

PRESENTATION BY

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BANKING AND TECHNOLOGY

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BANKING AND TECHNOLOGY

TECHNOLOGY IS THE TOPIC IN BANKING AND FINANCIAL SERVICES TODAY. SO, I'D LIKE TO UPDATE YOU ON A FEW THINGS GOING ON IN THE INDUSTRY.

OUR INDUSTRY STANDS AT A CRITICALLY IMPORTANT CROSSROADS. THE QUESTION WE FACE IS NOT WHO WILL BUY WHOM -- THOUGH THAT MAKES FOR MORE INTERESTING TALK AT COCKTAILS PARTIES. INSTEAD, THE QUESTION IS HOW, WHEN AND WHERE WE WILL DEPLOY TECHNOLOGY TO DELIVER OUR PRODUCTS AND SERVICES IN THE NEXT CENTURY.

AND THE DECISIONS WE MAKE TODAY WILL SHAPE OUR INDUSTRY TOMORROW. TECHNOLOGY IS, OF COURSE, A RELATIVE WORD. A MONUMENTAL TECHNOLOGICAL BREAKTHROUGH OF AN EARLIER TIME -- THE LIGHT BULB, FOR EXAMPLE -- IS NOW CONSIDERED A STAPLE OF MODERN LIFE.

BUT THE MARRIAGE OF FINANCIAL SERVICES DELIVERY AND THE KINDS OF TECHNOLOGY THAT WILL BE A STAPLE OF YOUR LIVES MAKES THIS A PARTICULARLY IMPORTANT MOMENT FOR THE INDUSTRY.

BANKS HAVE LONG USED TECHNOLOGY TO GAIN SPEED AND EFFICIENCY -- MOSTLY WITH INTERNAL OPERATIONS. BUT THE DIFFERENCE NOW IS THAT WE ARE PUTTING THE LATEST TECHNOLOGY IN THE HANDS OF OUR CUSTOMERS. AND THE IMPACT CANNOT BE UNDERESTIMATED.

TELECOMMUNICATIONS BREAKTHROUGHS, THE ADVENT OF THE INTERNET AND SUCH THINGS AS SMART CARDS HAVE DONE WHAT NO EARLIER TECHNOLOGICAL BREAKTHROUGHS HAVE DONE. THEY HAVE BEGUN TO REDEFINE MONEY AND THE PAYMENTS SYSTEM.

ELECTRONIC FUNDS TRANSFER HAS BEEN A GROWING AND POPULAR FORM OF PAYMENT FOR YEARS. AND BANKS REMAINED AT THE CENTER OF THAT ACTIVITY.

BUT NEWER FORMS AND APPLICATIONS OF ELECTRONIC DELIVERY HAVE BROKEN ALL THE RULES.

BANKS NO LONGER ARE AT THE CENTER. AND SOON, THEY MAY NOT EVEN BE IN THE PICTURE AT ALL. TODAY, WITH SMART CARD TECHNOLOGY, BLOCKBUSTER VIDEO CAN SERVE AS ITS OWN INTERMEDIARY -- DEFINING MONEY AND A PAYMENTS SYSTEM SPECIALLY TAILORED FOR ITS CUSTOMERS. TOMORROW, BILL GATES COULD BE YOUR BANKER. AND BANKS? WELL, THEY MAY ONE DAY BE REMEMBERED AS THOSE QUIANT MARBLE BUILDINGS DOWN ON MAIN STREET -- THAT HAVE ALL LONG SINCE BEEN TURNED INTO COFFEE HOUSES.

NOW, HAVING SAID ALL OF THAT, IT WOULD BE NICE IF I COULD SAY THAT OUR INDUSTRY HAS HEARD THE WAKE UP CALL. WE'VE COME TOGETHER. AND WE ARE POISED TO LAUNCH A COUNTER OFFENSIVE.

WELL, I WISH I COULD. BUT I CAN'T. I DO BELIEVE THE INDUSTRY HAS HEARD THE CALL. BUT WE ARE ANYTHING BUT UNITED IN OUR RESPONSES - AT LEAST THOSE OF US WHO HAVE A RESPONSE.

