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It is, as always, a pleasure to be with community bankers, having been a community banker myself for 30 years. I have to admit that our surroundings do not detract from that pleasure. You'll see sites here like nothing you'll see anywhere else -- Diamond Head, Iolani Palace, Ken Guenther with flowers around his neck. It certainly beats gloomy, gray, button-down Washington, where I've never seen Ken without a tie.

One lesson that bankers have learned since I became a banker in 1960 is that you are in the financial services industry. Your competition is not just the bank down the street -- it is any company that meets the financial needs of the customer. Community bankers, however, hold a high card in this competitive game: the relationship you have with the customer. You know your customer not just from numbers on a page, but also from looking into his or her eyes, and living your lives as neighbors. Because of the relationship you have with your customer, you provide -- not just financial services -- but financial service.

The most impressive example of service in business that I have ever come across occurred in London during World War II.

A young American fighter pilot had been granted an overnight leave so he could spend some time in London before he left England on assignment. He decided to splurge by staying at the renowned Claridge's Hotel. Soon after checking in, he delivered his dress uniform to the concierge's desk for a quick pressing. Minutes later, the air raid siren began to blare and he picked up his unpressed uniform as he -- and the staff and other guests -- trooped to the basement shelter, where they spent the evening. He returned to his base the next morning.

More than twenty years later, the American returned to London on business. One afternoon, he walked past Claridge's, and decided to pop into the lobby to see if it had changed. He was surprised to see the concierge from the war years still at his post -- a bit heavier, a bit grayer. The American walked up to the concierge and said: AI'm sure you don't remember me.

The concierge replied in the understated way of the English: AI am sorry that circumstances prevented us from pressing your uniform, Sir.

I remembered the story recently when I was thinking about two new competitive challenges that are unlike anything that the banking industry has faced before. Each one can threaten the relationship that community banks have with their customers. Each one goes to the distinction between financial service and financial services. And one thing can be said of both:

You don't need a building to be a bank.

You don't need a building to be a bank in cyberspace.

And you don't need a building to be a bank if you have agents doing your banking business from their offices.

One challenge is technological. The other is regulatory. And bankers need to be aware of the ramifications of both.

First, let's look for a moment at banking on the Internet. It is in its infancy -- and no one is suggesting that we all will be banking online tomorrow, or even the day after tomorrow. But it appears that every few days, an additional bank or thrift offers transactional business online -- today, more than 120 institutions do, not counting credit unions. Experts say that, by the year 2000, the number of banks and thrifts with transactional business on the Web will be more than 500 -- and the number of households using electronic banking services will exceed 16 million.

It's interesting to note that, in the last few years, expert projections about electronic banking have consistently underestimated the rate of growth.

Defining what is banking on the Web can be difficult -- the field is moving so quickly -- but one way to describe it would be to look at a few of the subjects that a newsletter titled Online Banking Report has covered in the past few months:

-- Online bill presentment, including an article on AProduct Design for Any Budget;

-- Interactive lending;

-- Commercial lending services; and

-- One-hour loan approvals via the Web.

I don't think anyone can doubt what's in store for the future.

Banking on the Internet, however, is a two-edged competitive weapon -- and one that community bankers might consider using themselves, if the circumstances are right.

For example, I am aware that a small bank in my home state of Nebraska -- a bank located in a town of 346 people with no railroad nor major highway nearby -- has found its place in cyberspace. It's the State Bank of Hildreth. The bank has assets of $23 million. It has about 1,000 customers, and about 700 deposit accounts. Last year, the bank decided that it wanted to expand its depositor base -- and explored online banking as the means to do so. In the middle of last summer, it surveyed about a third of its customers to see if any would use Internet banking -- and found that a few would. The bank then selected a vendor to provide its Internet banking program and, last November, the bank went live with a transactional Web site that offers account access, funds transfer, and bill paying, among other features.

Some of the people who follow banking on the Internet believe the greatest danger it holds for traditional banks is a form of disintermediation. They believe that banks will literally be pushed into being nothing but back office processors of transactions -- invisible to the customer. The customer, they say, will identify technology companies, say Microsoft or Intuit, as the providers of his financial services. This view strikes at the heart of community banking -- the relationship with customers. But, as the example of the State Bank of Hildreth shows, this end isn't inevitable.

The size and location of a bank does not present a barrier to an online strategy -- which can be both an advantage and a disadvantage to community bankers. You have some choice as to which one it will be. I'm sorry to say that the same cannot be said about the second competitive challenge that you face. I'm referring to the way that nonbanking companies are entering banking by setting up Unitary Thrift Holding Companies.

Hjalma Johnson, a community banker from Florida speaking at a recent FDIC Symposium on Deposit Insurance, noted that bankers have nothing against the unitary thrift charter -- and, in fact, would like to have that charter themselves.

Other types of businesses also see the competitive advantage in doing so -- a depository institution that can branch nationwide and underwrite and sell insurance and securities, among other things.

In the last year, more than 25 commercial firms, insurance companies and other businesses have applied for federal thrift charters to create a unitary thrift holding company for themselves.

There are more angles in this story than there are in a geometry textbook. The angle I want to focus on with you today concerns insurance companies.

A company that seeks to form or acquire control of a federal thrift institution is required to file an application with the Office of Thrift Supervision. Let's look at a brief listing of such applications from insurance companies:

-- State Farm Mutual Automobile Insurance Company filed an application last June to form a de novo thrift.

