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Banking in a Changing World

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## A Changing Social Landscape

Unless you've been sojourning in a cave for the last few years, you've already heard a speech about the changing environment for banking. Such speeches address the effects of financial restructuring, technological advances, competition, globalization of banking, and, of course, regulatory burden. In fact, some of you may have given that talk, or perhaps, could recite these new pressures from memory. There appears to be clear recognition by the banking community of the enormous business implications of the changing environment. It also reflects the truly prodigious efforts that banks of all stripes and sizes are making to respond.

Tonight, I will not replot that particular ground. Instead I do want to talk about a related but less visible set of changes facing banking today. These are social and cultural changes that are slowly but surely transforming our society. Their short- and long-term impacts may not yet be readily apparent, but they are coming down the pike nonetheless.

The social trends I will focus on here tonight will dramatically influence how your institutions approach three fundamental issues--who will be the bank customers of the future; what products and services will they need and demand; and how will those products and services be marketed and delivered?

When we think of change, we often tend to think in terms of technological change. And it's true that technological advances can be dazzling. It is startling to think that 300,000 written pages (or the entire 20-volume set of the Oxford English Dictionary) can be captured in a single CD-ROM disk. But isn't it equally striking to realize that about one out of every four U.S. residents now claim African, Asian, Hispanic or American Indian ancestry? In fact, racial and ethnic minority groups are growing seven times as fast as the majority. These social realities will have as great an impact on our society, and therefore banking, as do the miracles of CD-ROM technology.

Most social and cultural shifts occur relatively slowly and, as a result, are not so obvious as technological changes. Cultural changes are easy to miss. But they can have implications perhaps more profound than changes in technology or industry consolidation. And that is precisely why bankers must be attentive, not only to the newest technological innovations and systems, but also to the wider social landscape.

Such a vast and complex sociological topic is worthy of a book, not a brief evening's talk. I won't pretend to cover all the relevant aspects. My purpose is merely to peak your interest and suggest that important societal changes are going to affect us all. Strategic planning that incorporates societal changes is prerequisite to a successful business future.

### Aging of America

Among the most significant of these societal trends is the aging of the population. The generation born during the baby boom after World War II will soon be approaching retirement. In 1990, there were 2.7 retirees over age 60 for every 10 workers. By some estimates, that number will increase to 4.3 retirees for every 10 people working by the year 2025. Long before then, the dramatic shift to an older population of customers will have affected every type of business--including banking. All phases of planning will be touched--product development, physical design of branch facilities, marketing and so on.

The full extent of how this aging of our population will affect banking is not very clear--at least to me--but by any measure it is likely to be significant. For example, one aspect of the aging of America is the transfer of wealth. As the World-War II generation dies, "boomers" will receive what Fortune magazine calls "the biggest intergenerational transfer of wealth in U.S. history." Moreover, these boomer heirs will receive their inheritances when they are in their 50s and 60s--which, these days, is a comparatively young age.

Some believe that this windfall income will be used to pay off existing debts. Others predict that a good deal of the money will be used for business start-ups. Both impact lending opportunities for financial institutions. And, of course, many of these recipients of sizable assets will need financial advice

on a scale not typically provided to middle class customers.

An aging population also puts a focus on retirement financing. This will stimulate the market for financial planning products and investment services. Add to that the fact that more and more companies are shifting the responsibility of retirement financing to employees. The creation of 401(k) and other plans are meant to replace or at least supplement traditional pension programs.

As an aside, I might note that it's a bit worrisome to realize that as of 1988, only 57 percent of employees took advantage of saving for retirement through employer-sponsored 401(k) plans. And we've been told that 53.2 million Americans work for employers who offer no pension coverage. Even when pension opportunities are available, "boomers" often seek out and find better job opportunities sometimes leaving before they are vested. These statistics indicate there may be marketing opportunities for both retirement products and financial advice.

#### Diversity in America

While the aging of America will have profound effects on our economy, America's growing diversity could also reshape our economic life. It has been estimated that by the year 2056, most U.S. residents will trace their roots to Africa, Asia, Hispanic countries, the Pacific Islands, or American Indian

tribes. Conspicuously absent from this list is Europe. And we don't have to wait for the next century to witness vivid examples of this dramatic shift in our national complexion. In about 100 of the 500 or so largest U.S. cities, minorities are, in fact, reported to be already in the majority.

Much has been written lately about ethnic and racial change in the country and I won't belabor the point. But these trends will surely profoundly affect financial institutions in virtually all areas including marketing, product development, employee mix and government regulations.

For example, in response to the growing diversity of the population, I think we can expect many types of businesses to increase efforts to meet the rising demand for consumer products and services attractive to particular ethnic and cultural groups. Bank lending to businesses with that type of market orientation will be more common. Obviously, understanding of those markets will help assure more successful lending to those emerging businesses.

Moreover, the increasing racial and ethnic diversity of our population will continue to stimulate minority business development. A growing number of entrepreneurs representing a multitude of racial, ethnic and cultural groups will be looking to financial institutions for financing and other services.

Another dimension of our growing diversity is already widely recognized--the dramatic emergence of women as active

participants in the nation's working economy. But its magnitude may not be fully appreciated. Specifically, I mean the growth in direct participation by women, not only in our workforce, but as entrepreneurs. Government figures indicate that in the 5 years between 1982 and 1987, the number of women-owned businesses grew 58 percent to a total of 4.1 million. Others put the figure at closer to 6.5 million businesses. During that same period, it is estimated that annual receipts for women-owned firms grew from \$98 billion to \$278 billion. Some institutions have begun to focus on this market, but clearly others have not recognized women business-owners as a significant market segment.