OUR INDUSTRY HAS LONG BEEN A HIGHLY FRAGMENTED ONE. TRADITIONALLY, THE DIFFERENCES HAVE BEEN BETWEEN BIG BANKS AND SMALL ONES. LEGAL LIMITATIONS ON GEOGRAPHIC EXPANSION PROTECTED SMALLER PLAYERS -- OFTEN BEYOND THE POINT AT WHICH A LESS-REGULATED, FULL RATIONAL MARKETPLACE WOULD HAVE ELIMINATED THEM. SO MUCH OF THE CONTENTION IN THE INDUSTRY HAS BEEN OVER WHETHER TO TEAR DOWN THESE LEGAL FENCES.

THOSE DAYS ARE ALMOST OVER, OF COURSE. OVER THE LAST 15 YEARS, REGIONAL BANKING COMPACTS LED TO THE CREATION OF REGIONAL AND SUPER-REGIONAL BANKING COMPANIES. AND FULL NATIONWIDE BANKING AND BRANCHING BECOMES POSSIBLE NEXT YEAR.

BUT IN THE MEANTIME, THE PARADIGM HAS SHIFTED. JUST AS WE HAVE FINALLY WON PERMISSION TO CREATE LARGER GEOGRAPHIC FRANCHISES, VIRTUAL

BANKS POTENTIALLY CAN CREATE NATIONWIDE FRANCHISES PRACTICALLY
OVERNIGHT. AND, AS A RESULT, I BELIEVE WE WILL SEE EVER FEWER TRUE
NATIONWIDE BANKS THAN WE ONCE MIGHT HAVE. (SAY . . . ABOUT A HALF A DOZEN.)

IN LIGHT OF ALL OF THIS, I BELIEVE THE NEXT FIVE TO 10 YEARS WILL
DETERMINE THE LONG-TERM SURVIVORS IN MY INDUSTRY. AND THE DISTINCTION MAY
NOT BE BIG VERSUS SMALL -- SO MUCH AS WHICH BANKS HAVE THROWN OFF THEIR
OLD PIN-STRIPED WAYS . . . AND WHICH HAVE NOT.

HAVING ESTABLISHED THAT CONTEXT, LET ME BACK UP AND BRIEFLY WALK
THROUGH SOME OF THE WAYS BANKS HAVE USED TECHNOLOGY TO DATE.

IN THINKING ABOUT WHERE WE'VE BEEN, I'M REMINDED OF THE QUOTE BY IBM
FOUNDER THOMAS WATSON. HE ACTUALLY SAID AT ONE TIME HE THOUGHT THERE
WAS A WORLD MARKET FOR ABOUT FIVE COMPUTERS. OBVIOUSLY, MR. WATSON HAD
A LITTLE MORE VISION THAN THAT STATEMENT WOULD INDICATE. AND I THINK WE
HAVE AS WELL.

IN 1965, A MAN BY THE NAME OF ADDISON REESE, CALLED THE RAPID ADVANCE
OF COMPUTERS -- QUOTE -- "THE MOST EXCITING DEVELOPMENT IN BANKING" OF HIS
TIME. WHAT HE SAID THEN STILL APPLIES -- SPECIFICALLY, QUOTE: "FEW OF US FULLY
UNDERSTAND THIS DEVELOPMENT, BUT MOST OF US KNOW THAT WE ARE ONLY NOW
ENTERING AN ENTIRELY NEW ERA OF CUSTOMER SERVICES RELATED TO THE
COMPUTER."

HE WENT ON TO DESCRIBE THE COMPUTER AS -- QUOTE: "A KIND OF
MYSTERIOUS, TWELVE FOOT REFRIGERATOR WITH BLINKING LIGHTS AND WHIRRING
TAPES . . ." AND SAID -- QUOTE -- " THE GULF OF COMPREHENSION BETWEEN THE
EXPERTS AND THE LAYMAN IS FAR GREATER THAN THAT BETWEEN CHRISTOPHER
COLUMBUS AND THE SAVAGE INDIANS WHO KNELT AND WORSHIPPED HIM AT SAN
SALVADORE."

BUT TO HIS CREDIT, HE CORRECTLY PREDICTED THE COMPUTER'S ROLE IN:

- OVERNIGHT ACCOUNT SETTLEMENT;
- AUTOMATIC PAYROLL DEPOSITS; AND,
- THE ADVENT OF THE DEBIT CARD AS AN ALTERNATIVE TO THE CHECKBOOK.

