

FROM:
THE AMERICAN BANKERS ASSOCIATION
THE NEWS BUREAU
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RELEASED FOR P.M.'s
FRIDAY, MAY 4, 1962

SERVING THE BANK CUSTOMER OF THE FUTURE

Address of M. Monroe Kimbrel, Vice President of The American Bankers Association, before the Annual Convention of the Kansas Bankers Association, The Town House, Kansas City, Friday Morning, May 4, 1962. Mr. Kimbrel is chairman of the board, First National Bank, Thomson, Georgia.

On the occasion of your 75th anniversary, I am tempted to glance backward and reminisce about the past. To return, at least in contemplation, to an era characterized by peace and leisure, would certainly provide a pleasant diversion from the pressures of today's world. The latter part of the 19th century, the birth date of your organization, was such an era, some of you may contend. Then, the international, political, and economic problems facing our nation were much less formidable than they are today. Domestic, economic, and financial problems were also easier for the individual to comprehend and resolve because our nation had not yet developed the complex interrelated structure which characterizes our present-day highly industrialized economy. Even banking was simpler, mainly because bankers conducted their business in a highly personalized manner within fairly small geographic areas.

All of us would probably agree that, unless care is exercised, we might easily understate the difficulties of past problems and overstate the goodness of "the good old days." The best days may, in fact, be those of the present and those of the future. While some of you might choose to debate this broad generalization, there is no doubt that we, as bankers, can ill afford to confine our thoughts exclusively to days gone by. All of us must adapt our operations to the changing financial needs of our customers which, in turn, grow out of a continuously changing economic environment. We must, however, do more than this. We must try

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to anticipate the magnitude and nature of the financial services that consumers, businesses, and governments are likely to require. If we can do this with reasonable success, we will be in an excellent position to provide efficient, economical, and accessible banking services in the years ahead. And our industry will prosper and flourish.

It is for these reasons that I would like to look into the future. I do this with some temerity because, like yourselves, I have all I can do to keep abreast of changes as they occur. There are, fortunately, certain guideposts to future change; namely, past trends. If you will accept my assumptions that changes in population, income, and other key economic variables during the Sixties will approximate the changes of the Fifties and no major war will develop, we can paint-- in broad-brush strokes--a picture of banking in 1970.

The highlights of this picture shine through rather clearly. In eight short years, there will be many more bank customers and they will be distributed throughout the country in geographic locations different from today. These customers, moreover, will have more money to spend and save, thereby adding to, and changing the nature of, the demand for bank services. Growth in the demand for bank services will require banks to mechanize further in order to keep from being buried in a pile of paper and cancelled checks. Let me sketch in somewhat more detail the reasoning behind each of these forecasts of the future.

During the remainder of the decade of the Sixties, the potential pool of bank customers will be broadened by further growth in population. The number of people in the nation may well rise to 214-million in 1970, 33-million more than in 1960. People will continue to crowd into metropolitan areas, and the phenomenon of suburbia will be extended much beyond its present boundaries. The picture of future growth in metropolitan areas may be brought into focus by viewing the record of the Fifties. During the past decade, for example, growth in population in metropolitan areas accounted for about 25-million of the 29-million increase in

population. If this trend continues, population of metropolitan areas will be 28-million greater by the end of the Sixties.

The demand for bank services is certain to rise particularly in the geographic areas that lie in the path of the population wave. Unit banks will increase in deposit size, and some new banks will be established. But again, if past experience is any guide, the growth and dispersion of the population will give rise to a sharp growth in the number of banking offices. During the Fifties, for example, the number of banking offices increased by 4,400. In the present decade, therefore, bank services will have to be expanded to accommodate new concentrations of consumers.

In the field of international finance there also will be many changes. The emergence of the Common Market, the progress of many undeveloped countries, and the increase in world trade will affect every banker in the country whether he knows it or not. The stability of the dollar, our gold supply, and our chronic imbalance of payments are no longer the concern of only the big city banker and the economist. We are all going to have to learn much more about these areas in the future because our customers are going to become more sophisticated in their approach to tapping world markets. I believe you will find many more of your customers asking you about international finance than ever before.

