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Speeches

New tools and old traditions - community banking in the year 2000 and beyond:

Remarks by

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NEW TOOLS AND OLD TRADITIONS-
COMMUNITY BANKING IN THE YEAR 2000 AND BEYOND"

Thank you for inviting me to speak with the members of the IBAA here in beautiful Honolulu.

It startles me to realize that soon, the phrase "turn of the century" will not refer BACK to nineteen-hundred, but AHEAD to the year two-thousand!

I suppose every convention has to have a theme, but your theme of "Looking Toward The Future" is particularly appropriate for community bankers in 1988.

Why? Because I feel that community bankers will have an important role in the America of the year 2000, and BEYOND.

A role, and a degree of importance, that will perhaps EXCEED what community bankers have ALREADY contributed in the 53 years IBAA has been with us.

I've heard many predictions of what banking will be like in the year 2000. Some say we'll do all our banking by computer, while others predict banks will be as big and impersonal as a state motor vehicle bureau, and maybe only Citicorp and Sears will thrive.

I doubt that's what the future will hold.

To ponder on where the community banks are going, we need to examine where they are today. If you don't know where you are, the map of the future is unreadable.

So lets take a look at how the under 100 million dollar banks have been doing. The early 80's were not especially kind to these small banks, although there were some signs of improvement in 1987.

Small banks' Return on Assets has dropped from 1.07 percent in 1981 to .58 percent in 1987. By comparison, all banks have also seen a drop in ROA over this period, but until 1987 that decline was far less steep.

At the same time, the number of small banks has been thinned by failures and mergers. In 1981, 87 percent of all banks were under \$100 million, and by 1987 that number had declined to 80 percent. Over 92 percent of the banks that failed last year were small banks, which amounted to 1.6 percent of small banks .

We realize that the IBAA has members in every state and in the District of Columbia. And many of your members in the southeast, northeast, and central regions enjoyed robust years in 1987. But banks in the farm belt and oil patch account for more than 50 percent of your members, and they have suffered from regional economic problems.

Bank failures in those areas accounted for nearly 80 percent of all small bank failures in 1987. Limited branching and unit banking laws, also characteristic of these states, have intensified the impact of regional economic problems on small banks.

Yet by no means have all the trends for small banks been discouraging. Industry profitability in 1987 was at record lows, but small banks, with 13 percent of the industry assets recorded over 57 percent of the industry's profits! Your brother bankers in the big cities had a really bad year as they finally reserved for losses on Latin American and LDC loans.

1987 saw other encouraging signs for small banks. Returns on assets and equity improved over 1986 levels. Aggregate operating income jumped 50 percent. The proportion of small banks losing money declined. Net charge-offs decreased 21.2 percent. And the number of small banks on the FDIC "Problem List" finally began shrinking after six years of growth.

These improvements have been especially evident in banks in the farm belt. Small banks in the Midwest enjoyed a ROA of 1.15 percent in 1981, but this rate had fallen to .42 percent by 1986. ROA climbed to .67 percent in 1987.

In dragging out the crystal ball to peer into the future we can start with the fact that small banks are alive, and mostly healthy. Although, like the industry as a whole, they've seen better days.

Let's take a look at what the crystal ball has to reveal:

Suppose we could all leave this world of beaches and tennis courts in a time machine, and visit America some year just after the turn of the next century.

What would America be like?

For one thing, people will have tired of "health food." Products will be marked "100 percent bran-free" -- "caffeine added" and -- "contains sugar -- no artificial sweeteners."

In the world of entertainment, Michael Jackson will be having his mid-life crisis. The hottest movie of the year will be "ROCKY 24" -- the plot of which will involve Sylvester Stallone fighting for his Social Security benefits.

The AFL-CIO will merge with the Grey Panthers. And controversy will rage over an effort to "de-colorize" Technicolor movies into black-and-white. Woody Allen will be against it.

Vanna White will be entering her second term as President of the United States, after running on a platform promising "two baby sitters for every baby" -- and pledging to support a man to succeed her -- if a qualified man can be found.

Historians will look back and see two major events in 1988 of lasting importance. One will be the significant removal of Glass-Steagall restrictions, and the other will be the end to the prohibition of night games at Wrigley Field.

Newly appointed Chairman Guenther of the FDIC will be presiding over an insurance fund of 50 billion dollars, and ruling by the slogan -- "Too large to save, Too small to let fail."

Back to the future. We see that there will be much that is unfamiliar.

But there are at least three American institutions that will still be with us. One will be "I Love Lucy" reruns. The second will be Gary Hart dropping in and out of running for the presidency. The Third familiar sight will be the community bank, now known as "your personal banker."

The America of the year 2000 will be almost tailor-made for the skills of community bankers.

Remember twenty years ago, when forecasters were predicting that supermarkets and department stores would dominate the retail scene by 1988. Or over forty years ago, when the prediction was that the Great Atlantic and Pacific tea company, the A & P, would dominate the grocery business.

Instead we have seen that BIG does not necessarily mean BETTER -- and that the hottest markets in retailing are for the small specialty shops and "boutiques" that emphasize "personal service" the "big boys" can't offer.

In 2000 the same thing will have happened in banking.

One of the major changes that will benefit community bankers will be an increasingly segmented consumer market. Rather than one MASS market, marketing for financial products will be aimed at a growing variety of smaller, specialized, markets.