NOT BAD FOR THE CHAIRMAN OF A SMALL NORTH CAROLINA BANK IN 1965.

TODAY, OF COURSE, THERE IS MORE POWER IN A LAPTOP THAN ONE OF THOSE "TWELVE FOOT REFRIGERATORS WITH BLINKING LIGHTS." AND LIKE A LOT OF OTHER INDUSTRIES, BANKERS ARE STILL -- QUOTE -- "WORSHIPPING" THESE SYSTEMS. BUT I SEE TWO MAJOR DIFFERENCES IN WHY WE ARE -- "WORSHIPPING" -- OUR LATEST SYSTEMS.

THE FIRST HAS TO DO WITH HOW WE USE INFORMATION SYSTEMS INTERNALLY. IN MR. REESE'S DAY, WE USED COMPUTERS PRIMARILY TO INCREASE THE EFFICIENCY AND CAPACITY OF OUR BACK-ROOM OPERATIONS. THAT IS STILL VERY MUCH THE CASE, OF COURSE. MUCH OF THE MILLIONS WE SPEND ON SYSTEMS EVERY YEAR IS TO INCREASE THE SPEED AND ACCURACY OF OUR "BACK-ROOMS."

WITH THAT KIND OF INVESTMENT YOU COULD UNDERSTAND WHY WE DON'T NECESSARILY AGREE WITH PABLO PICASSO, WHO SAID - QUOTE. "COMPUTERS ARE USELESS. THEY ONLY GIVE YOU THE ANSWERS."

TO THE CONTRARY, OUR INFORMATION SYSTEMS ARE NOW GIVING US THE QUESTIONS--AND IN DOING SO HAVE BECOME A POWERFUL MARKETING TOOL. THIS SYSTEM ENABLES US TO KNOW OUR CUSTOMERS BETTER THAN EVER BEFORE . . . ANTICIPATE THEIR NEEDS . . . AND MEET THOSE NEEDS WITH EXACTLY THE RIGHT PRODUCT AT EXACTLY THE RIGHT TIME.

FOR EXAMPLE, OUR SYSTEM IS DESIGNED TO REMIND OUR SALES AND SERVICE ASSOCIATES OF IMPORTANT MILESTONES IN OUR CUSTOMERS' LIVES. AT A

CHILD'S FIRST BIRTHDAY, WE CAN ASK WHETHER THE PARENTS WANT TO START A COLLEGE SAVINGS FUND.

WHEN A SON TURNS 16, WE CAN ASK DAD WHETHER HE'S CONSIDERED A USED CAR LOAN TO GET JUNIOR SOME WHEELS. OR, WHEN A CUSTOMER'S CD IS UP FOR RENEWAL, WE CAN INTRODUCE HER TO OUR FAMILY OF MUTUAL FUNDS.

FOR YEARS, TOO MANY BANKS USED A CATTLE-CALL, ONE-SIZE-FIT-ALL, TAKE-IT-OR-LEAVE-IT APPROACH TO MARKETING. BUT THIS HIGHLY TARGETED, NEEDS-BASED APPROACH TO SELLING ENABLES US TO MARKET RETAIL BANKING CUSTOMERS ON A ONE-BY-ONE BASIS.

THE SECOND MAJOR DIFFERENCE IN THE USE OF TECHNOLOGY TODAY IS THAT WE ARE PUTTING IT IN THE HANDS OF OUR CUSTOMERS. AND THIS IS WHAT IS TRULY TRANSFORMING THE INDUSTRY. WE'RE MOVING FROM BRICKS AND MORTAR DELIVERY TO MODEM AND CYBERSPACE DELIVERY -- WITH THE GOAL OF MAKING OUR CUSTOMERS' FINANCIAL LIVES EASIER AND MORE SUCCESSFUL THAN EVER.

AGAIN, THOUGH, WE'VE BEEN MOVING TOWARD THIS DAY FOR SOME TIME. ONE OF THE FIRST EXAMPLES OF HOW BANKS PUT TECHNOLOGY IN THE HANDS OF CUSTOMERS WAS THE AUTOMATIC TELLER MACHINE.