One of the most dramatic spurs in this area was the study recently conducted by the Department of Commerce. The study, which you may have seen, compiled statistics for each state. The statistics showed how many people and how many businesses were engaged in producing or servicing imports and exports. This study was made in connection with the Free Trade Bill, but it will also have the effect of making everyone in this country more aware of the fact that we depend a lot on world markets for our income. Many of your customers, who in the past have

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confined themselves to domestic trade, may soon extend their operations abroad.

Getting back to the United States, the sheer growth in total population in this country will increase the number of bank customers in the years ahead. Growth in income, moreover, will bring an increased proportion of the enlarged population into the market for bank services. We know, for example, that a much larger proportion of the nation's families with incomes of \$5,000 or more have checking accounts as compared with families with incomes of less than \$5,000. As families move up the income scale, moreover, the probability increases that they will seek consumer credit from banks and avail themselves of other bank services. Needless to say, expansion in total income also serves to promote a general rise in the dollar volume of banking business.

What, then, are the prospects for output and income in the coming years? A Gross National Product of about \$750-billion (1960 dollars) is within the realm of probability for 1970. If this level of GNP is realized, it would result in an increase of about \$200-billion from the first quarter of this year. Such an expansion in output would, of course, be accompanied by further growth in income. If our projections of Gross National Product are anywhere near correct, disposable income might be up more than 40 per cent--that is, over \$150-billion more for the American people to spend annually.

Growth in income of this magnitude would bring about a further evolution in the upward shift in the distribution of income. I say evolution rather than revolution because this upward shift has been under way for many years and has accelerated during much of the post-World War II period. In 1949, for example, only 17 per cent of the families throughout the nation had disposable incomes of \$5,000 or more. By 1959, 43 per cent of such families earned more than this amount. Even after allowing for the increase in prices that occurred during that decade, the gain in real income of families has been impressive. By 1970, it may well be that more than three-fifths of all families will earn more than \$5,000.

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The past and projected growth in the number of families in the middle- and upper-middle-income classes provides many millions of reasons why bankers must continue to woo the consumer. We must locate our offices in close proximity to them and solicit their deposits. And we must compete energetically with other financial institutions for consumer and mortgage credit business. The rewards to those who can compete effectively in the mortgage market are likely to be great, particularly in the latter half of this decade when the demand for single-family dwellings will be boosted by an upswing in the number of households.

In the heat of competition for consumer and mortgage credit we should not adopt terms or credit gimmicks that may increase our business in the short-run at the expense of a serious deterioration in the quality of credit. Such practices are frequently harmful to the debtors and the economy, and can only hinder the longer-term development of our industry. We should be cautious in our approach to credit-granting. We should not, however, be complacent or unimaginative. As you well know, the credit innovation of today often becomes the standard of tomorrow. And, in future years, if the banking industry is to maintain or improve its position relative to other financial institutions, it must be an innovator.

Competition, particularly in the consumer area, will undoubtedly grow more intense. For example, consider the credit unions. Today there are 21,000 credit unions operating in the United States. They have over \$6-billion in assets. Since the first of the year, Credit Union National Association and the United States Department of Agriculture have been studying ways to promote the establishment of credit unions throughout rural America. In other words, the Federal Government, under the plan, would furnish funds, influence, and manpower for a systematic promotional effort designed to establish a network of rural credit unions.

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As you may know, it takes only 7 people with \$5 each and some claim to a "common bond" to establish a credit union. Yet, the government has been planning to finance and promote them. This is not only competition; it is competition being promoted with your federal tax dollars.

The other sources of competition do not need to be spelled out here. You compete with them every day. You may have seen the article in the "Wall Street Journal" a few months ago which dealt with competition. It discussed bank mergers in regard to decreasing competition as the Justice Department has contended. Then it stated that if banks are really to decrease competition they are going to have to start merging with a lot of nonbank institutions such as insurance companies and others.

Consumers, of course, are only one category of bank customer whose demand for service will rise in the current decade. The requirements of businesses and governments will also be enormous. The total credit needs of existing businesses will no doubt increase along with expansion in output, employment, and income. In addition, hundreds of thousands of businesses will be added to the existing total and equal or surpass the 666,300 growth in the number of nonagricultural and nonservice firms that occurred in the Fifties.

