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CURRENT TOPICS IN BANKING

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As bankers and bank supervisors we are fortunate to be living in one of the most exciting periods in banking history.

Our nation's economy continues to grow at a rate of more than 4 percent per year, and our gross national product has risen by almost 30 percent in the past five years. We are continuing to set new records nationally in employment, industrial production, and incomes. A published study recently brought to my attention predicts that by 1975 GNP in constant dollars may rise by over 75 percent, population will increase by 20 percent, and average family personal income should be up almost 30 percent.

This growth in the nation's economic activity offers a piquant challenge and a vast source of new opportunities for the banking industry. That banks are not unaware of these challenges is shown by their enlarged operations and the increasing range of services which they are able to perform efficiently for the public. New technological developments and automation have changed the traditional ways of doing things. Geographic distance continues to be shrunk by advances in communication and transportation, presenting to individual banks opportunities that hitherto were not available. These expanding horizons have no doubt also brought the sting of increased competition to many banks, and have presented new pitfalls which usually comprise the reverse side of the coin of opportunity.

The significance of these trends derives, of course, from the vital role of banking in our modern economy. Banks are unique among

financial intermediaries in providing through their checking deposits the lubricant which makes possible the functioning of our modern economy. Through making loans and investments, banks provide by far the largest portion of our nation's money supply. In the total money supply of about \$160 billion, demand deposits on the books of commercial banks account for about \$125 billion, or 78 percent. Moreover, in terms of the dollar value of transactions settled through transfer of checking deposits, the percentage is even higher, running to 90 percent or more.

Banks also assemble the savings of depositors and pool these savings into a reservoir of funds available to the businessman for financing new inventories or equipment, or to the consumer for a new home, appliances, or an automobile. The flow of funds into the banking system, and the manner in which banks return these funds to the spending stream in the form of loans or investments, have a decided impact on the state of the economy. One measure of the importance of banking is suggested by figures on the supply of funds to credit markets. Of the total of slightly over \$70 billion of funds going directly into credit markets in 1964, commercial banks alone supplied almost \$21 billion, or about 29 percent.

An important aspect of banking often overlooked is its status as an industry. For example, last year insured commercial banks employed about 650,000 persons, paid out \$3.5 billion of interest to depositors, and returned slightly under \$1 billion to its owners. This role of banking nationally has its counterpart, of course, in the role played

by banks in individual communities. In your own State, close to 5,000 persons are employed in banks. The 132 banks in South Carolina pay out more than \$20 million in wages and salaries; their depositors receive around \$7 million in interest on time and savings deposits; and the bank owners receive around \$5 million a year in cash dividends. Banking is obviously an industry which has a significant impact upon the South Carolina economy.

It is, however, in their impact upon all segments of the economy that banks have an influence far transcending their individual contribution. In passing upon their customers' application for credit, bankers in effect vote for or against the allocation of resources in particular ways. Great opportunities for creativeness are inherent in the bankers' position at the cross-roads where new technology and fresh ideas challenge the present ways of doing things. It is in recognition of their singular effect upon the well-being and direction of our economy that banking has long been subject to public regulation.

Historically, most bank regulation has been focused toward protection of the depositor. By protecting the depositor's funds and maintaining his confidence in banks as a safe place for funds, protection is also afforded to the major portion of the nation's money supply. There are reasons for this emphasis upon depositor protection. In the first place, about 92 percent of banks' resources are derived from deposits, and only 8 percent from capital. The record of bank failures

in the 1920's and 30's, moreover, tends to keep fresh in our minds the ever-present need for depositor protection.

Investors in securities issued by certain banks were accorded additional protection when legislation broadening requirements for the public disclosure of information was enacted last year. It may be recalled that during the period of the 1930's through the 1950's banks added to their capital almost entirely through the retention of earnings. At the time no great need was felt for attracting new investors or adding to their protection. This picture has changed. If demand for bank loans, and the many services of banks, continue to grow as presently indicated, a great deal more bank capital may be required in the future.

It is in this context that one must view the legislation passed last year requiring disclosure of certain information, as determined by the appropriate Federal banking supervisory authority. Certain issuers of securities are excluded by its restriction to banks having assets of at least \$1 million and a minimum of 750 shareholders. Nevertheless, the additional information that may be expected to arise from the various reports now required by law should provide investors with incentives for putting their funds into banks and at the same time reassure them as to the prudence of their action.

The diversity of our banking institutions reflects the vastness and diversity of the United States economy, and the satisfying of changing demands as they have evolved through the nation's history. Differences in size of banks illuminate at a quick glance diversities in our banking

system. According to a recent study, there are 34 banks in the United States which have deposits each in excess of \$1 billion. At the other extreme, more than one-half of the banks in the country had deposits of less than \$5 million. Such banks differ not only in size, but in the types of customer needs they serve, and in the types of problems that they encounter.

