

REGULATION, DEREGULATION, REREGULATION

*The Future of the
Banking, Insurance,
and Securities
Industries*

ALAN GART

Regulation, Deregulation, Reregulation

The Future of the Banking, Insurance, and
Securities Industries

ALAN GART



JOHN WILEY & SONS, INC.

New York • Chichester • Brisbane • Toronto • Singapore

This text is printed on acid-free paper.

Copyright © 1994 by John Wiley & Sons, Inc.

All rights reserved. Published simultaneously in Canada.

Reproduction or translation of any part of this work beyond that permitted by Section 107 or 108 of the 1976 United States Copyright Act without the permission of the copyright owner is unlawful. Requests for permission or further information should be addressed to the Permissions Department, John Wiley & Sons, Inc.

This publication is designed to provide accurate and authoritative information in regard to the subject matter covered. It is sold with the understanding that the publisher is not engaged in rendering legal, accounting, or other professional services. If legal advice or other expert assistance is required, the services of a competent professional person should be sought. FROM A DECLARATION OF PRINCIPLES JOINTLY ADOPTED BY A COMMITTEE OF THE AMERICAN BAR ASSOCIATION AND A COMMITTEE OF PUBLISHERS.

Library of Congress Cataloging-in-Publication Data

Gart, Alan.

Regulation, deregulation, reregulation: the future of the banking, insurance, and securities industries/Alan Gart.

p. cm.

Includes bibliographical references and index.

ISBN 0-471-58052-X (alk. paper)

1. Financial services industry—United States—Deregulation.

I. Title.

HG181.G374 1993

332.1'0973—dc20

931-13920

Printed in the United States of America

10 9 8 7 6 5 4 3 2

Acknowledgments

I wish to express my sincere gratitude to Larry G. Brandon and Robert Gibbons (Insurance Institute of America), Ricardo Mejias (Loan America Financial Corp.), Michael Conn (Michael Conn Associates), James Ross (Radford University), Michael Elliot (American Institute for Property Casualty Underwriters), George Stasen (First City Bankers), Joseph DeSipio (Vector Capital Management), Paul Shalita (lawyer and real estate entrepreneur), Steve Meyers (Federal Reserve Bank of Philadelphia), Alex Anckonie III (905 Associates), and John W. Spiegel (SunTrust Banks) for their insightful comments on earlier drafts. Ron Needleman (Nova University) and Gene Brady (University of Bridgeport) provided valuable editorial assistance, while friends such as George Head and Connor Harrison (Insurance Institute of America), Richard Krassen (independent insurance agent), and Bud Rowell and Larry Brown (Provident Mutual) offered salient suggestions and ideas germane to the problems and future of the insurance industry. Kim Holston, librarian at the Insurance Institute of America, and the acquisition librarians at Nova University went out of their way to be helpful in acquiring the latest books and materials to aid this project.

Deedy Gart, my lovely wife, deserves a special note of thanks for tolerating my long absences in interviewing people, extensive library research, and teaching away from home, as well as an untidy office and guest room for well over a year.

ALAN GART

*Huntingdon Valley, Pennsylvania
and Ft. Lauderdale, Florida
September 1993*

Contents

Introduction	1
 PART ONE. OVERVIEW AND HISTORY OF FINANCIAL REGULATION	 11
1 The Financial Services Industry	13
Diversification and Regulation	16
Deregulation	16
Distribution Systems	19
Mergers, Acquisitions, and Demutualizations	20
Technological Change	21
Banks and Insurance	22
Trends	23
Problems in the Financial Services Industry	24
Prognosis	29
2 History of Bank Regulation	31
The Depression and Financial History	33
The New Deal Legislation	37
Miscellaneous Commentary	55
3 Securities and Investment Regulation, 1940–1979	59
Investment Company Act of 1940	59
Investment Advisers Act of 1940	60
The Bank Holding Company Act (1956) and the Douglas Amendment	60
Branch Banking Outside the United States	61
Bank Merger Act of 1960	62
1966 Amendment to the Bank Holding Company Act	63
Interest Rate Control Act of 1966	63
1970 Amendment to the Bank Holding Company Act	64
Fine and Hunt Commissions	65
National Credit Union Administration (1970)	71