I will not attempt to estimate the future credit needs of governments, but such needs will no doubt expand with the growth in spending. It is sufficient to note that in 1929 expenditures of federal, state, and local governments accounted for 8 per cent of GNP; this percentage rose to 20 per cent in 1941; last year, the percentage was 21 per cent. At the moment, the international political outlook suggests that military expenditures by the Federal Government will continue to be large. The projected rise in population, moreover, also suggests that spending for public services such as roads, schools, and the like will also continue to increase at all levels of government.

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So far, I have painted a rather rosy picture of banking in the future. Economic activity will expand, and the demand for bank credit and other bank services will also rise. I have emphasized that banks, in order to exploit these opportunities, will have to compete vigorously, respond quickly to change, and innovate. But they must do still more. They will have to increase earnings in order to attract the capital needed to expand banking facilities and to pay salaries adequate to retain and obtain talented people. Earnings are a function of both revenues and costs. It is this latter variable that bankers must do something about.

The volume and cost of paperwork that will accompany the growth in bank activity is staggering to the imagination. Today, we have about 58-million demand deposit accounts of all types. By the end of this decade, we may have 68-million. In 1960, about 13-billion checks were written. By 1970, the number may soar to 22-billion. And that's not all. Such bank services as revolving check credit, charge account banking, lock-box collection plans may grow in importance. If they do, problems of processing and handling will mount. Finally, a continued further shift--even of modest proportions--from investments to loans (business, consumer, mortgage) will raise the paper mountain even higher.

All this adds up to just one thing. Banks will have to take full advantage of technological developments to expedite the work of handling more efficiently and more economically a larger and larger volume of checks and banking transactions. Banking is essentially a service industry. As such, it has been slower in achieving the productivity gains registered in manufacturing and agriculture through the use of machinery. Mechanization of banking procedures, however, is now becoming more widespread, and is almost certain to become more so.

The prospects of what such mechanization may accomplish are exciting. Banks and customers may benefit: banks in reduced costs and higher earnings; customers in faster, cheaper, and more accurate service. Finally, mechanization

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may widen the range of available bank services to the benefit of both banker and customer.

Mechanization in banking can accomplish much. But, in the years ahead, the way in which machines are used (or not used), the range and quality of the banking services made available to the public, and the rate of quality of growth in the banking industry will depend primarily on the caliber of our leadership. To meet successfully the challenges of the future, bankers will have to have a combination of the best ingredients found in both the practical and the educated man. The banker must be practical in the sense that he must have the judgment, experience, and skills necessary to the performance of his daily tasks. He must be educated in the sense that he is prepared to adapt readily to changing situations, and to do what has never been done before.

For this reason I am convinced that one of the biggest problems facing banking today is the problem of education. We are going to have to continue to improve the educational facilities and opportunities available to our young officers as well as to our management men.

The broad scope of changes that I have discussed gives you some idea of the skills that will be required of our future bankers. We have the task of making sure they learn the skills. In addition to the skills we must give them a broad background so they can interpret changes in the proper perspective.

And while we are raising the level of our own understanding of banking and economics, I feel we have the responsibility to do everything we can to raise the public's level of economic literacy. We cannot operate in a vacuum. We cannot explain our views and gain support for our ideas about money and credit unless those we are speaking to have some background knowledge of what we are discussing. Survey after survey shows that the average American knows practically nothing about our economic system. It is not a required subject in our schools. Moreover, few of our teachers ever took courses in economics.

I believe the efforts of your Kansas Bankers Association will pay off in handsome dividends in this area. Your statewide advertising campaign, which is the first state campaign organized by a commercial banking association, should help acquaint people with the functions of a full-service bank.

Your cooperative efforts with Kansas State University, Kansas University, and Washburn University should also help increase the knowledge of banking and our economic system.

I also hope you will continue to make educational materials available to secondary schools and that your tour program becomes more widespread.

Those of you who are not already doing so might consider the idea of an economic newsletter for the people of your community. Or you might conduct economic seminars to increase appreciation of our market economy by the adults in your area.

To sum up, I would like to say the customer of the future will have many more needs than he has today. They will be different. They will be more demanding. They will be more complex.

But I am quite confident that the bankers of the country will not only keep up with the needs as they arise, but will also anticipate future needs so we can continue to contribute our full share to the progress of the nation.

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