of its ledger -- limiting its loans to non-renewable short-term working capital loans to business. Comptroller of the Currency John J. Knox endorsed this vision of banking in 1875

when he declared that "A bank is in good condition just in proportion as its business is conducted in short credits, with its assets so held as to be available on brief notice."

Today we would probably say that Comptroller Knox' ideal bank has an unacceptable credit concentration, possibly interest rate risk, needs to diversify its sources of revenue, and has failed to meet the credit needs of its community.

What is notable about the current phase of evolution of the business of banking is how technology is driving multi-dimensional change. Technology impacts not just how products and services are delivered, but also the substantive characteristics of products and services themselves.

In essence, the *medium* used to produce and deliver a product or service is merging with the product and service connected to it. As this occurs, the dimensions of the business of banking are expanding.

We already can see technology driving the evolution of banking in several ways:

- Technology provides new ways of applying the conventional roles and authorities of banks and, thereby, fundamentally transforms them.

- Technology provides banks with new applications for their existing core competencies and, thereby, expands their roles.

- Technology prompts banks to develop new core competencies that ultimately may migrate into the business of banking.

- Technology, and how bank customers use it, may compel banks to develop or acquire new capacities and competencies in order to remain competitive.

- Technology can combine financial and non-financial activities in such a way that a banking function based on non-banking activities emerges.

Let me now review how we see these themes translating into realities. I'll use several recent OCC decisions to put them into context.

First, I'll cover some decisions that treat technology as "transparent" and look to the nature of the underlying service, function, or activity proposed to be conducted.

Good examples of this "transparency" approach are the OCC's decisions on electronic finder activities. As you know, the finder function is a long recognized banking function. Banks bring together parties who then negotiate and complete a transaction between themselves. In the past, because of limitations on communications and information technology, the finder function was of limited utility. However, with the development of the Internet, the finder function empowers national banks to play a central role electronic commerce.

Thus, in the Fleet decision, we found that national banks as finders can offer commercially enabled web site hosting services to their merchant customers. The bank-hosted sites serve to bring together buyers and sellers -- a technologically advanced expression of the finder function -- and the bank may also process payments for transactions derived from the site.

In the recent AeroBank decision, we explored the extent that a national bank, on its own behalf as finder, can negotiate with merchants and other providers the sales terms to be offered customers referred by the bank/finder via the bank's web site. We concluded that national banks may, consistent with the finder doctrine, negotiate discounts to be offered to their Internet referred customers.

Similarly, in the Key/Econex decision we concluded that the finder authority, as applied to Internet technology, permits national banks to host virtual mall sites. The sites are a bank-hosted set of web pages with a collection of hyper links to third party web sites organized by product type. As an electronic finder, the bank's virtual mall is introducing bank customers to vendors and merchants offering a range of financial and non-financial products and services via links to sites of a third party. As part of this function, the bank may handle payments processing for transactions between parties introduced via the bank's virtual mall.

In other areas, the principle of technological transparency has been applied to the conventional banking activity of facilitating payments and collection of funds to support the following "new" activities:

- Electronic bill presentment, an electronic expression of banks traditional role in processing and collecting payments, which we approved in applications involving Transpoint [1] and Spectrum.[2]

- Issuance and processing of electronic stored value, which we approved in Mondex.[3] In that decision, we found the creation, sale and redemption of electronic stored value in exchange for dollars to be the electronic equivalent of issuing circulating notes or other paper based payment devices like travelers' checks.

- Electronic data interchange (EDI) services[4]. EDI services that allow businesses to send and receive payments, invoices, and orders are another expression of bank's traditional role in payments.

- Electronic payments and funds collection for public authorities,[5] an expression of banks' traditional role as fiscal agents for governments. A national bank thus could enter into a

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1 Conditional Approval No. 304 (March 5, 1999).
2 Conditional Approval No. 332 (October 18, 1999).
3 Interpretive Letter No. 220 (December 2, 1996)
4 Interpretive Letter No. 732 (May 10, 1996)
5 Interpretive Letter No. 731 (July 1, 1996) (E-Z Pass System Letter)

contract with a public authority to operate, on behalf of the public authority, an electronic toll collection system.

