Remarks by

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I am honored to be following in the footsteps of the distinguished statesmen and women who have shared their thoughts on financial and business issues with the Wallenberg Bankers Forum. A free market in goods and services requires an equally free exchange of ideas, and, for more than twenty years now, the Wallenberg Forum has made an impressive contribution to that goal.

Let me begin by welcoming those of you who are guests in this country during this week of IMF/World Bank meetings. I trust that your discussions will be fruitful and constructive, and will advance the objectives of the two great international organizations whose work brings you here this week.

Your meeting takes place at what is surely a critical juncture in economic history. It has been a year of deepening crisis in many parts of the world. Across Asia, from Japan to Malaysia, from Russia to Brazil, economic instability continues to sweep across borders and continents, toppling some governments, disrupting trade, hobbling growth, and retarding the development of fledgling economies. No country can be said to be immune from its effects.

But some have obviously fared better than others. Those like the U.S. that have so far weathered the worst of the current disturbances are countries with at least one thing in common: safe, sound, and competitive banks -- and a vigorous supervisory system. Conversely, the countries that are having the most difficult time of it happen to be those with banking systems that are troubled and bank supervisory standards that are undeveloped or inadequate. The lesson, I think, is clear: solid financial institutions -- under effective supervisory controls -- are the indispensable foundation of healthy, growing economies.

One of the biggest stories of the year in the U.S. financial system has been "mega-mergers" in the banking industry and that is what I would like to talk about this afternoon. By most accounts, the story began on April 6 of this year -- which, incidentally, was my first working day as Acting Comptroller of the Currency, the chief regulator of our nationally-chartered banks. That day, Citicorp and the Travelers Group announced what would be nothing less than the biggest financial merger in U.S. history -- indeed the biggest U.S. merger of any kind. In succeeding days, the Citicorp - Travelers announcement was followed by others --

NationsBank and Bank America; Bank One and First Chicago; Wells, Fargo and Norwest. "We've all been talking about the future," said one slightly dazed analyst amidst the tide of merger announcements. "But now the future is here."

The new world of banking may indeed be at hand. But what does it portend for the world beyond the boardroom? These mergers might be good for some bank executives and bank investors, but are they necessarily good for America -- and the world? Does the clout to compete in global markets really depend on size? And what will increased numbers of very large banking organizations mean for competition and customer service in domestic markets? Consumers of financial services still have questions about how they will fare in the new banking regime. To what extent -- if at all -- are retail and small business customers likely to share in the anticipated cost savings of these announced combinations? Or will consumers face higher fees and reduced service in a less competitive domestic environment?

For some consumers, the existence of financial conglomerates raises privacy concerns. Will cross-selling pressures between bank affiliates and subsidiaries -- a major rationale for many of these mergers -- compromise the confidentiality of customers' financial information? What certainty do consumers have that their bank will not share that sensitive information with unauthorized end users within the financial conglomerate?

Questions continue to come from many quarters about the consequences of a mega-bank failure. Are they "too big to fail," or -- as Federal Reserve Board chairman Alan Greenspan recently described the hedge fund Long Term Capital Management -- too big to liquidate immediately?

Finally, and more to the point, many people questioned and still question how prepared we are in the regulatory arena to protect the public interest in a safe, sound, and accessible banking system for all Americans.

A number of these questions were put to me when I testified before the Committee on Banking and Financial Services of the House of Representatives in April. What I tried to do then -- and have tried to do since -- was to put this merger activity into meaningful perspective. The fact is, that what began on April 6 of this year was not really a new story at all, but rather the latest chapter in an old story, one that goes back more than two generations. In 1922, there were no fewer than 9,000 U.S. national banks, and the number has been dropping -- almost as fast as this country has been growing -- ever since. Today, there are fewer than 3,000 national banks, and that number will almost certainly decline further, thanks to the current merger trend. Much of this consolidation has come about as the result of mergers and acquisitions, with almost 7,000 mergers involving all U.S. banks occurring just since 1980. Even so, I would not be a bit surprised if many of you, coming from places where the banking scene has long been dominated by a small number of large institutions, had some difficulty relating to the anxieties about excessive concentration that many in the United States feel today.

In 1922, most of this nation's largest banks were supervised by the OCC. That it still true today. As you might expect, we have learned a great deal about big bank supervision over these many years, and a number of the lessons we have absorbed have a direct bearing on the challenges posed by the mega-mergers of 1998. For example, our experience shows that bigger banks are not necessarily banks that are qualitatively more difficult for us to supervise. The merger of NationsBank and Bank of America is a case in point. Here we have a merger of institutions of comparable size and complexity, with many common product lines. Because there is relatively little overlap in their branch networks, the competitive concerns that often surface when merger partners prune redundant branches are less of an issue. The OCC has long had a permanent supervisory presence in these institutions, with extensive knowledge of their activities. That will not change when the two become one.

But our experience teaches us something else of real importance, and that is the danger of complacency about this merger or any one like it. Indeed, our supervisory experience shows that in each phase of the merger process -- the pre-announcement phase, the transition phase, and the post-consummation phase -- pitfalls lurk. In each phase, we have found that, for merging banks and the larger banks they become to be successful banks, requires an abiding commitment to the fundamentals of risk management and customer care. And we have found that strong supervision has an important role to play at every step along the way -- in alerting banks to the pitfalls they face, in sharing our experiences about dealing with those pitfalls, and in safeguarding the public's ongoing interest in their safety and soundness.

