

# Bankers and The Fear of Flying

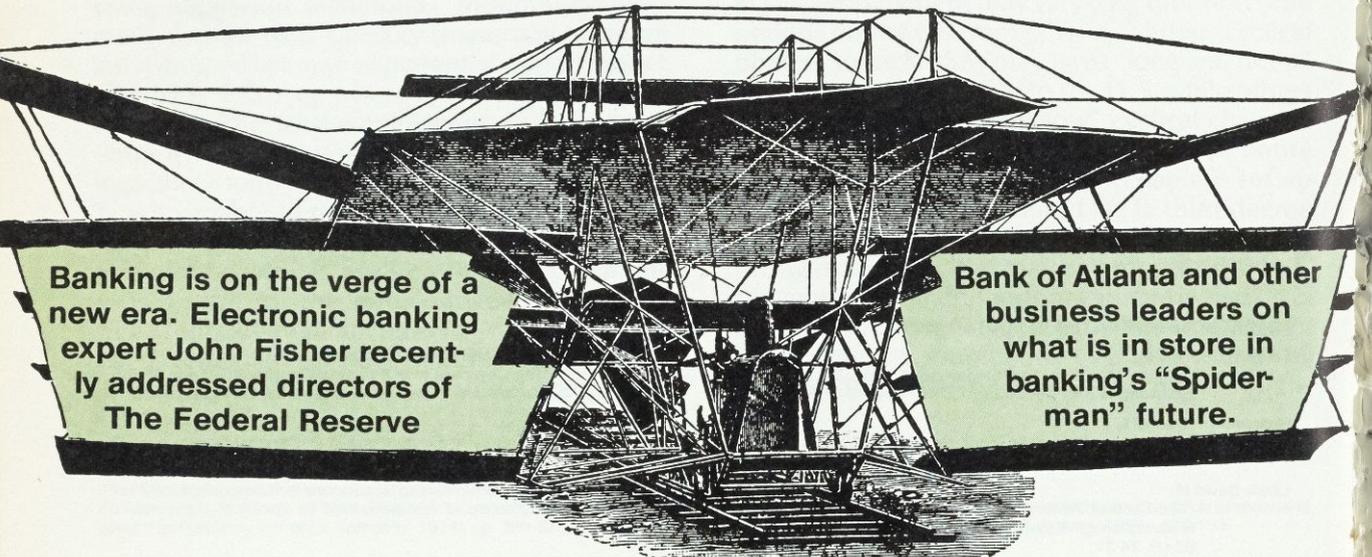
There is a life cycle of the basic delivery systems occurring in banking.

Back in the early days of banking, when people availed themselves of banking services, they basically went to the main office. And then about 1950, branching began, and soon behind branching came the advent of the most popular mechanism we have in banking today, the drive-in window. And if you'll track that life cycle, you'll see that today we are at the peak of popularity of the branching mechanism and, as a result, of the drive-in mechanism as well. At my bank today, about

55 percent of all my customer services are handled in that kind of a mechanism.

The bricks and mortar delivery system that has been so helpful in the past is dying. As we head toward the year 2000, it will decline on a toboggan ride, being replaced by electronic delivery systems starting with the automatic teller machine at the beginning of the '70s, a rise we're predicting through the early '90s. And then that too, we believe, will begin to cycle down.

The automated clearing house (ACH) continues to gain popularity in our market-place and



**Banking is on the verge of a new era. Electronic banking expert John Fisher recently addressed directors of The Federal Reserve**

**Bank of Atlanta and other business leaders on what is in store in banking's "Spiderman" future.**

is a fundamental requirement for our future success. We must, as an industry, learn how to utilize that ACH capability far beyond how we're using it today. By the year 2000 the ACH will be the second most popular method by which people gain access to their bank accounts. They will do it, increasingly, through the soon-to-be introduced home delivery which will rise very rapidly through the latter half of the decade of the '80s. Into the '90s and by the year 2000, home delivery will represent the most important method by which customers gain access to the bank.