ATM'S APPEARED FIRST ABOUT TWENTY YEARS AGO -- PRIMARILY INSIDE BRANCHES AS AN ALTERNATIVE TO STANDING IN LINE TO GET CASH AT PEAK BUSINESS HOURS. BUT WE QUICKLY SAW THAT CUSTOMERS LOVED THE SELF-SERVICE CONVENIENCE. ATM'S MOVED OUTSIDE THE BRANCH AS A 24-HOUR ALTERNATIVE . . . THEN TO STAND-ALONE SITES SUCH AS AIRPORTS AND SHOPPING MALLS.

LAST YEAR, ATM USAGE PASSED A MILESTONE WE NEVER WOULD HAVE BELIEVED WHEN THESE MACHINES WERE INTRODUCED: THE NUMBER OF CUSTOMER TRANSACTIONS AT ATM'S ACTUALLY SURPASSED THE NUMBER OF TELLER-ASSISTED TRANSACTIONS IN OUR BRANCHES. AND WITH THE CUSTOMER VOTING SO CLEARLY

FOR SELF SERVICE, WE ARE INCREASING THE REACH OF OUR ATM NETWORK BY 50% THIS YEAR ALONE.

THE CUSTOMER ACCEPTANCE CURVE WAS A LOT LONGER WITH THE ATM BECAUSE IT WAS INTRODUCED TO SERVE A GENERATION THAT WAS LESS TECHNOLOGY FRIENDLY. BUT TODAY, THE BABY BOOMERS AND, ESPECIALLY, THE BABY BUSTERS ARE FAR MORE READY AND WILLING TO USE TECHNOLOGY TO MAKE BANKING EASIER. FUTURE GENERATIONS WILL BE EVEN MORE SO.

SO, HOW DO WE MAKE THE TRANSITION FROM BRICKS AND MORTAR DELIVERY TO MODEM AND CYBERSPACE DELIVERY?

PERHAPS MOST IMPORTANT, WE START WITH WHAT OUR CUSTOMERS ARE MOST COMFORTABLE WITH -- AND THAT'S THE TELEPHONE. CUSTOMERS BANK FROM HOME VIA THE PHONE TO CHECK ACCOUNT INFORMATION, STOP PAYMENTS, REQUEST COPIES OF CHECKS, PAY BILLS, APPLY FOR INSTALLMENT LOANS AND MORTGAGES.

THIRTY SIX PERCENT OF ALL US HOUSEHOLDS REGULARLY USE A PHONE FOR HOME BANKING. AND, LAST YEAR, CUSTOMERS CALLED BANK PHONE SERVICE CENTERS MILLIONS OF TIMES TO PERFORM JUST THOSE KINDS OF TRANSACTIONS. MOST OF THOSE CALLS ARE ACCOUNT SERVICE CONVERSATIONS. BUT EACH IS ALSO A TERRIFIC OPPORTUNITY TO LEARN MORE ABOUT OUR CUSTOMERS AND HOW WE CAN HELP THEM MEET THEIR NEEDS. IN OTHER WORDS, TO SELL.

WE'VE TAKEN PHONE BANKING A STEP FURTHER WITH SCREENPHONE TECHNOLOGY - WHICH EQUIPS EACH CUSTOMER WITH A SPECIAL TELEPHONE. WITH A PUNCH OF A FEW BUTTONS, OUR CUSTOMERS USE THE SCREEN PHONE TO TRANSFER FUNDS AND PAY BILLS. IT'S A GREAT FIT FOR OUR CUSTOMERS IN THAT AREA WHO LEAD BUSY LIVES AND LIKE THIS ALTERNATIVE. HAVING SAID THAT, HOWEVER, THE SCREENPHONE MAY TURN OUT TO BE MORE OF A NICHE PRODUCT THAN A MAJOR DELIVERY CHANNEL.

BUT WHAT NO ONE HAS ANY DOUBTS ABOUT IS THE VAST POTENTIAL OF THE PERSONAL COMPUTER. ONLY TWO YEARS AGO, 31% OF ALL AMERICAN HOUSEHOLDS OWNED A PC. THAT NUMBER IS NOW MORE THAN 40%. PCs EVEN OUTSOLD TELEVISION SETS LAST YEAR.

PC BANKING WILL DEBUT HERE IN THE LAST HALF OF THIS YEAR - AND CUSTOMER INTEREST ABOUT THE PRODUCT IS HIGH.