Consumer Protection Regulation: Social Responsibility Laws of the 1960s, 1970s, and 1980s	72
Regulatory Reform in the Securities Industry	74
Securities Investor Protection Corporation Act of 1970	75
Securities Acts Amendments of 1975	76
4 Mainframe Bank Deregulation	81
The Depository Institutions Deregulation and Monetary Control Act of 1980	81
SEC Rule 415: Shelf Registration	83
The Garn-St. Germain Depository Institutions Act of 1982	84
"Nonbank Banks"	86
1986 Tax Reform Act	87
The Competitive Equality Banking Act of 1987	88
Financial Institutions Reform, Recovery, and Enforcement Act of 1989	89
Securities Enforcement Remedies Act of 1990	94
The Comprehensive Deposit Insurance Reform and Taxpayer Protection Act of 1991 and the RTC Refinancing, Restructuring, and Improvement Act of 1991	94
Comments on the Deposit Insurance Reform and Taxpayer Protection Act of 1991	97
5 Regulation of the Insurance Industry	103
Background	103
Insurance Regulators Mount Attack	108
Possible Dingell and Metzenbaum Legislation	109
Risk-Based Capital Requirements	112
Other Issues	113
Worldwide Regulatory Trends	113
PART TWO. FINANCIAL DEREGULATION AND CONTEMPORARY FINANCIAL ISSUES	115
6 Contemporary Banking Issues	117
Bank Capital Issues	117
History of Bank Capital Standards	118
Risk-Based Capital Standards	120
Comments on Interstate Banking and Merger Activity	130
Stimulus for Regulatory Reform	131
Decline in Role of Banking in the U.S. Financial System	131
Loan Guarantees	132

Expanding Bank Activities	133
E. G. Corrigan: Banking Commerce Controversy	133
Universal Banking	137
Other Types of Banking Entities	139
Source-of-Strength Policy and the Double Umbrella	139
Multiple Regulatory Agencies	140
Issues of Payment System Safety	143
7 Deposit Insurance and Bank Failures	147
Bank Early Warning Models	147
Too Big to Fail: Double Standard	154
Bank Accounting Systems	157
What Happens When an Insured Bank Fails?	158
Failures at Continental Illinois and the Bank of New England	159
The Potential Failures	163
Good Bank, Bad Bank	166
Deposit Insurance	167
Excessive Risk Taking	173
Potential Solutions	174
 PART THREE. INDUSTRY TRENDS AND STRUCTURAL CHANGE	 179
8 Structural Change in the Insurance Industry	181
Life Insurance	181
Property and Casualty Insurance	184
Consumer Confidence in the Industry	187
Mutual Benefit Life and Executive Life	190
Downgrades in Ratings for Life Insurers	195
Other Troubled Life Insurance Companies	198
Salient Issues	205
Exploring Some of the Problems	206
The Thrift Industry-Insurance Industry Analogy	240
Conclusions	243
9 The Investment Banking and Securities Industry	249
Early Investment Bankers	251
Consequences of Glass-Steagall and the Securities Acts	252
Role in Underwriting Syndicates	253
Rise of Salomon Brothers and Merrill Lynch	253

Going Public	255	
Foreign Partners, Globalization, Financial Conglomerates, and Consolidation	256	
The Rise and Fall of Drexel Burnham Lambert	258	
Salomon Brothers Scandal of 1991	259	
Money Market Mutual Funds	263	
Discount Brokerage	264	
Consequences of Shelf Registration on Underwriting Spreads	265	
Money Management	265	
Corporate Finance	266	
Venture Capital and Real Estate	268	
The Shifting Role of Research Departments	268	
Diversification Efforts	270	
Structural Strains and Consolidation	271	
Quality of Management	272	
Other Managerial Issues	273	
Investment Banking and MBAs	275	
Securities Industry Structure	276	
Classification and Strategies of Securities Firms	276	
Shifts in Sources of Revenue	277	
Technological Change	281	
Where Is the Industry Headed?	283	
10 Structural Change in the Banking Industry		289
Balance Sheet Changes	291	
Bank Returns on Assets and Equity	303	
Foreign Competition in U.S. Banking Markets	307	
Shift from Relationship Banking to Price Banking	315	
Banking's Role in Securitization	318	
11 The Consolidation of the Banking Industry		321
Regulatory Changes	323	
What Does the Future Hold?	324	
The Era of Consolidation	326	
A Megamerger: Chemical Banking Corporation	328	
Why Should Mergers Work?	330	
Another Megamerger: BankAmerica and Security Pacific	331	
Other Money-Center Banks	333	
Impact of Mergers	338	
The Rise of the Superregionals	339	
Superregionals and Investment Banking Activity	353	
Merger Activity and Other Potential Mergers	353	