There is still another kind of delivery system out there: the shared branch. The 100,000 storefronts the depository industry has in place in America today will not be needed in the future to the same degree as in the past. We will do something with them. We have already begun to sell them and close them down. Perhaps we will begin to share them as we push into the '80s: build a barricade down the lobby and provide a separate entrance, plant a little poison ivy on one side of the barricade, lease out space to Century 21, Merrill Lynch, Nationwide Insurance and others in the financial industry and provide services in the marketplace under the umbrella of a financial services center. Somewhere in the latter half of the '80s, this shared branching idea will begin to develop. It will be an important way for us to maximize the bricks and mortar we have today.

It was nice, back in 1950, when a banker could come to the main office at 10 and close at 2 and work on his golf handicap. That was the way banking business was comfortably done. But today there are many more competitors and the world is different. Today we are looking at a very complex picture: we must maximize the delivery system that's in place, bricks and mortar, while bringing on the new electronic delivery system that is the promise of the future. It's a little like a mechanical company trying to become an electronic company. Some make it, like NCR. They were a mechanical cash register company. Today, they're an important computer company. Some don't make it. Addressograph-Multigraph could not make it.

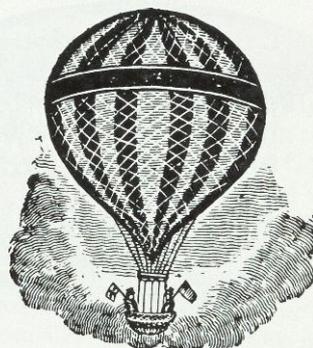
The same kind of pull and tear and gee and haw will take place in the financial industry. There will again be winners and losers as we

move from today's bricks and mortar delivery into the electronic capability of the future.

## The Little Plastic Card

You could see this beginning to occur back in the '60s with the success of the spectacular delivery system developed by our industry, the little plastic card. That plastic card has not only allowed us to lend money in unique ways, but to introduce a unique payment mechanism worldwide and to guarantee transactions to the retail industry. Now, the mentality of the card and the automatic transfer of funds is allowing us to think about delivering services to the home.

All kinds of participants can now share equally in what the financial industry invented.

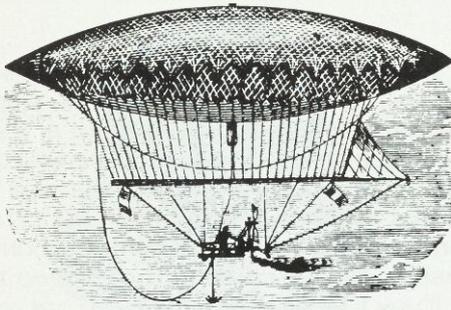


We can no longer just view this as a bank card or a credit card. We clearly have developed a new mechanism for providing financial services and new kinds of development throughout the world which promise even greater returns in the future. There is the money card with a computer chip. It's compatible with the magnetic stripe that we use, and is under test today in three important cities in France.

Your signature has about 200 unique characteristics. Those characteristics can be digitized and encoded on a magnetic stripe plastic card. So a new personal identification capability can be wedded to the plastic cards we carry in our purses and wallets today. There is a new material, laser encoded and laser read, which promises an unlimited amount of data that can be stored on a plastic card. That may become a technology we would use in the decade of the '90s. So there are all kinds of unique

opportunities for wedding technology to the basic delivery system we've been inventing for the last 50 years.

Earlier technology triggered the revolution underway in our industry today. We now have 30,000 automatic teller machines in the United States, and there are almost 100,000 of them in the world. New models will be cheaper and easier to use and perform new functions. You could walk up to a machine in a broker's office, ask for a \$2,000 check issued against your money market fund, key in the appropriate data, and have that check dispensed from a cartridge in the machine. In fact, machines coming to market will have up to four cartridges so they can dispense checks and travelers' checks and two denominations of cash.



A check should be cashable anywhere, and, therefore, if the plastic card is to displace the check, the plastic card should be good for cash anywhere and not just at one bank entering into a private arrangement with another bank. To see that, let's look back to the beginnings of the automatic teller machine and then come forward. In the first two years of operation, America installed 250 cash vendor machines. We only had credit cards to introduce them and the world was totally off-line. This is how the business began. Then a few banks began to introduce full service tellers. Every banker in every community said, "I'm gonna knock the bricks out of the wall of my bank, put the machine in and run an ad that says the bank will never close."