WHAT'S EVEN MORE IMPRESSIVE IS THE GROWTH -- AND THE POTENTIAL -- OF THE INTERNET. USAGE IS PROJECTED TO EXPLODE FROM ABOUT 40 MILLION USERS TODAY TO AS MANY AS 200 MILLION USERS IN JUST A FEW YEARS.

APPLE CO-FOUNDER STEVE JOBS TALKS ABOUT THE DAYS IN THE NOT SO DISTANT FUTURE WHEN WE WILL SHOP FOR CARS USING WEB PAGES. THE PAGES WILL TAKE INTO ACCOUNT OUR PARTICULAR PREFERENCES ... SHOW US EXACTLY THE CAR WE WANT -- COLOR, OPTIONS AND ALL -- AND CALCULATE THE PAYMENTS.

AND, BILL GATES SAYS WE WILL SOON BE ORDERING MORE PIZZAS OVER THE NET THAN OVER THE TELEPHONE -- COMPLETE WITH TOPPING SELECTIONS AND DELIVERY TIMES. BUT IT WAS SOMETHING ELSE THAT MR. GATES SAID LAST YEAR THAT REALLY CAUGHT THE EAR OF MY INDUSTRY.

HE SAID BANKS COULD WELL BECOME DINOSAURS IN THE ERA OF ELECTRONIC COMMERCE. AND WHILE THE INDUSTRY EXPLODED OVER THE PERCEIVED INSULT, I THINK MR. GATES COULD BE RIGHT -- BUT FOR DIFFERENT REASONS THAN HIS.

BILL GATES IS RIGHT IF THE INDUSTRY FAILS TO GET BEYOND HIS WORDS TO THE REALITY BEHIND THEM. THE FACTS ARE THAT OUR INDUSTRY FACES A VERY QUIET THREAT -- AND THAT IS WHETHER WE WILL USE TECHNOLOGY TO THE BENEFIT OF OUR CUSTOMERS . . . OR BE USED BY THE TECHNOLOGISTS AND PAY THEM FOR THE PRIVILEGE BY HANDING OVER OUR CUSTOMERS.

LET ME EXPLAIN WHAT I MEAN.

TO BE PERFECTLY FRANK, OUR INDUSTRY HAS A HABIT OF ADOPTING A HERD MENTALITY. AND MR. GATES' STATEMENT HELPED SET OFF A STAMPEDE. IT'S PREDICTED THAT 500 BANKS WILL BE ON-LINE BY 2000.

BUT, AS MR. GATES SAID, IT JUST MAY BE A DINOSAUR STAMPEDE. I QUESTION WHETHER WE HAVE EVEN CONSIDERED THE LONG-RANGE IMPLICATIONS OF THE DECISIONS WE ARE MAKING ABOUT CYBERSPACE DELIVERY.

THE COMPLEXITY OF TECHNOLOGY, THE RANGE OF POSSIBILITIES AND, YES, OUR OWN UNFAMILIARITY WITH THE SUBJECT, HEIGHTENS BANKS' URGENCY TO FIND SOLUTIONS NOW. BUT . . . TODAY'S SOLUTIONS MIGHT WIND UP SETTING STANDARDS THAT WE ALL ARE FORCED TO LIVE WITH IN TOMORROW'S DELIVERY CHANNELS.

IT'S CLEAR THAT ELECTRONIC BANKING IN THE FUTURE WILL FAR EXCEED PC BANKING AS WE KNOW IT TODAY. ULTIMATELY, CUSTOMERS WILL SELECT PRODUCTS AND SERVICES WITH THE TOUCH OF A BUTTON. OR THEY COULD TELL AN ELECTRONIC AGENT TO GO FIND THE PRODUCT -- AND EVEN HAGGLE WITH THE SELLER OVER THE TERMS.

SUCH A WORLD WILL REQUIRE THE CONSTRUCTION OF A CHANNEL WHERE CUSTOMERS CAN SHOP FOR THEIR FINANCIAL NEEDS. SUCH A CHANNEL COULD BE CONNECTED TO THE INTERNET - OR NOT - DEPENDING ON WHAT IS THE MOST SECURE WAY OF DOING BUSINESS.