-- Transamerica Corp. filed an application last June to form a federal savings bank in Nevada.

-- The National Association of Mutual Insurance Companies announced in August that it would form a federal savings bank to provide financial products and services to be marketed through member companies and their agents.

-- American International Group, Inc., filed an application in October to form a de novo thrift.

-- The Equitable Companies, Incorporated, filed an application in October to form a de novo thrift.

-- The OTS last November approved an application to form a de novo thrift from The Principal Financial Group -- a thrift that will operate on the Internet.

-- The OTS on November 24 approved the application of Travelers Group, Inc., to convert its state-chartered commercial bank to a federal savings bank charter and to conduct trust activities.

-- On November 25, Nationwide Insurance applied to form a de novo federal savings bank to sell trust services to corporations.

-- On January 9, the OTS granted Reliastar Financial Corporation, a Minneapolis insurer, permission to acquire Citizens Community Bancshares in St. Cloud -- the insurer bought the thrift to offer certificates of deposit, credit cards and money market accounts to its policyholders.

And recently, American General Corporation announced plans to turn its Utah industrial loan company into a federal thrift -- and Allstate Corporation asked permission to start a federal savings bank.

There are, of course, a wide range of business strategies behind all these applications.

Allstate has been reported to commit that it would not take deposits or make loans through its 15,000 agents in the United States and Canada -- at least initially.

Such is not the case with State Farm. It stated in its application that it would not open thrift branches. Instead, it would sell banking products through its network of 17,000 agents in the U.S. and Canada -- in effect turning its network of agents into a bank -- a bank built out of flesh-and-blood, not brick-and-mortar.

I want to point out quickly that the approvals of applications such as these by the OTS is not an easy, cut-and-dried decision, and the applications themselves are not the result of a drive on the part of the OTS to drum up institutions to regulate.

The situation is simply -- as OTS Director Ellen Seidman, who sits on the FDIC Board, recently pointed out -- that the market for financial products is highly competitive and the [unitary thrift] holding company charter that permits nonbank entities to be affiliated with thrifts is flexible. To quote Director Seidman: AThe financial services modernization goals of one-stop shopping and increased consumer choice are represented in this structure.

Which is why Hjalma Johnson said bankers don't oppose unitary thrift holding companies -- and that many of you would like to operate under something like it. It is a good deal.

I cannot say what the future holds -- but I can say that large diversified financial and commercial companies would logically have a competitive advantage over traditional banks that cannot offer as broad an array of products and services. And an insurance agent providing bank services logically would offer a competitive challenge to community bankers. The evidence supporting that statement is located at the State Farm Office at 330 North Minden Ave., in Minden, Nebraska, about one-and-a-half blocks from Minden Exchange Bank, where I spent my banking career.

I've talked today about Internet banking and unitary thrift holding companies as two separate types of competitive challenges, but in closing I would like to bring them together for a few moments.

On February 6, the OTS approved an application from Excel Communications Incorporated, the nation's fifth largest long-distance telephone service provider, to operate a federally chartered savings and loan. The thrift, to be called First Excel, FSB, will have its home office in an Excel Communications facility in Dallas and will offer a full range of thrift services. In ten minutes searching the Internet, you could find out the following:

Excel has built what has been described as Aan Amway-style marketing machine to sell long-distance telephone service. The company has an estimated 500,000 independent agents, in addition to its 3,000 employees. The independent agents are expected to recruit other representatives, and get a cut from all revenues generated by the people they recruit. The company went public early last year. It then had a market value of more than $2 billion.

Initially, beginning this summer, the thrift would serve the general public in Dallas and Excel's 500,000 employees and agents, operating from the home office and a branch in Texas.

You might ask: AWhy would a telephone company want to operate a financial institution?

The OTS's approval specifically allows the thrift to operate on the Internet. The Internet is a form of telecommunications -- how many of us here use it for e-mail? -- and computers are tied together and communicate by cable.

Finally, the American Banker reported that Excel would name Lawrence C. Heller as president of the thrift. Mr. Heller was previously a vice president within the private banking group at Citibank, where he marketed commercial banking and investment products.

You don't need a crystal ball to see where this may be going.

Back when I entered banking in the early 1960s, a fellow named Marshall McLuhan declared that money was information that would spin around the world in a blink of the eye through the coming interconnection of telecommunications. What McLuhan didn't see -- but what other people figured out -- was that in the coming world of financial services, the delivery system could generate product just as easily -- and perhaps more easily -- than the product producer could generate a delivery system. When you don't need a building to be a bank, we're living in a whole new world.

However, an important question -- perhaps the most important question -- remains: How much will service be valued in this new world? Financial services is a high technology industry -- but the traditional banking portion of it, and particularly community banking, is high touch. Traditional banking rests, not just on providing financial services, but providing service -- advice and counsel -- to go with them. It has been, not just a business, but a profession. Historically, this has been banking's distinction. As a result, traditional banking, and particularly community banking, has enjoyed its own competitive advantage.

Traditional banking has adapted to enormous change before -- and still remained banking. If we can judge the future by the past, it is certain that bankers will find a way to respond to the competitive challenges that technological change and regulatory decisions are bringing you and will continue to deliver service, as well as services, to your customers.

Thank you.

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