Finally, just within the past year or so, as we began to understand the cost associated with installing these devices, we began to push the concept of sharing. So the "doubting Thomas" period of the '70s has given way, and we now see people talking about networks, installation

off-premise, and pricing differently from a live teller. We now are talking about delivering capability into the market place, and not just gadgetry, as we had talked about in the previous 10 years. We are entering a "web-slinger" era: Spiderman's going to be out there linking us together.

## The Spiderman Era

The marketplace will finally respond. It could be to bank networks. It could be to third-party installers. Merchants, grocery chains, brokerage houses, national retailers will begin to think about the business opportunity to install financial service centers and machines and to sell services to the financial industry, regardless of the kind of card the customer presents.

We are headed into a very sensitive two-year period and the third-party installer is going to be much more important to our industry than we realize at this minute.

The new family of devices will also be arriving. Devices that kick out cash only will cost less than \$10,000. So you could afford, therefore, to install simple cash vendors virtually everywhere. Other devices with sophisticated capabilities will allow customers to access their checking account statement and to have it printed from a customer-operated device. That will be another of a family of devices coming to the marketplace. We will see very rapid off-premise development during this web-slinging period.

By the time we get to the 1986-88 period, 100,000 to 125,000 terminals will be in place. The networks that survive the web-slinging era will link themselves together: any card will be used in any machine and this will create a very rapid change in the bricks and mortar facilities that deliver financial services today.

At the turn of the '80s, the marketplace will be responding very positively to what we have been inventing. Public acceptance will be widespread. Any machine will be available to any customer virtually anywhere. So in my mind, the automatic teller machine is a revolutionary tool that will allow us to introduce unique new banking services.

All this is not as exciting, however, as another opportunity before us: the opportunity to invent a way to provide financial services in

the home and allow the customer to interact with the bank account. This is clearly the most exciting and challenging opportunity facing our industry. New home information networks will begin to emerge about the turn of the decade, and the financial industry will join other information providers to help build the home information industry for our country by the end of the century. A whole new set of packages can be invented to deliver services in the home. Electronic bill-paying is the most prominent: to displace the check, to have the bill sent to the bank through the ACH on computer tape, to have it displayed on the home screen when the customer wants to see it, to bypass the costly and antiquated mail system.

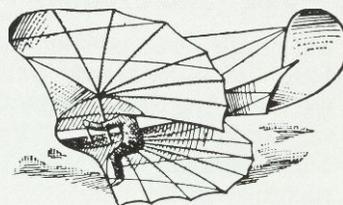
Additionally, information can be provided over these new mechanisms. The simple balance inquiry of today will not carry us far enough. The customer needs reliable data to make business decisions. Rates change every day now, and therefore the customer needs current data to make decent decisions. New accounts can be opened. You can imagine an installment loan application appearing on your home screen; you fill in a simple eight blanks; the cursor at the bottom of the screen winks at you and says back in 20 minutes with the answer." Finally, the promise of the past that the banking industry would introduce financial counseling and budgeting is likely to occur now in this electronic world.

This is the picture we are trying to invent: the home television screen, Ma Bell's simple little telephone, with a key pad that will allow the homeowner to respond to what's on the screen.

The industry is forming at the minute under the umbrella of new kinds of networks, the networks linking together the home with various communications distributors, AT&T, cable, and the various data-base suppliers such as the financial industry.

Think about the entertainment networks of today, delivering information and entertainment into your home via radio and television. The new networks will deliver data into your home, allowing any home to link up with virtually any data base. The emerging network computer is tomorrow's printing press which will be a data processing center sending data into your home over blips and wires. So the data-processing center will tie our homes

together to provide the information the marketplace will need in the next two decades, linking through the network computer to various data bases. One of these will be the banking industry. There will be a shared banking facility and a data processing center tied to the banks, credit unions, savings and loans, potentially others in the area, so every home can access any "bank" through the network that's delivering service to that home.