Reflecting the second theme, recent OCC decisions show how technology can present banks with new applications of their existing core competencies and, may thereby, expand their roles.

The authority of national banks to issue digital certificates is a prime example of technology expanding the application of existing core competencies. In the Zions and Indentrus decisions we concluded that a national bank may act as a certification authority to enable subscribers to generate digital signatures that verify the identity of a sender of an electronic message. This activity, although technologically advanced, is also the application of an existing core competency of banks -- verification of identity and authenticity -- in a high tech form.

Third, technology causes (and may even compel) banks to develop new core competencies that, in time, can become part of an expanded business of banking. History is replete with examples of how this has occurred - the goldsmith bankers in 17th century England evolved a money transfer function from their core competence of safekeeping.

Today's versions of an evolved core competency may arise from various activities. For example, as banks seek to save significant costs through electronic presentation of checks, a high degree of competence in imaging technology and storage will be essential to support this new approach to check processing. Imaging technology and storage may soon be understood to be part of or incidental to the business of banking.

Traditionally banks have focused predominantly on functions relating to processing, transfer, and storage of monetary value. However, technology offers the possibility that banks may come to serve a central role with respect to the processing, transfer, and storage of information generally. Internet banking is a primary current application of Netcentric or network computing where relatively little information is stored on consumer controlled devices and the vast majority of information is stored on bank controlled servers. TV banking is on the horizon; it will expand not only access, but also customer reliance upon bank-maintained databases. If this trend continues, consumers may conclude that banks are a logical repository of all their information: financial and non-financial, and banks will have the competency to meet that need.

Fourth, and similarly, the way consumers use technology will compel banks to develop or acquire the technological capacities needed in order to competitively provide their products and services. These capacities may relate both directly to how the bank's products and services are provided, and more broadly, to what types of products and services the customer has accessible through the bank.

Fifth and finally, technology can combine financial and non-financial activities in ways such that a banking function based on non-banking activities emerges. Data processing is an example. Processing of banking, financial, or economic data is part of the business of banking. However, this authority also enables a national bank to process information that is not

necessarily banking, financial or economic when the processing compiles or creates a derivative data product that is banking, financial or economically-related. In other words, the processing by the bank seeks banking, financial or economic correlations or relationships within the non-banking data. This is part of the business of banking. Thus, the nature of the entry data being processed is not necessarily determinative of the permissibility of the data processing; the resultant product also must be considered.

These precedents illustrate how technology is creating new dimensions to the business of banking. The changes are dynamic. Traditional functions performed in new ways create new, technology-based banking products and services. Traditionally-recognized areas of bank expertise -- competencies -- are manifested in new forms. New competencies that banks develop or need to acquire in order to be competitive may lead to availability of a broader mix of product and services. And the inherent capacities of technology to assemble, analyze and transmit data, enable banks to perform banking related functions even if non-banking functions or data also may be connected with the bank's activity.

All this promises an exciting future for the banking business in this new century and many new opportunities for bank customers. Realization of the potential of new technologies may even mark a unique evolutionary stage in the banking business where businesses and consumers, the technically well-equipped and adept and the economically underprivileged may all benefit from innovations in products and services and delivery that new technologies make possible.

And of course, these developments also presents new challenges for bank regulators, as we strive to position ourselves to understand the new risks that may be presented by new dimensions of the banking business, and to develop expectations about the types of risk management systems we expect banks to employ to identify, monitor and control those risks.

It is hard to predict what the next innovation will be and what issues it may present. But I do think it is fair to predict that, at the OCC, we will continue our tradition of supporting constructive and safe and sound evolution of the business of banking, in this dynamic, new dimension of the banking business.

Thank you.

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