Ethnic diversity in our society will obviously translate to our national workforce. A high percentage of new workers in the next decade will be blacks, Hispanics, and recent immigrants. Banks--in fact all of corporate America--will face the challenge of diversifying a primarily white managerial team to supervise a work force that will be increasingly Hispanic and nonwhite. Over time, we hope and expect that the diversity in the nation's work force will be mirrored throughout all managerial levels of an organization, but we know from experience that this will not be easy.

Businesses will also have to develop the wherewithal to train a workforce that is capable of dealing effectively with a diverse customer base. Hopefully every banker in this room is aware of--and concerned about--the racial disparities in mortgage

lending demonstrated by publication of the Home Mortgage Disclosure Act data. Our follow-up studies have suggested that much of the problem may be due to subtle cultural bias. No doubt some of this problem could be diminished if lending officers better match the diversity of bank customers. But even further, bank management must examine its practices and policies to assure that the chances of mortgage discrimination are minimized. This can be done through intensified analysis of lending practices, second review programs, self-testing, employee education and outreach marketing efforts.

At the same time, of course, one can never forget the role government policy plays in banking. To the extent the industry fails to adequately address diversity issues, I have no doubt there will be a legislative response.

Overall, I am suggesting something rather straight forward. Those banks that anticipate and understand the dynamics of social and cultural diversity will be ahead of the curve. Those banks that respond effectively with appropriate research, product development, marketing and employment practices will be the leading institutions in the future.

### The Environment

Turning yet to another major influence on business development, some believe that environmentalism will be on the cutting edge of change. Bankers have already had a taste of this

in dealing with concerns about lender liability for environmental clean up. But I suspect this simply foreshadows greater impacts --probably not in a league with the owl versus trees debate--but not insignificant either.

And it would be a mistake to think that the public necessarily favors what may appear to business people as the obvious economic decision. For example, a 1992 Roper survey showed that nearly two-thirds of the population believe that economic growth and environmental protection are compatible. But when a conflict between the two cannot be resolved, environmental concerns should be given priority.

My point here is that the environmental movement is much broader than the lender liability issue. This movement is likely to affect bank customers, create new growth industries, and reshape consumer attitudes.

#### The Politics of Fairness

Obviously, the social changes I have briefly described will continue to drive the political agenda. Certainly, one manifestation is the preoccupation with fairness in our society. At a certain base level, we must applaud developing instincts of fair play and equal treatment. Blindness to this theme can have serious economic consequences for all types of businesses. There are certainly some examples where poor perception of this trend has hurt the banking industry.

For example, banks' failure to recognize the public's irritation with delayed access to their deposits resulted in a massive legislative response and, many would argue, extreme regulatory overkill in the Expedited Funds Availability law. More recently, this myopia assured passage of the Truth in Savings law. Some form of disclosure for depository products was under consideration for a number of years in the Congress. But its passage was uncertain. During this same period, some institutions seized on the idea of advertising deposits but paying the advertised rate only on so-called "investable balances"--as compensation for reserve requirements. Simply put, the advertised rate was not the rate paid. It should have surprised no one that some in the Congress became outraged, and used this to give Truth in Savings the boost it needed for passage. Today's climate of sensitivity and fair treatment will assure that concern over the HMDA data disparities will remain a major problem for the industry until measurable improvement can be demonstrated.

#### Private Sector Expectations

Another discernible trend is the increasing reliance on private sector resources to help deal with economic issues that have social roots. This trend has developed slowly over the last 20 years, but it has been inexorable. And it is not just community groups that have been pressing this theme.

The L.A. riots have taught us how quickly our social fabric can be torn. It has also taught us something about the new social climate. For it was private industry in the form of "Rebuild L.A.," not the government, that was the focus of solutions. The banking community has been prominent among the players.

This is not, however, just a crisis response. On a daily basis, the modus operandi of public officials in the 90s and beyond will be the "public-private partnership." State and local governments will continue to seek focused private sector financing, investment and expertise to help leverage scarce public funds for housing, community and economic development projects. Certainly banks are not the only focus of interest; the health and life insurance companies, the securities industry, and private mortgage insurers are being challenged to increase their involvement in community development. But with their CRA obligations and local presence, financial institutions continue to be natural targets for those seeking private financing for community projects. State CRA laws and linked deposit programs are just two manifestations of this growing trend.

In addition, the full impact of the Federal savings and loan industry "bailout" will not be known for sure for many years, but one result is certain. Today, probably the public, but certainly the Congress, think there is a bigger public stake in private institutions, and will expect increased assumption of

social responsibilities in the future. Federal deposit insurance and the weakness of the insurance fund reinforce this perception.

In short, the spotlight is, and will remain, on financial institutions as key players in meeting both social and economic challenges.

### A Word to the Wise

These are but a sampling of the social and cultural trends to be incorporated into planning for the future. There are many others. For example, the growing violence affecting our society will probably scar us all in one way or another. We see alarming trends in the breakdown of the family. And for many young families, owning a home may never be more than a dream. But all these trends are a reality and the banking industry must take account of them.

These social trends are not just the purview of bank strategic planners, economists, or senior management--and certainly not just the marketing department. Sensitivity on a daily basis will be required at all levels for bankers and citizens.

How the banking industry responds to the social developments occurring in America will to a large extent depend on its emerging leadership. It will depend on how well we all perceive and react to the evolution of society as it affects our economy and our politics. It will depend on how bank services

are shaped to serve future customers and how services are marketed and delivered.

Denying the existence of these realities will do more than harm some bank customers and communities. It could do irreparable harm to the capacity of financial institutions to survive and prosper. An institution that's on the cutting edge of technology, but on the dull edge of social change, may have a hard time achieving success in the future.