Foreign Banking Mergers	356
Financial Conglomerates or "Boutiques"	356
Specialized Banking	357

PART FOUR. PROSPECTS FOR REREGULATION AND DEREGULATION IN THE FINANCIAL SERVICES INDUSTRY	361
12 What Do the Experts Say About Reforming the Banking Industry?	363
Michael Jacobs	364
Jeremy F. Taylor	365
Schumer Plan	365
Pierce Plan	366
McCormick Prescription	366
Bryan's Blueprint	368
Federal Reserve Board Governor John LaWare	369
Charles T. Fischer	369
Irving Leveson	370
David Rogers	371
13 Where Are We Headed?	375
The Rest of the Nineties	376
An Agenda for Reregulation	382
Conclusion	385
Appendix. Major Legislation Affecting U.S. Depository Institutions	387
Glossary	391
Bibliography	403
Index	407

Introduction

The stock market crash, the revelations of gross misconduct on Wall Street, the failure of nearly 10,000 banks between 1929 and 1933, and the Great Depression of the 1930s generated a pervasive reform of our financial markets and of the institutions that operated therein. However, before that reform could be subjected to the test of time, World War II intervened. The war years and the postwar recovery were so unusual in so many respects, that they prevented a valid test of the efficacy of the revised machinery in a climate of economic “normalcy.”

By the 1950s, the chaotic conditions of the earlier period had manifestly settled down. Economic expansion was the watchword of the day. As the economy expanded, and prosperity visited business and individuals alike, the world of finance appeared to be running smoothly—in hindsight, perhaps too smoothly.

Failures of commercial banks and savings institutions were limited in number. Investment companies, investment bankers, and securities brokers were profitable, almost without exception.

Both credit and depository alternatives were limited and straightforward. Secured lines of credit and five- to seven-year loans from commercial banks provided short- and intermediate-term financing for business entities. Mortgage loans from commercial banks were available to fill longer term requirements. For larger concerns, underwritten private placements or public offerings of securities were utilized to raise permanent or semipermanent capital, although the use of this type of financing often was dependent on proper timing within the business cycle and, for the smaller of the larger businesses, the availability of an underwriter.

For consumers, the choices were equally limited and confined. Thrift institutions—that is, savings banks and savings and loan associations—provided most of the residential mortgage financing during this period, which was in truth an orgy of new-house construction. These thrift institutions were able to attract the substantial deposits necessary to service their huge mortgage portfolios only because Regulation Q (which imposed interest rate ceilings on time and demand deposits) assured that

they retained the right to offer a rate of interest on deposits of at least 0.25 percent [25 basis points] higher than the rate permitted their competitors. With Regulation Q in place, residential mortgage lending was consistently a highly profitable business for thrifts.

Competition among the various types of financial institutions was severely restricted by law. The transaction function was reserved for the commercial banks because they alone were authorized to offer checking accounts. Even limited competition did not appear until the birth of the negotiable order of withdrawal (NOW) account in 1972. At about the same time, in response to what was by then a generally recognized need, the money market fund was conceived and dedicated as the first device in history to combine payment of a competitive rate of interest on balances and withdrawal of funds on demand. These two innovations provided the impetus that subsequently opened the door to the deregulation of interest rates for small-denominated deposits and culminated in the Federal Deposit Insurance Corporation (FDIC) being pushed to the brink of insolvency. The huge number of bank failures called into question the entire regulatory scheme, which seemed to function effectively for 30 years.