This diversity encompasses national banks and State-chartered banks; independent banks and branch banks; mutual savings banks and commercial banks; insured banks and noninsured banks; banks that are members and are not members of the Federal Reserve System; large banks and small banks; business banks and consumer banks. Looking at this cross-classification, some might be impressed by the overlap and manifest confusions. This very disarray, however, reflects what to me is the peculiar genius of our banking system. The diversity of its parts is essential to its ability to meet the widely varying needs of all our citizens.

At each place and stage of our history, particular types of banks have emerged to meet particular needs. The first two Banks of the United States filled needs arising from our establishment as a nation. The proliferation of State banks helped propel our movement westward and stimulated our economic development. When the need for a uniformly acceptable and sound currency impressed itself, provision was made for national banks. Throughout most of our history, mutual savings banks have fulfilled a special need.

The Federal Reserve System, set up in 1913 to strengthen our money and banking system by providing not only for a sound national currency but also a flexible one, left undisturbed the existing arrangements for chartering banks. Membership was made compulsory only for national banks, but many State banks have, of course, found it advantageous to join the System.

Despite the presence of the Federal Reserve, banks were heavily involved in the disaster which struck the nation after 1929; indeed, unsound practices and excesses in banking contributed to the debacle. And the lessons learned in the early 1930's account for much of the legislation and regulation which still govern banking practices. Federal regulation of interest payments on deposits dates from then, as do some important regulations applying to banks' lending and investing activities, not to mention Federal deposit insurance.

Federal deposit insurance was born in response to an avalanche of bank failures which had severely damaged public confidence in banks, and had destroyed or immobilized a sizable part of the money supply. The basic job of the Federal Deposit Insurance Corporation was then to restore this public confidence, and thus help get the banking system back into operation. Although mass bank failures are behind us, maintenance of public confidence and sound banking is a continuing task. One means of accomplishing this is the bank examination, which may be likened to the doctor's periodic checkup to assure that the patient stays in a healthy condition.

From time to time it becomes necessary to update and strengthen the regulatory structure through legislation. A recent example was the law passed last year requiring notification of Federal supervisory authorities by banks undergoing change of ownership or control. The new legislation was triggered by several instances over a relatively short period in which bank failures, resulting from unsound or improper management actions, followed closely upon a change in control.

As it has evolved over the past 180 years, our banking system offers a breadth and depth of services unequaled in any other nation. This evolution has often been erratic, but the occasional historical lapses have invariably taught us valuable lessons for constructing a better system. Opportunities to banks for services to their communities are greater than ever before, and new methods and equipment are increasingly available to the banker to provide a wider range of services with greater efficiency.

Traditionally banks have served primarily as suppliers of credit. But in the past few years their most dynamic growth has been in the area of services. Financial counseling for customers is a leading example. Many banks have developed this to the extent of employing staff specialists who, by use of intensive studies, advise customers on specific projects which may require bank financing. Banks are serving increasingly as middlemen in introducing customers to each other and to the different segments of the money market.

Trust services have become more important with the growing affluence

of our society, and with the rising proportion of people who seek the advice and assistance of bank trustees. Another fast-growing area has been the management of corporate and union pension funds, reflecting the multiplying number of plans to provide retirement income, as well as the ever-expanding number of persons brought under the coverage of retirement plans. All of these services, however, are still eclipsed by the function of banks as clearing houses settling accounts for the millions of checks written every day.

The vast growth of check clearing for a time threatened the banks with an intolerable burden. Fortunately, the crisis appears to have been averted by the advent and installation of computer systems. With their vast capacity for volume and adaptability to differing tasks, computers have opened the way for vast new opportunities to banks for extending their services to the public. Already they are used in the preparation of payrolls, in the provision of check reconciliation services for customers, and in various other activities. The day may not be distant when computers will take care of routine check depositing and bill-paying transactions of the average individual.

For the most part, though there are notable exceptions, it is the larger banks which have installed their own computers. Other banks have gained access to computer services in various ways, some through correspondent banks, others through computer-service supply centers established by banks, and still others through direct purchase of computer services.

Taken in its entirety, our banking system forms a closely knit fabric of relationships highly organized in its ability to provide huge capital sums. While responsive to national needs, the system preserves the identity of its many components; and the diverse structure reflects the varying needs and conditions of our people. In its origins the banking structure that ministers to these needs is pragmatic rather than theoretical. I believe that the performance of banking in our economy is an eloquent witness to the effectiveness of the system.

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