Precisely the kinds of markets smaller banks should EXCEL at serving. The "niche" generation will have arrived. In fact your Association may be renamed the NBAA, the Niche Bankers Association of America! Or better yet, the PBAA, the Personal Bankers Association of America.

The definition of "community bank" will no longer largely be one tied to GEOGRAPHY as it traditionally has, but instead it will be related to DEMOGRAPHY.

The community bank today is like the "country doctor", supplying a full range of services to a full range of customers. Tomorrow the "new breed" of community bank will also practice "specialized medicine". In fact, the motto of these future bankers might be "helping our customers stay financially healthy."

Let me tell you what the crystal ball reveals -- some examples of the groups that will demand special banking services.

As we pass the year 2000, the "baby boom" babies will be going gray. On the whole, our population will be living longer, and WORKING longer. Many minorities, including Blacks, Asians and Hispanics, for example, will have growing economic and political clout. And, as employers decentralize, more people not linked to the agrarian economy will be living in small or medium sized communities.

ALL of these trends will call for some very special financial services -- many of which have yet to be developed.

And what this spells is OPPORTUNITY for smaller banks!

Central to success will be the flexibility of the services you provide. Customized products will better meet individual needs.

My crystal ball shows community bankers developing better products to help their business customers succeed and their retired customers live a better life.

The range of products will include financial planning, mutual funds, insurance, investments, real estate, and even travel services. Savings vehicles will be available with or without deposit insurance.

Not every bank will provide every service, they will pick their niche for their community. The highest profits will result from "cross marketing" a mix of both new and established products to meet a particular group's needs. If you want to witness this trend underway, look at the in the Washington area along the fast developing Dulles Corridor.

So it is clear that community bankers should be supporting increased bank powers and services.

Technology will be important to this process. It will give bankers extra time to devote to their customers. And it will revolutionize the products and services that small banks can offer their customers.

The COST of electronic help for banks is already HALF what it was only ten years ago. By the turn of the century, VERY sophisticated technology will be affordable for even the SMALLEST banks.

High tech will reinforce your traditional strength -- PERSONAL SERVICE. So don't be alarmed by the thought of one of your employees sitting behind a desk with a computer terminal and cash machine providing your customers everything from loans to tickets to Aruba. Of course a one-way ticket to Aruba right after the customer receives the loan proceeds is still verboten!

Our population will be getting progressively older as we move into the 21st century. While in 1985, 28 percent of the population was 65 or over, by the year 2000 this group will constitute 35 percent of the population. Retirement, financial planning, and services will be a very big market.

As the "Pepsi Generation" becomes the "Geritol Generation", demand will grow for bank products to help maximize SAVING.

Special IRAs will be developed, not just to assure a comfortable retirement, and also to provide for needs like health care.

And groups like the American Association of Retired Persons (the "AARP"), will have become the undisputed king among interest groups. The AARP and similar organizations will develop relationships with those banks that offer products catering to the senior members of our society. In fact, that's not a bad idea to get started right now. And of course the affinity cards of these Yuppies turned ARPIES will have a picture of a BMW Wheelchair stamped below the VISA emblem!

Specialized attention will be needed to win the business of the normal "two-breadwinner" family. These families will represent at least half of all household in the upper income brackets by the year 2000. Helping such households to manage their money,

and meet their personal goals, is a market suited to banks that are designed to help their customers succeed. A maximum of personal service, tailored for people with a minimum amount of time, will prove a dynamite combination.

In such households of the future, the home computer will be as commonplace as the toaster or the telephone. And finding ways to help the household of the future bank by way of their computers will be the norm.

Our crystal ball shows us how demographic and technological changes will provide community banks with many new opportunities to expand their product portfolios and customer bases. The counterpart is how banks will invest. The predicting crystal says Securitization will be the answer.

Securitization will be available to small banks, not just larger banks. Regional bankers' banks will develop to facilitate the packaging of loans originated by the community banks in their area. Some community banks will also join affiliation arrangements that, in aggregate, will give these banks the scale necessary to securitize.

Securitization will let banks focus on originating and servicing loans -- and generating service income.

Securitization will also allow for portfolio diversification, which will help community banks withstand localized economic shocks, such as has occurred in the farming and energy areas.

Not a bad future for those banks that see it as an opportunity.

The experience and special philosophy of the community bank -- that of "we know our customers, and our customers know us" -- will be the basis for the niche bankers motto, "we help our customers, and our customers love it!"

Finally, what does the future say about the banking regulatory structure. Even though the wise and just Guenther will be overseeing the FDIC, all will not be perfect. Like all regulators, he will need to be reminded that his purpose is not to rule but to serve.

Even so astute and experienced a leader as Guenther will need to rededicate himself to the safety and soundness of the banking system, the consumer, and to providing supervision that is helpful to all parties involved.

At the FDIC we seek to provide such direction NOW. Perhaps by the year 2000, with the assistance of the enlightened bankers of the future, we will be able to accomplish regulation that satisfies the regulated while protecting the public interest.

Longfellow advises us to "Look not mournfully into the past. It comes not back again. Go forth to meet the shadowy Future, without fear, and with a manly heart." I hope that's a perfect description of the behavior of the community bankers at today's meeting. If it is, the future, your future, looks bright!

Thank You.