HOW DO BANKS COMPETE?: STRATEGY, REGULATION, AND TECHNOLOGY
40TH ANNUAL CONFERENCE ON BANK STRUCTURE AND COMPETITION

Chicago, Illinois
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Welcoming Remarks

This year is a true milestone for the conference: It marks the 40th time that bankers, bank regulators, and academic experts have convened in Chicago to debate and discuss issues of importance to the banking industry, the financial community, and the economy in general.

For a few days every spring, the conference provides a podium for the best new academic research on financial institutions, and a forum for discussing the pressing policy issues of the day. It serves as a catalyst for new regulatory ideas, exposes policymakers to innovations from academia and industry, and fosters a dialogue among these groups. As you look at the agenda for the event, I think you can see why the conference draws such a large attendance and has a history of influencing public policy. This year, our panelists include numerous heads of financial institutions, noted academics, and a number of policymakers, most notably Fed Chairman Alan Greenspan and, for the first time in the conference history, the Treasury Secretary, John Snow.

But the Bank Structure Conference—as we typically call it—did not start out large or influential. In fact, the initial motivation for the conference was strictly utilitarian. It was created in response to the Bank Merger Act of 1960, which required bank regulatory agencies to consider the impact of bank mergers on market competition. This was a new responsibility for the Federal Reserve, and it had little expertise in this area. To help the Federal Reserve System come up to speed on this issue, the Federal Reserve Bank of Chicago invited academic economists from Midwestern universities to come to the Bank and discuss their research in microbanking, industrial organization, and regulatory economics. That event, held in January 1963, was the first Conference on Bank Structure and Competition.

Only 20 people attended that first meeting. It was held at the Bank's office building on LaSalle Street. No one kept minutes at that first meeting—in fact, all we know today are the identities of those in attendance, and that the participants thought the meeting was fruitful enough to schedule a follow-up meeting for 1964. Those follow-up meetings continue to this day.

While the conference was born out of a need to better execute laws and regulations that were already on the books, conference participants changed course just a few years after its birth, and began spending much of their time debating the merits of regulatory reform. That adjustment has defined the conference's legacy. The papers presented and the debates held at this conference have presaged nearly every major reform in bank regulation in recent memory. For example:

- The FDIC Improvement Act of 1991 (or FDICIA) mandated risk-based deposit insurance premiums and required bank regulators to close banks as they approached insolvency. Twenty-three years before that, in 1968, risk-based deposit insurance was first discussed at the conference, and, later, the concept of prompt corrective action was a byproduct of policy debates that took place at Bank Structure Conferences during the late 1980s.

- The Riegle-Neal Act of 1994 made interstate banking and branching possible on a nationwide basis, and created the banking landscape we know today. But as far back as 1974—two decades prior to Riegle-Neal—conference participants were arguing in favor of eliminating geographic banking restrictions, and the issue was a major theme of the conference more than once during the intervening years.

- The Gramm-Leach-Bliley Act of 1999 greatly relaxed the barriers between commercial banks, investment banks, and insurance companies in the U.S. But the first conference paper proposing greater diversification of bank holding companies was presented in 1971, and the 1987 conference—still a decade before Gramm-Leach-Bliley—was titled "Merging Commercial and Investment Banking."

I could go on and on in this vein, naming other issues for which the proceedings at this conference were a vanguard for important changes in public policy.

The theme of this year's conference—"How Do Bank's Compete? Strategy, Regulation, and Technology"—lies close to the conference's historic roots. Over the next two days we will explore the role of regulation, as well as the impact of new technology, on the ability of banks to provide their business and retail customers with high-quality financial services in an increasingly competitive marketplace.

To start that discussion, it is my honor to introduce today's keynote speaker, Alan Greenspan, Chairman of the Board of Governors of the Federal Reserve System. He is serving his fourth four-year term as chairman, having been designated to this position by Presidents Reagan, Bush Senior and Clinton. It was in August 1987 when he originally took office as chairman and to fill an unexpired term on the Board. He also serves as chairman of the Federal Open Market Committee, the System's principal monetary policymaking body.

The details of Alan's background and his tremendous achievements are well documented. His bachelors, masters and doctorate degrees in economics from New York University. His 30-year career as head of Townsend-Greenspan, an economic consulting firm in New York City. And his service as chairman of the President's Council of Economic Advisers under President Ford, as well as on many other public and private boards.

It is indeed appropriate that the Chairman is addressing the Bank Structure Conference at its milestone 40th meeting, because he has been part of the fabric of this conference for many years. He first addressed this conference in 1988, and since then Chairman Greenspan has delivered the opening keynote address at 16 of the past 17 conferences. His continued participation has been an implicit endorsement of the conference's quality. And we are indeed fortunate to have him with us today as our keynote speaker.

Please join me in welcoming Alan Greenspan.