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## THE COMMON DENOMINATOR

Address of

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Washington, D.C.

before the

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THE AMERICAN BANKERS ASSOCIATION

in

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THE COMMON DENOMINATOR

Each of us here today represents some aspect of banking; either directly or indirectly we are concerned with what is going on in this vital segment of the economy. Some are affiliated with state banks, some with national banks. There are large banks and small banks--and medium-sized banks. There are wholesale banks and there are retail banks. There are also representatives of the bank supervisory authorities at both the state and the Federal level--a group that is vitally concerned with banking in all of its aspects.

As yesterday's meetings of the State Bank Division and of the National Bank Division demonstrate, common interests and common problems oftentimes draw state banks together in one group and national banks in another. At other times and in other contexts, small banks may find themselves bound by a community of interests. Or banks active in international trade and international financing--fields which to some extent are necessarily confined to the larger banks--band together for useful exchanges of views and discussions of mutual problems.

Bank supervision shows similar overlapping patterns. There are the 50 state bank supervisors (plus Puerto Rico) with supervisory powers over more than 8,900 state-chartered banks. The Comptroller of the Currency is the chartering authority for 4,800 national banks. The Federal Reserve is entrusted with supervisory duties over 6,200 member banks--both state and national. The Federal Deposit Insurance Corporation as insurer of bank deposits directly examines and supervises 7,300 insured commercial banks not members of the Federal Reserve System.

Although supervisory powers at the Federal level are divided among the various banking agencies, most of the important actions of these regulatory authorities have an impact on all segments of the banking industry regardless of jurisdictional lines. Banks therefore tend to be drawn together through bank supervision, even though the common-interest groupings may change from time to time. Nevertheless, the supervisory structure as it has evolved over the years in response to crises and particular needs has taken on a Federal-state configuration. Federal supervisory responsibilities have been superimposed on the existing state systems, and constitutional imperatives have prescribed the control machinery. The results may lack organizational precision, but the strength of the banking system today and its ability to supply the growing financial requirements of the expanding economy testify to its workability.

In banking and bank supervision, it is essential to recognize that common interests and common problems bind particular groups together. The complexities of the Federal-state supervisory structure add another dimension. What we must not forget, however, is the fact that bankers and bank supervisors share an overriding interest in the strength and viability of the entire banking system and in the contribution that banking can make to the efficient working of our financial mechanism and to the continued growth and development of the economy. This is our common denominator.

We should not restrict ourselves to the limited outlook of a particular group of banks--whether defined by size, chartering agency, geographical location, or field of specialty. Whether you are a small bank or a large bank, a state-chartered bank or a national bank, a country bank or a reserve city bank should not be the principal determinant of your orientation. Let us remind ourselves that each of us is an integral part of the whole--and that the whole can be no better than its parts. The health and vigor of the banking industry depend on the health and vigor of each and every one of its separate units. It is only on this basis that the banking industry can make its optimal contribution to the economy.

National banks, for example, realize--I am sure--that their positions would be seriously weakened if state banks were unable to discharge satisfactorily their responsibilities to their banking customers. Similarly, state banks would suffer indirectly from any ills afflicting national banks. Large banks have developed to service many of the larger credit requirements of the economy, but small banks continue to serve their communities well. This mutual interdependence must not be destroyed or eroded. The public interest is served in keeping this mutuality and diversity--or duality, if you will--of our banking system.

To encourage bank supervisors and banks, irrespective of chartering authority and special interests, to put forth their best efforts in support of our banking system, I should like to propose a "competition in excellence." Much has been made of the rivalry between state banks and national banks, between small banks and large banks for a dominant position. I think much of this talk has exaggerated the areas of difference. In any event, let us now join in a common effort to achieve excellence in all fields of banking--an effort of benefit to all banks. Let us compete against one another--not merely to improve our own relative position--but to enhance the position of all. This "competition in excellence" will yield immeasurable dividends to the industry and, even more important, to the public we serve.

