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THE CHANGING ENVIRONMENT

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THE CHANGING ENVIRONMENT

The environment in which we live is constantly changing and in a state of transition. This situation is not new; change is characteristic of our lives. The rate of change today, however, seems to be faster than before -- and even accelerating. As a consequence, we are faced with problems of adjustment and adaptation to this heightened pace.

Our concern today with the changing environment is over its impact on banking. Banking has for many years presented a solid, conservative image to the public as a pillar of strength in our financial system. Even after the banking failures of the 1920's and the Great Depression of the 1930's, banking was able to rebuild its image in due course. And, banking grew vigorously along with the rest of the economy after World War II.

At the same time, however, changes were occurring in the economy -- financial requirements were changing in both nature and magnitude, new demands were developing, and new ways of doing things were devised. In some instances, banks were in the forefront of change; in others they were laggard, although not always by choice. Thus, new institutions or new methods of financing were created or developed outside the banking system. Savings and loan associations, for example, entered actively and aggressively into the field of mortgage financing to satisfy the pent-up wartime demand for housing, while many nonbank lenders offered consumer credit facilities.

Commercial banks continued to meet all demands upon them for financing, but there was relatively little incentive to seek new outlets in the face of these steady demands for existing services. As time passed, however, banks began to feel more keenly the winds of competition and stepped up their efforts to attract new business and offer new services.

The transformation of banks into the full-service operations that we know today was a consequence of what might be termed a "reawakened" attitude or conscious campaign by banks to increase their share of the market for financial services. Banks now are concentrating not only on the profitable employment of funds placed with them for safe-keeping, but, in addition, they are placing even more emphasis on supplying a broader range of services to the public. Generally speaking, banks have become less specialized and less exclusive; they offer a greater variety of financial services to a larger market.

To an extent not true of most other economic activities, banking is endowed with a strong public interest element. Accordingly, banks must assume the responsibility and take the lead in anticipating and providing the means to satisfy the changing financial needs of the public. Service to the public is a primary concern of banks.

With the shift in market orientation toward greater emphasis on services has come new problems for banks and bankers. No longer are the old ways of doing things or old attitudes adequate. The approach to problems is different -- as are their solutions. Banking must fit into the changed environment in order to maintain its position and even lead the advance.

The need for adaptability, flexibility, and imagination in banking today is, I believe, much greater than it was a generation ago. With an economy operating close to capacity levels -- hopefully this will prevail for years to come -- the margin of flexibility and the system's ability to tolerate errors are greatly reduced. Misjudgments or hasty action now perhaps may have more serious consequences than would be the case in a period when our economy's resources are less fully utilized. For the banking industry itself, its lapses and omissions could lead to deterioration in its market position as its competitors move in to fill the gaps. This is the situation today -- a situation which offers an unprecedented challenge to the banking industry that cannot and should not be ignored.

The implications of these developments are most important to this audience. The ability of banks to compete -- and compete effectively and efficiently -- is dependent on the development of the necessary know-how, the managerial talent, and the information that will equip them to serve the markets of today and tomorrow. The well-being of the industry for which you work will be weakened if the import of these developments is not fully understood. The demands of the public for financial services must be matched with the capabilities of your institutions -- otherwise provision should be made to satisfy these demands.

The role that public relations and marketing specialists in banking can -- and should -- play in the changing environment of today therefore must be broad and constructive. The traditional image of public relations men and marketing experts in many fields has unfortunately and oftentimes unfairly been that of a "huckster." In banking, your function must be much broader in concept and economically more useful than the mere selling of a bank's existing services, the expansion of existing markets, and the projection of a bank's "image." To be sure, these tasks are necessary -- but there is more to the job than just those aspects.

A thorough appraisal of financial services now largely supplied by other institutions than banks and an inquiry into whether or not banks could not do the job better could constitute a crucial part of your activities. In your positions, you have an excellent vantage point from which to survey the market, to assess its needs, and to spot its deficiencies and inadequacies. Your contributions to the future of banking can thus be most important, and your responsibilities accordingly great.

Because of the strategic position that marketing and public relations specialists can occupy in banking and because of our responsibilities as bank supervisors to promote a viable and adaptable banking system, I would like to share with you today some thoughts and comments on an issue that is most relevant to your responsibilities -- namely public requirements for banking services. In carrying out its statutory responsibilities, the FDIC is called upon to evaluate a bank's application for Federal deposit insurance, branches, or related matters, in terms of the proponents' contribution to meeting the "convenience and needs of the community to be served" -- as well as other factors. How do you measure "convenience and needs?" Is it only a qualitative standard or can it be measured quantitatively?

Consideration of "convenience and needs" in applications for Federal deposit insurance, branches, and similar matters, is one of several important factors taken into account by the Corporation in reaching a decision. "Convenience and needs" includes such factors as more accessible banking locations -- whether by car or on foot, by phone or by mail -- banking hours, tailored to the needs of a bank's customers, more or better services of the kind needed by the community, higher lending limits to accommodate the bank's borrowers, and the contribution of the institution to the general economic development of the community and the surrounding trade area.

