Remarks by

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Before

American Council of Life Insurance Annual Meeting

November 15, 1988

It's a great pleasure to take part in this important discussion on banking and insurance -- are we meant for each other or shall we be separate forever more?

I have to tell you that I feel kind of at home with this group. After all, at the FDIC we run one of the most sizeable insurance operations around.

We have one great advantage over you, we have no competitors. Unfortunately, my insurance agency does not always have your power to turn down risky clients.

That reminds me of a friend of mine who recently tried to get life insurance from one of your agents.

"Do you drive a car?" the agent asked.

"No," replied my friend.

"Do you often ride buses or taxis?"

"No," was the answer.

"Well, do you fly much?"

My friend, now encouraged he would get a good, low premium given his avoidance of these dangerous activities, happily replied, "No."

But the insurance agent's face turned gloomy. "I'm very sorry, sir," he told my friend, "but we have a firm policy against insuring pedestrians."

It should not be news to anyone in this room that the last several years have seen enormous changes in the financial services landscape.

A wide variety of businesses -- from department stores to manufacturers -- have entered into direct competition with banks.

Among this new breed of competitors, insurance companies have been among the strongest.

By a conservative count, more than 100 insurance companies offer some sort of product or service that directly competes with commercial banks, including consumer installment credit, IRAs, home mortgages, and money market funds.

Insurance companies have a number of advantages in this competitive arena. Tens of thousands of insurance agents nationwide are allowed to "cross market" traditional banking products with insurance products. Insurance agents can offer their customers the convenience of "one-stop shopping" for many, if not most, of their financial needs.

Today many banks, including all national banks, are largely prohibited from offering services in most insurance areas. Banks are also restricted as to geographic expansion.

Thus, an effective "one-way street" exists where any commercial enterprise, including insurance corporations, can offer most financial services, but where commercial banks are severely limited in the products they are allowed to offer.

That, in a nutshell, is where we stand today.

So, you might ask, are there any good reasons for this inequality? Given the FDIC's experience of insuring all, and regulating the majority of, our nation's banks, the answer is clearly no!

First of all, some banks already offer limited insurance products, and have done so safely for quite a while.

The U.S. operates under what is known as the "dual banking system." This means a bank can choose to operate under a national charter issued by the Comptroller of the Currency, or it can choose a state charter, and follow rules determined by state banking authorities.

At present, there are at least 8,000 state-chartered banks in the U.S. -- or about two-thirds of the commercial bank total. Although the FDIC does not have the power to confer new product authority on any state-chartered bank, the FDIC may restrict any state-authorized activity that threatens bank safety and soundness. In other words, if institutions desire federal deposit insurance, they must operate in a safe and sound manner as determined by the FDIC.

This ability of local jurisdictions to determine what powers their banks can offer facilitates the tailoring of banking services to the particular demands of local communities and regions.

Moreover, states act as laboratories for change, where innovative new activities can be tested in the marketplace.

Almost half the states have determined that their communities can be best served if their banks can offer insurance products.

The most frequently offered insurance service is brokerage activities for insurance underwriters, which is permitted in 15 states.

Of course, in our role as insurer, the FDIC has taken a hard look at these activities, and has found <u>no evidence</u> that insurance activities undertaken in these institutions pose unreasonable risks.

South Dakota is a case in point. Of the state's 137 commercial banks, 90 are state chartered. South Dakota has virtually <u>no</u> restrictions on the types of insurance activities state-chartered banks can enter. The involvement of state banks in the insurance field goes back for nearly a century. Yet, we have not seen an instance where such a bank has been put at risk because it engaged in insurance activities.

In South Dakota, and in FDIC-insured savings banks located in the Northeast, any commingling of assets or funds between the bank and the insurance affiliate is prohibited. In the Northeastern states where a product known as "Savings Bank Life Insurance" has been offered for decades, no significant problems have been recorded. In these areas all insurance activities are regulated by the same state authorities that regulate insurance sold through agencies.

So allowing banks to offer insurance products has not been proven to be unsafe for banks and the banking system, and in fact has operated soundly in those places where it has been seen.

A second important reason to create a two-way street and allow banks into insurance is that consumers will benefit.

A study by the Consumer's Federation of America estimated that the cost of all insurance is between $5 to $10 billion higher because of inefficiencies in the present system -- inefficiencies that could be reduced by allowing banks to sell insurance.

Indeed, only a few months ago a group of 24 consumer groups wrote the Senate Banking Committee opposing any federal limitation of state-authorized insurance activities for banks.

Some have argued that allowing banks to sell insurance will hurt consumers, such as through so-called "credit leverage" being exerted against consumers. The evidence does not support that assertion, and, in fact, it is in the insurance industry where products are tied together and consumers are often given a take-all or nothing non-alternative.

If the walls between banking and insurance are torn down, consumers will gain access to a greater variety of services, and possibly at a lower cost. Let's let the market decide who provides the best and least expensive insurance and banking services.

Our view that bank involvement in insurance activities poses no unreasonable risks to the banking system, and in fact benefits consumers, led us to advocate a regulatory structure that would permit a two-way street between the banking and insurance industries -- and in fact between banks and all commercial enterprises.

Last year, the FDIC released a study entitled "Mandate For Change," which provided a blueprint for reforming bank regulation along more functional lines.

We found that based on historical and legal research, there was no good reason for "banking and commerce" to remain separated.

Thus, our study proposed --

First -- to streamline bank regulation by focusing supervision by bank regulators on the bank itself, not on holding companies or nonbanking subsidiaries. Supervisory firewalls will maintain an arm's-length relationship between banks and others.

Second -- to attract new capital into banking, the wall between commerce and banking should be torn down. Any reputable owner is acceptable and need not be subject to special regulation. Insurance companies would be most welcome.

And, finally -- to give banks additional powers, we proposed that banking organizations be allowed to take part in any authorized business activity through a separately capitalized affiliate or subsidiary.

The key to making progress in these areas is functional regulation. Insurance companies would be regulated by state insurance departments, and banks by bank regulators.

In closing, I think that if both industries approach competition between banks and insurance companies with the customer truly in mind, all will benefit from improved profit opportunities.

Let's get together, save the PAC costs and lawyers' fees, and work out a two-way street that's fair to consumers, insurance firms, and banks.

Thank you.