The postdepression regulation led to a segmentation of markets and institutions, with only minimal overlap. Today, the financial services industry is recognized, essentially, as a single industry, although there are obviously a number of interrelated segments within it. Financial institutions, previously limited to only one segment of the market, are presently engaged in expanding their activities across the whole industry spectrum. This broadening of horizons is possible only because of the demise of a substantial portion of the controls imposed by the legislation of the 1930s.

Under the environment established by Roosevelt's New Deal, as practiced in the 1950s, insurance was sold directly by the insurers or through independent agents and brokers. Except for a smattering of involvement by some savings banks and a handful of commercial banks, the buying public had no other market for insurance products.

Brokers and dealers marketed stocks, bonds, and mutual funds. Savings banks and savings and loan associations restricted most of their investment activities to real estate-secured loans, primarily residential mortgages. Commercial banks offered a slightly more varied menu of services, concentrating on short-term business lending, but even they did not often stray across the line into the brokerage or insurance business, much less that of underwriting stocks.

The New Deal legislation provided each subgroup within the industry with an umbrella of protection against unwelcome competition. It also established a highly effective barrier protecting the turf of each group from invasion by potential competitors. Market segmentation by institution proved to be superficially stabilizing.

Because the economy was expanding so rapidly and inflation was low until the late 1960s, each group was able, fairly consistently, to maintain acceptable growth rates and profit margins. Given this set of circumstances, there existed little incentive for any participant to encroach upon the territory of another, or to disturb the "Pax Financus" that appeared to be serving everyone so comfortably.¹

However, the diamond advertisements notwithstanding, nothing is forever. The caldron that is the American economy never stops boiling. In any given period, events occur or situations develop that underlie a process of change—change which at its inception only a few astute experts anticipate or recognize. The 1950s and 1960s proved to be no exception.

The development of private pension plans and the growth of union-managed retirement programs served to create huge pools of capital that had never previously existed. The necessity to invest these funds brought players into the financial services industry that had never before been involved.

In the early 1960s, Citicorp developed the negotiable certificate of deposit (CD), which acted as a catalyst in changing the nature of banking. The growth and popularity of this new instrument ushered commercial banking into the age of liability management. Most of the large banks shifted from more conservative asset management strategies to more aggressive liability management strategies. Banking became much riskier, as the new philosophy required assumption of liabilities beyond the core deposit base.

The economic expansion of the 1950s slowed in the two decades following. The fiscal pressures resulting from the “guns and butter” philosophy of the Johnson Administration during the Vietnam War brought forth a secular increase in the inflation rate. The accelerating inflation rate rendered obsolete the government-regulated yield on deposits that financial institutions were permitted to offer under Regulation Q. During the period when Regulation Q remained in effect, the inflation rate often exceeded the interest rate ceiling. Under these circumstances, it should have shocked no one that the thrift institutions, the pillars of the residential mortgage market and now the victims of Regulation Q, sustained an immense diminution of their deposit base, which in turn created a shortage of available funds for residential mortgages.

Through the process known as “disintermediation,” the withdrawn funds resurfaced in more market-sensitive investments, such as Treasury bills, commercial paper, and money market mutual funds (a new form of investment created in 1972 for the purpose of receiving the gigantic amounts that small savers were in the process of withdrawing from the rate-restricted institutions).

“Disintermediation” also affected larger individual investors and business entities requiring injections of new capital. Always seeking the cheapest available source, large corporations discovered a rate advantage in issuing their own commercial paper directly to the public. Fortune 1000 corporations utilized the commercial paper market rather than the commercial banks for their short-term borrowing because commercial paper rates were considerably lower. The result was an abrupt termination of “relationship” banking and the establishment of what is now commonly referred to as price-sensitive banking. The commercial banks thus lost irretrievably a substantial amount of business from their highest quality corporate customers. To replace the A-1 quality customers, who now borrowed more cheaply in the commercial paper market or in the Eurodollar market, many of the larger banks reached out for lesser quality, high-risk credits in an effort to realize higher returns.

The 1970s added a new and unforeseen element to the ferment that was far reaching in both political and economic consequences. Already a net importer of oil, the United States was suddenly and unexpectedly subjected by a political embargo to the deprivation of oil imports from the Middle East. The pervasive inflation that had commenced during the Vietnam War years was thus exacerbated to a point unknown in the memory of those then alive. A phenomenon rarely seen in American economic history suddenly appeared: annual double-digit inflation and short-term interest rates reaching above 20 percent.

