Notes: Future of Banking

Commerce Bankshares 6/4/81 Rivercenter

I. Flavor of future financial services:

A. More automated access to financial services directly through terminals (TV, telephone, etc.) and debit cards.

B. Types of services:

1. MMF's

2. Insurance

3. Stock and bond purchases and sales

4. Retail transactions - grocery stores, etc.

5. Business transactions - payroll, suppliers, etc.

6. Personal financial planning, including tax preparation, estate planning, etc.

C. These services are currently offered by individual firms. Question is who will offer them in the future. Will banks gain access to them?

1. The more restricted an institution in offering the services, the more limited it will be in packaging services.

2. Access to communications channels with customers will be a key issue.

-will communications lines be public?

-how will individual companies communicate with customers?

II. The institutional barriers are being tested on many fronts today.

A. MMF's are reaching bank and thrift customers.

-instrument for large transactions

-pay competitive return

B. American Express - Shearson Loeb Rhoades, Prudential - Bache mergers challenge many barriers.

-insurance

-brokerage services

-travel business

-credit cards

-real estate

-communications system

C. Potential implications of mergers.

-Customers, with credit cards, could access retail services, investments in MMF's, stock transactions, etc.. Potential for a world-wide system.

-The credit card and cable and satellite communications systems under American Express control may give it a competitive advantage.

III. The path to and issues of the future.

A. MCA was a start.

1. Started deregulation.

2. Began removing some institutional barriers between thrifts and banks.

3. Overall, however, it sanctified what was already going on. (S & L's aren't in a position to undertake consumer lending, transaction-type accounts already existed.)

B. Inter-State banking.

1. When it comes it will likely be anticlimatic:

-Currently have interstate banking for international trade business (Edge Act Corporations).

-LPO's and finance companies compete across state lines for a large volume of lending.

-MMF's and the many managed liability instruments of banks and S & L's have expanded the funds gathering process to an international business. When funds are priced at competitive market rates and come from national markets, brick and mortar branches become less attractive.

2. The significant issue will be placement of electronic terminals and access to communications links to customers. Some facilities acquisitions will be important. (e.g. major regional banks.)

C. The major issue will be how banks and bank holding companies will be linked to nonbanking financial services.

1. Bank holding company acquisitions of S & L's.

2. Affiliations through ownership or correspondent-type relationships with:

   -insurance services

   -brokerage services

   -travel business

   -real estate business

   -communications services

   -financial consulting and planning

D. If the regulatory/legal constraints are not removed rapidly enough, some larger banks may be inclined to relinquish their banking charters to compete.

IV. What type of regulatory structure will be required that can provide necessary safeguards and yet be flexible?

A. What will require safeguarding? Specific services, firms, entire organizations?

B. What agency or group of agencies will do the regulating?

   -Will the regulatory structure follow parts of an institution or the institutional whole?

   -We currently take both approaches: bank holding companies and banks.