This approach is not new but it sometimes tends to be relegated to the background of our consciousness whenever we become overly involved in advancing the interests of our own particular group. We can become preoccupied with "one-upmanship"--even in banking! But it is essential that we reaffirm our commitment to this approach because of the situation in which bank management and bank supervisors find themselves today.

This is a period of transition. We are faced with major problems of adaptation and innovation. The economy is operating at high levels of activity--and this situation may continue for years to come if we are able to apply successfully our enhanced economic knowledge. Owing to these conditions, however, our freedom of action and our maneuverability as bankers and bank supervisors become progressively more restricted. This reduction in flexibility is reinforced by several other developments. Institutions are being modified. The tempo of change has been accelerating, and economic and financial interrelationships have become much more complex. To illustrate, it has become increasingly clear that banking is but a part of the broad financial markets and that developments in banking influence and interact with developments in other sectors of the financial markets. These interactions cannot always be forecast with assurance, but we know that no longer can bank management or bank supervisors view banks in isolation. An excellent example is provided by our recent experiences in the savings market and with the flow of funds in and out of savings institutions and the money and capital markets.

What forms can this "competition in excellence" take in the process of facilitating banking's adjustment to the constantly changing economic environment? I shall not presume to advance definitive answers at this time. Still, I should like to explore with you some of the directions in which this competition might move and then indicate some areas in which we at the FDIC are working in pursuit of this goal. The specifics must be filled in by you--whether bank management or bank supervisor--in accordance with your particular circumstances and situation. But our objective should be to make good banks better banks.

In the first place, our basic concepts and our guideposts should be reevaluated. Are the concepts with which we are working relevant to today's world? Both bank management and bank supervisors need to take a searching look at existing legislation as it affects banking. Is there sufficient flexibility to deal with current conditions? Is one group of banks placed at an unfair disadvantage in relation to another group of banks or vis-a-vis other financial institutions? Is there sufficient leeway for bank innovation and adaptation to a changing environment--or does the present system discourage new ideas? On the other hand, is the law too restrictive or open to varying interpretations so that it increases supervisory and operating problems? These are but a few of the questions that we might ask ourselves.

Secondly, the operating efficiency of banking should be re-examined. Is your bank taking full advantage of new developments in the field of management science, for example, to cut costs or improve earnings? It might be desirable to undertake a comprehensive review of your operations to determine whether you are making optimal use of your total resources--and to reassess your plans for the future in terms of preparedness for management succession and maintenance of a flexible posture.

Thirdly--and this is our primary justification--we should ask ourselves whether banking services are being provided the public at lowest cost and in the quantity and of the quality desired. Or are just the minimal demands being met? In this connection, it might be desirable to ponder whether there are new areas of activity that offer banks an opportunity to serve the public profitably and well. Many of the banking services accepted as a matter of course today were considered quite revolutionary in times past.

Now, I would like to turn briefly to what the Federal Deposit Insurance Corporation is doing in this "competition in excellence." For a number of years, the FDIC has been examining insured nonmember banks, acting as receiver for failed banks, and paying off deposit claims in closed banks. The substantial financial resources accumulated in the deposit insurance fund also have helped to restore and maintain public confidence in banks and in the safety of bank deposits.

But times have changed and our perspectives have changed. A passive role is no longer appropriate to the times. We stand ready to assist banks in adapting to the changing economic environment and to the increasing complexity of the economy. Particularly during periods of transition, it is difficult for the individual financial institution to seek and find satisfactory solutions to externally generated problems. Our posture therefore must be flexible and responsive at all times to developments in both banking and the economy as a whole.

Some of the major projects in progress at the Corporation are based on a prosaic function carried on since 1934--the collection and compilation of all-bank statistics. The FDIC is the only bank supervisory agency with the responsibilities for compiling data from all banks in the country--insured as well as noninsured. Accordingly, we have access to a wealth of raw material. But heretofore this mass of banking data has proved of little use or meaning because the sheer magnitude of the clerical task of sorting and compiling and then interpretation of the data were overwhelming in the absence of the necessary tools. By the time much of the data became available, they were largely of historical interest only. Now, however, the FDIC has recently installed a large-scale research-oriented computer capable of organizing and manipulating the vast store of data available--and the machine is already fully operational.