With this in mind, shortly after the first of the mega-mergers were announced last spring, we convened a group of our national bank examiners most experienced in large bank merger transactions to review some of the specific challenges merging banks are likely to face -- and how banks have successfully dealt with these challenges in the past. Let me take just a moment to discuss just a few of the points and pitfalls that emerged, drawn from the much longer list that our examiners produced.

One of the real challenges for combining institutions is to avoid significant disruptions of ongoing business while the transition to new management is proceeding. When big mergers are announced, some managers will immediately start job-hunting, and the best of those managers are likely to find new positions before their organizations can afford to lose them. This management drain is likely to have particularly adverse effects in critical areas like information systems -- generally, one of the most challenging parts of the merger process. It is imperative, therefore, that bank management develops clear plans to ensure the retention and continuity of expert staffing before the merger is announced.

Indeed, we have long known that information systems are often the weak link in any merger arrangement. Two separate systems must be consolidated to a common, Year 2000 compliant platform; two separate systems with limited capacity must somehow be integrated

into one with far greater capacity. The combined entities have to be ready to capture, process, and monitor a larger volume of transactions -- millions more -- than they ever had to deal with separately. Underestimation of transactional demands can lead to computer system breakdowns and processing errors -- and the loss of customers.

Bank managers need to be particularly aware of the possibility that new and larger credit concentrations can result from mergers. However, depending on the balance sheet of the combining companies, there can actually be a reduction in the new company's exposure. For example, a more geographically-dispersed balance sheet creates less exposure to regional or local downturns because of its national or global diversity. Conversely, the new company may become more exposed to national or international economic events than before the merger.

As the result of our supervisory experience, we know that these and other issues must be closely watched as the mega mergers announced this year move to consummation -- and as the business, systems, and culture of the resulting organizations take shape. And we also know that we must maintain our supervisory vigilance to spot new emerging issues as new combinations occur in the financial industry.

Despite the pitfalls of consolidation and the questions that remain about whether the current round of mega-mergers will meet the expectations of their organizers, the future of U.S. financial services points toward more mergers. There is little doubt that the historical trend toward consolidation will continue. And it also seems clear that banks of all sizes will increasingly expand their range of product and service offerings, to accommodate the needs of more sophisticated financial consumers.

And the types of combinations possible may soon expand significantly. Right at this moment, legislation is pending before the United States Congress that would facilitate the creation of broader, bigger combinations -- combinations not just between banks, but among banks, insurance companies, and securities firms. I am referring to the Financial Services Competition Act of 1998, better known as H.R. 10. This legislation would eliminate or reduce many restrictions on affiliations between commercial banks, investment banks, and insurance companies, and permit what has not been permitted under the law in this country since 1933.

As we contemplate these new types of financial conglomerates, our experience in supervising
large institutions has much to offer. That experience teaches us that it is imperative that we, and the other bank regulatory agencies, have adequate supervisory authority to assess how the safety and soundness of the institutions we regulate is affected by activities conducted by, or transactions with these newly permitted types of affiliates. Inexplicably, H.R. 10 does not do this.

We in the United States should have learned our lesson on this score. The savings and loan crisis of the 1980s should have taught us that a significant expansion in powers in a banking organization

must not be coupled with a decrease in the safety and soundness authority of bank regulators. It is especially true during the turbulent financial times through which we are presently passing -- times that require the highest levels of supervisory vigilance, not less. Indeed, just last week, in hearings held to explore the near collapse and interim rescue of the hedge fund Long Term Capital Management, members of Congress admonished the financial regulatory agencies to be more vigorous to ensure that risks affecting any single institution are fully understood and, where excessive, promptly addressed.

That is why it seems inexplicable that Congress would attach provisions to H.R. 10 that place new roadblocks in the way of bank regulators when they seek information from or seek to examine aspects of operations of securities firms or insurance companies that are subsidiaries or affiliates of a bank in order to evaluate how the safety and soundness of the bank is affected by activities of such a subsidiary or affiliate. According to provisions in the pending legislation, the regulators could act only after they acquired hard evidence that a safety and soundness problem or a violation of the law already existed. By that time, damage to the bank or its reputation could have already occurred. Such restrictions on bank regulators' ability to prevent problems are unprecedented and should not be coupled with a new statutory framework authorizing expanded powers in banking organizations. If this legislation moves forward, these provisions clearly must be fixed.

Cooperation and information-sharing among regulators is crucial if we are to maintain effective and credible oversight of the complex institutions that will become increasingly commonplace in the new world of banking. No regulator's role should be -- nor need be -- compromised to achieve that result.

The United States today is playing a critical role in helping to steady global markets during these stressful times. We are doing that directly and indirectly: directly, by cooperating with international agencies in working with the most seriously afflicted countries; and indirectly, we hope, by example. Maintaining the safety and soundness of the banking system here in the United States should send a message of reassurance throughout the world and contribute importantly to stabilizing the global economy.