Currency exchange rates, which previously had stayed fairly stable under the strictures of the Bretton Woods Agreement, suddenly began to fluctuate wildly. In response, a huge global trading market developed rapidly, Eurocurrency instruments grew in popularity, and London rivaled New York as the center of the world's money and capital markets.

Reacting to this new economic climate and the new opportunities suddenly available, corporate borrowers found it beneficial to expand their internal mechanisms for raising capital. Many of the value-added services, which they had formerly purchased from outside vendors, were now either completely internalized or reduced to pricing or commodity status.

As a result of the 1971 collapse of the Bretton Woods system of fixed currency exchange rates, more volatile and more lucrative interest rates prevailed during the period immediately following. Investors, both individual and institutional, domestic and international, became highly sensitive to interest rate fluctuations and more willing to shift their funds globally in response to investment opportunities. The rapidly developing global markets, made possible in no small part by technological improvements in transoceanic communication capabilities and computers, encouraged every prospective borrower to embark on a worldwide search for even the smallest advantage and every prospective investor to embark on a similar search for the most lucrative return on investment.

To this panoramic quest for financial advantage, the regulator's controls posed only a minor impediment. Regulation Q had no effect whatever on policies of lending institutions in London or in other international financial centers. However, the competition offered by such institutions had a significant effect on their American counterparts, which had to obtain relief from the government controls in order to remain competitive.

In response to these pressures, U.S. financial institutions began to cross over the lines that had previously segmented the financial services industry. Deregulation was in a sense inevitable because of the inherent contradictions of the New Deal package of regulations, which was fundamentally arbitrary and conflicted with the fluidity of the marketplace. Geographic, pricing, and product deregulation were at the center stage of governmental attempts to provide American depository institutions with a more level playing field and the small depositor with a return commensurate with that available to wealthier investors in the money markets. New opportunities seemed to offer growth potential, but in many instances there was growth merely for the sake of growth, without a well-thought-out "game plan" or any real expertise

Table I.1 Market Share of Financial Institutions

Institution	1960	1992
Commercial Banks	34.2%	24.0%
Insurance Companies	21.8	15.0
Other Depository Institutions	17.0	.0
Pension and Retirement Funds	8.8	21.4
Mutual and Money Market Funds	2.6	10.4
Government-Sponsored Agencies and Mortgage Pools	1.7	12.2
Other	13.9	8.0
	100.0%	100.0%

Source: Flow of Funds, Federal Reserve Board of Governors, Third Quarter, 1992.

in areas of new entry. The spectacular failures in the thrift and banking industries are only the most widely publicized of these “growth” disasters. Many banks that have not failed are short of capital and in danger of failure, and the insurance industry is suspect and under intense scrutiny by both state regulatory agencies and some members of Congress.

According to George J. Vojta, executive vice-president of Bankers Trust, “Banks in the traditional form are already obsolete. . . . If you conduct your business in accordance with the legal definition [of banks], you won’t survive.” W. Lee Hoskins, former president of the Federal Reserve Bank of Cleveland, adds that “Without reform to deposit insurance and bank regulation, banks will slowly disappear from the financial landscape as unregulated firms take more and more of their business.” Less regulated nonbank competitors, such as General Electric (GE), General Motors (GM), Sears, and American Express, now offer a wide array of banklike services. As a matter of fact, banks held 24 percent of financial institution assets in 1992, compared with 34 percent in 1960. Other depository institutions and insurance companies experienced a similar decline. On the other hand, mutual funds (especially money market funds), pension and retirement funds, and mortgage pools experienced big gains in market share between those years. (See Table I.1 and Figure I.1.)

Without question, the collapse of the thrifts is attributable to deficiencies in the legislative scheme and the regulatory controls, which in the 1950s appeared to be working so efficiently and so effectively. The concept of “deposit insurance,” originally a reasonable idea, was expanded in the 1950s by an unreasoning Congress to the point where its very presence constituted an invitation to fraud. Budgetary restrictions on oversight agencies and the loose ethics endemic to political lobbying further contributed to such imitation.