In the case of applications for approval of mergers of two banking institutions, the convenience and needs factor is a major consideration. The Bank Merger Act of 1966 directs both the courts, the Justice Department, and the Federal bank supervisory agencies to consider the anticompetitive impact of a proposed merger. The responsible Federal supervisory agency may not approve a merger which is found to be anticompetitive "unless it finds that the anticompetitive effects of the proposed transaction are clearly outweighed in the public interest by the probable effect of the transaction in meeting the convenience and needs of the community to be served."

It can be argued that the "convenience and needs" factor was expressly incorporated in the banking statutes and in the Bank Merger Act of 1966 in order to provide -- in the public interest -- the flexibility needed to promote a healthy and vigorous banking system. The banking structure in some areas of the United States, for example, oftentimes makes it difficult for the Federal banking agencies to ensure the best banking services for the public. Accordingly, compromises occasionally must be accepted in order to provide a community with the banking services that are needed -- despite some possible but not overriding anticompetitive aspects. The banking agencies are most concerned over this issue.

At the same time, it should be pointed out that "convenience and needs" cannot be neatly separated from "competition." They are not two mutually exclusive concepts. Owing to the nature of banking, the extent to which institutions are competitive is often assessed more precisely by the effectiveness with which they satisfy a community's financial requirements than on any other basis. An institution that succeeds in meeting the convenience and needs of the community may be a more competitive unit than one that fails to serve its community adequately. Loss of banking alternatives through merger can sometimes be offset by better service available to a community from a stronger (that is, larger) institution. However, these general statements do not really provide any firm guidelines on how to measure the convenience and needs of a community being served, but they highlight the importance of the determination. To some extent this involves a qualitative judgment -- relative to the prevailing circumstances.

"Convenience and needs" -- to be meaningful -- should also be measured in relation to a particular market area. The wording of the Bank Merger Act of 1966, for example, does not define "community" -- a definition which is needed to reach an informed decision regarding a market. To illustrate, in considering the Manufacturers-Hanover merger, the lower court distinguished between local and nonlocal markets on the basis of deposits below and above $100,000. The dividing line was admittedly an arbitrary one, but some judgment was necessary in order to assess the convenience and needs factor. Actually, the selection of account size is less important than the necessity in such cases to focus on the class of customers that would be most directly affected -- whether beneficially or adversely -- by the proposal under consideration.

Within the environs of any bank it is the small depositor and the small borrower who is most directly affected as far as convenience and financial needs are concerned because their banking alternatives are geographically limited. The large borrower and the large depositor are generally not confined to one area; they can obtain credit or find other investment outlets elsewhere -- often hundreds or thousands of miles away. The crucial issue is determination of the demarcation line between local and nonlocal business.

Modern marketing research can play an important role in defining the physical limits of the "community" whose convenience and needs are to be served. Economically and statistically meaningful measures of markets are goals that become more easily attainable with the aid of the more sophisticated analytical techniques available today -- backed up by better data. Such data include information on markets and submarkets for various bank products and services as well as prices, terms, and availability of credit.

Analyses of bank loan and investment portfolios are also helpful in constructing market profiles that can assist supervisory authorities as well as banks in reaching decisions on mergers, branches, and similar matters -- as well as the needs of public relations and marketing specialists. The FDIC, for example, collects information on bank deposits in order to determine its insurance liability. An incidental and most valuable by-product of these periodic surveys is to make available more detailed information on the distribution of deposits by size, by type of deposit, and by banking office. As a consequence, our ability to assess a given market situation is enhanced.

A listing of some of the factors that better meet the convenience and needs of a community illustrates further some of the difficulties in evaluating the term. A service not previously available can provide added convenience to the depositor or borrower and fulfill a need. On the other hand, if the new service is seldom used, the increase in convenience to the community as a whole is not great. Larger lending limits may not be significant if there is no demonstrable need in the community for the increased lending ability. The availability of a wider range of services and the ability to provide more specialized assistance may or may not be a significant advantage to the community. Presumably an institution large enough to utilize a computer in its operations could compete more effectively than one lacking this capacity -- thereby better serving the financial needs of the community.

The preceding comments indicate just some of the problems facing the bank supervisory agencies in considering the "convenience and needs" factor and are not intended to be exhaustive and all-encompassing. I have discussed the issues without giving you the answers. But answers must be sought because the problems continually confront us in our day-to-day operations. Marketing research of a fairly sophisticated and imaginative nature can help us to understand the problem better -- even if the solution is not as satisfactory or as precise as we might wish. The marketing analysts can be of great assistance to us in this regard -- and your contributions in this important area can redound to the benefit of the banks for whom you work as well as the bank supervisors.

The FDIC has underway a number of projects which we hope will add to our store of knowledge and improve our decision-making apparatus. In the process, the convenience and needs of the communities served by banks and the present healthy competitive situation in banking will be strengthened.