There likely will be competing networks. We can already begin to see competing networks in our country: coming up out of Miami is Knight-Ridder and AT&T, which will launch the first real application of video text in mid-1983; coming out of New York is CBS and AT&T; coming out of Los Angeles is The Times-Mirror effort which just has announced a joint venture with Info-Mart, a Canadian organization. Cox Cable, with the project in San Diego, could be a fourth network. There will be others: Dow Jones and CompuServe. We shall hear more of some of these names as new network companies form in the next few years.

What kind of device will we have in our homes to access these networks in the mid-'80s? You can see some early devices in the marketplace. You can buy a seasonal computer terminal on your way home tonight. A videotext terminal can plug into your television set, jack into the CompuServe network and provide a distant data base service.

A major commitment has been made by the French government over the last four years to install that kind of terminal linked to the telephone system in every home in France, with a nine-inch black and white screen, alphanumeric keyboard, function keys, and a modem plugged into it so it can jack into the phone lines. The idea is that this device or something similar to it will be installed free in every French home, 30

million terminals. The cost justification is that it will be cheaper to distribute terminals than to continue to print the telephone directory: the first service over the screen will be a telephone directory. So worldwide standards are being hammered out at the minute. The Bell commitment in this country appears as if it will hold up and that the French and English systems will accommodate what's being proposed in this country.

### "Kitty Hawk" and Courage

Let's put this in a true perspective. Between '81 and '83, the "Kitty Hawk" period we're in today, we are trying to understand whether or not we can get this thing off the ground. This is a period when data bases are being linked together for the first time, personal computers are being linked together and the first network opportunities are emerging. So this is a very significant beginning.

Because 1983-1985 is the "Uncle Miltie" period, when we'll begin to see the popularization of this new home information industry, just as Milton Berle did with a home entertainment industry. We'll begin to see the arrival of stand-alone terminals, and you will think about a terminal as a home information appliance. You will buy it at the store, carry it home, plug it in and it will work. Just like America went down to the store to get microwave ovens. If it doesn't work, a repairman will come out and fix it.

We'll get to the "gee-whiz" era by about the turn of the decade, when various technologies will be linked together. Look at what Sears did last fall in their 1,000-home test in Cincinnati and Washington, where the Sears catalogue was printed on a video disc, allowing therefore the random access of information on that disc. If you wanted to know what an appliance looked like, you just keyed in the code and a two-minute picture demonstration appeared on the screen. Better personal identification systems should arrive by the 1990s. This is crucial. We will require better technology to identify remote customers. As a society, we will demand that the privacy of our financial data be absolutely secure.

We face some immense problems. The most important is that we lack courage.



Think about these two guys: Orville and Wilbur Wright demonstrated they could build a machine that could fly. At the end of the third flight a little puff of wind picked up that frail craft and, wing tip over wing tip, rolled it over one of the sand dunes at Kitty Hawk, and it lay crumpled outside their little shack.

Imagine, that night, the dinner conversation they had. Wilbur said, "I wonder what we've really done. Have we built a machine or have we really begun the flight of man?" That question led them to a discussion that lasted into the early morning hours. They began to think about what they would have to do if in fact man really was to fly. They would have to enclose the passenger. So the idea of a cabin began to emerge in their future plans. But this presented them with a problem of weight, calling for new kinds of engines and propellers, bringing problems they knew not how to solve. They talked of creating some new kind of landing gear. They wondered how to support sufficient fuel to fly from one place to another. They worried about the problems of protection from the flammability of that fuel, they wondered how they could navigate from one place to another, and they begged for the invention of radio so they could not only navigate but communicate.

Finally, in the early morning hours, they came to the most severe problem of all—the same problem we face every day—how to convince somebody else to do what you want them to do: As Orville said to Wilbur, "How will we ever get man to overcome his natural fear of flying?" That problem became so severe in their minds they both in unison agreed that they had merely invented a machine and that man would not fly.

It will take courage.

—John Fisher

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