Equipped with the means to organize these data into useful form and armed with modern analytical tools and concepts, the Corporation can proceed to seek the answers to questions of critical importance to the nation and to the banking community. These questions cover a diversified range of topics such as standards for evaluation of loans and credit quality, the economic size of a banking unit, the relationship between a geographic market and the need for banking services, bank costs, and manpower training aids.

This partial list indicates that the problems to which these new techniques are being applied are substantive and important ones for banking. Management science is an exciting new instrument, but it still only supplies us with the capabilities for solving these problems--not the solution itself. The statistical techniques are not an end in themselves; they only assist us in our search for a better understanding of fundamental relationships in banking. The quality of the answers to problems of substantial importance is what will play a key role in determining the future role of banking in our economy.

The "information revolution" that is taking place through the introduction of automation and computerization into banking promises a significant upgrading of the quality of bank supervision as well as bank operation. It can contribute to the solution of some of the problems with which we are confronted under the present bank supervisory structure. In certain areas of bank supervision, such as bank mergers, the banking agencies have been handicapped in having to use data with obvious shortcomings because of the lack of an acceptable alternative. The application of modern economic research concepts and computer technology will strengthen the information base on which the bank supervisory authorities and others with responsibilities in banking must base their operations and decisions. To the extent that each agency works with essentially the same data, many of the problems and conflicts in this area will be greatly reduced.

The Corporation is considering--or has underway--a number of projects utilizing the mass of data on hand and the new techniques. These projects will take full advantage of the capabilities of the Corporation's staff and facilities, with the added assistance of outstanding researchers in the industry itself and in the academic world. The continual infusion of new ideas from sources outside the Corporation will maximize our effectiveness and obtain for us maximum action and reaction.

We have recently authorized a major study of bank operating costs, which may help to open up new horizons for bank management and bank supervisors. A pilot study exploring data problems and alternative analytical and statistical methods has been completed. Unlike the traditional functional-cost analysis, the FDIC study attempts to identify the factors responsible for variations in bank costs. When completed, the results will be disseminated to all banks for management use in comparing the bank's own costs with the costs of other banks of similar size operating in similar markets, for example. The Corporation expects to benefit from these studies through an increased ability to evaluate the impact of supervisory actions and of general economic developments on individual banks and on banking as a whole.

The Corporation is also interested in studies of banking markets, the cost of bank capital, the feedback mechanism between loans and deposits, the relationships between banks and other financial intermediaries and between banks and other financial markets, and in the development of training aids that can be used in bank supervision and by bank management. Some of these projects are in the planning stage; others are in process. More will no doubt be added as our capabilities expand or as new problems arise.

These studies will not necessarily provide us with definitive answers. Nevertheless, they will have proved worthwhile if they can isolate those factors that are not relevant as well as those that are. This information will be made available to banks, bank supervisors, and others interested in banking.

The introduction of automation and computerization into banking thus promises to revolutionize many aspects of banking--for both banks and bank supervisory authorities. For the FDIC, it is one of the ways in which we hope to assist banks to make the transition to a new economic climate and to increase their adaptability to changes that will no doubt occur in the future. By taking full advantage of the "information revolution", adjustments may be easier, and actions can be based more firmly on a strong factual and analytical base. This is another facet of our contribution to the "competition in excellence."

The common denominator that we share is our concern for the present and the future of banking--state and national--and particularly for a banking system geared to serve the public interest. A banking system that satisfies the nation's and the community's need for banking services at all times and in the most efficient manner is a challenge to bankers and to bank supervisors--

as well as a challenge to legislators and the general public. This challenge can best be met by the concerted efforts of all groups in a "competition in excellence."