THE QUESTION WHO WILL BUILD, OWN AND SHAPE THAT PLATFORM:

IN OUR RUSH TO FIND A SOLUTION FOR PC BANKING, WHAT MAY SEEM LIKE A SATISFACTORY SHORT-TERM SOLUTION COULD TURN OUT TO BE DISASTROUS IN THE LONG RUN - RELEGATING BANKS TO THE ROLE OF FACELESS, BRAND-LESS PRODUCT MANUFACTURERS WITH NO CONTROL OVER THE USE OF THIS MOMENTOUS NEW DELIVERY CHANNEL.

TO AVOID THAT FATE, BANKS MUST PUT OUR INDUSTRY'S FRAGMENTED PAST BEHIND US - AND WORK TOGETHER TOWARD A SOLUTION . . . WHILE RETAINING OUR RESPECTIVE CUSTOMERS.

WE ALL ARE SEARCHING FOR THE SAME QUALITIES IN OUR TECHNOLOGICAL VENTURES.

WE WANT A TRUE PARTNERSHIP . . . AN EQUAL VOICE . . . SHARED ROLES . . . DISTINCT IDENTITIES. . . AND TRUE CUSTOMER FOCUS. WE WANT A PLATFORM THAT IS OPEN AND FLEXIBLE. WE WANT TO HELP CREATE THE CUSTOMER EXPERIENCE. WE WANT TO PROMOTE OUR BRANDS. PERHAPS MOST IMPORTANT, WE WANT AN OWNERSHIP STAKE.

RATHER THAN PLACING OUR FUTURE IN THE HANDS OF THE TECHNOLOGY COMPANIES, WE SHOULD STRUCTURE OUR OWN ANSWER - DESIGNED BY BANKS . . . ON OUR TERMS. . . TO DELIVER OUR OWN PRODUCTS . . . BASED ON OUR CUSTOMERS' DEFINITION OF VALUE AND CONVENIENCE . . . THROUGH OUR OWN SEPARATE IDENTITIES.

A PARTNERSHIP OF BANKS - WITH A STRONG TECHNOLOGY PARTNER - BUILDING ITS OWN CHANNEL, ITS OWN FINANCIAL-SERVICES HIGHWAY. ONE THAT PROVIDES ALL OF THE BENEFITS OF CYBERSPACE BANKING FOR CUSTOMERS AND BANKS ALIKE. BUT PERHAPS MOST IMPORTANT, ONE THAT ENABLES CUSTOMERS TO MAINTAIN THEIR PRIMARY RELATIONSHIP WITH THE FINANCIAL INSTITUTIONS THEY KNOW THEY CAN TRUST.

TODAY, SUCH A VENTURE IS IN THE WORKS THROUGH A GROUP OF BANKS AND ONE OF THE NATION'S MOST POWERFUL TECHNOLOGY PARTNERS. TOGETHER, WE ARE BUILDING A FINANCIAL SERVICES INFORMATION HIGHWAY DESIGNED TO SERVE CUSTOMERS IN THE ERA OF CYBERSPACE BANKING.

SO IN CONCLUSION, THAT IS A QUICK OVERVIEW OF THE TECHNOLOGICAL ISSUES FACING THE BANKING INDUSTRY. AS YOU CAN SEE, WE HAVE COME A LONG

WAY FROM THOSE TWELVE FOOT REFRIGERATORS WITH BLINKING LIGHTS AND WHIRLING REELS OF TAPE.

TODAY, MORE FINANCIAL SERVICES TECHNOLOGY IS DIRECTLY IN THE HANDS OF THE CONSUMER THAN WE EVER IMAGINED. AND IT'S NOT INCONCEIVABLE THAT ONE DAY SOME OF YOU WILL BE WALKING AROUND WITH MORE COMPUTING POWER IN AN ELECTRONIC WALLET THAN WE HAVE TODAY IN A STANDARD BRANCH.

THE BOTTOM LINE IS THAT THE CUSTOMER WILL BE IN CONTROL OF HIS OR HER FINANCIAL LIVES. WITH MORE CHOICES OF PRODUCTS AND MORE WAYS TO GET THOSE PRODUCTS THAN WE CAN IMAGINE.

THANK YOU. THIS CONCLUDED MY REMARKS.