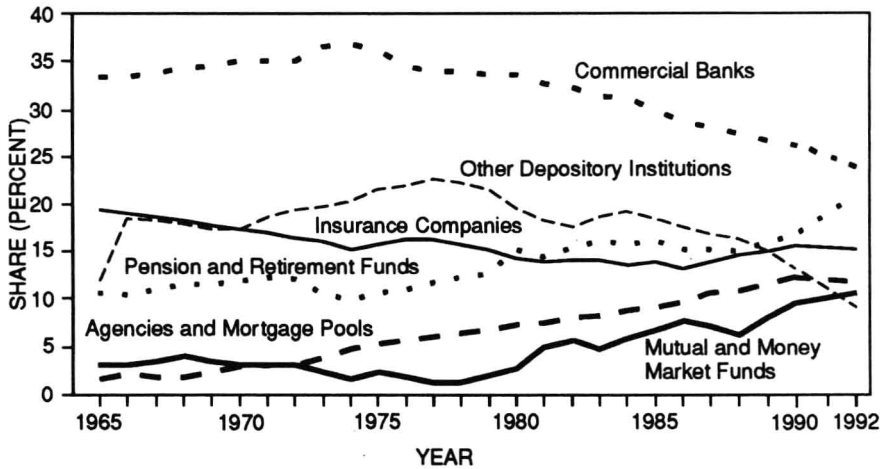


Figure I.1 Shares of Financial Assets, 1965–1992, by Type of Financial Institution. (Source: Federal Reserve Board of Governors)

Removed from the jurisdiction of federal regulations, our financial institutions began to be more competitive in the world market. The intensity of this competition caused our regulators to lose control. For example, the Eurodollar market often provided returns that were more attractive than the regulators permitted domestic institutions to offer to depositors. The pressure upon the regulators to level the playing field was immense, but the result was that the regulators now followed the market instead of creating the limits within which the market functioned. In this new game, regulation as the protector of the stability of financial institutions was a total failure.

The new freedom encouraged financial institutions to move across the lines of demarcation that formerly had separated the various segments of the financial services industry. Commercial banks expanded internationally in order to serve their corporate clients, whose own international requirements were growing. The lines between brokers, dealers, and money managers blurred. Thrift institutions offered checking accounts and other services and became commercial banks in everything but name and experience. One-bank and multibank holding companies rose to become cross-state giants of a stature never before seen. Some (KeyCorp, Wachovia, First Union, SunTrust, Banc One, PNC, Corestates, NationsBank, First Interstate, First Bank Systems, and Norwest) have become so large and profitable that they are referred to as regional superpowers.

New financial products were developed. Computerization and other technological advances contributed to the rapidity of the development of new products and services and the rapid global movement of funds. Poor management practices, never uncommon, were now applied to larger and ever-expanding financial giants, particularly within the thrift and banking segments of the industry.

From about 1985 through 1992, the average number of bank failures in the United States exceeded 100 per year, a far cry from the average of only 6 FDIC member banks closed per year between 1945 and 1980. To make matters worse, in 1990-1991, the economy entered a period of recession for the first time in nearly a decade. As the recession appeared, the excesses of the prior years had already eroded the quality of the portfolio of assets held by many of the larger banks to the point that insolvency threatened. Some of the most weakened institutions slipped quickly into failure. For example, one of the largest regional banks in New England failed, and only through mergers were many other banks saved from failure.

It is generally recognized that, given the magnitude of the problem, FDIC reserves are inadequate. Congress and the regulators frequently cogitate over the changes known to be required to ameliorate the deleterious effects of this dilemma.

Whether the banking segment or the insurance segment or both will collapse in the wake of the thrift debacle is presently not known. What is certain, however, is that the financial scene presented in the year 2000 is likely to be radically different from what we have today. It is entirely possible that the retail customer will not be able to tell the difference between the financial products and services offered by Citicorp, First Nationwide, Traveler's, Prudential, Sears, Merrill Lynch, GE, GM, and American Express. It is also possible that the money-center banks will resemble the European universal banks or financial conglomerates. Some of the names of the big New York banks with whom customers have been doing business for decades may disappear as consolidation takes effect to help save a dying industry. The announcement of proposed mergers between BankAmerica and Security Pacific and between Manufacturers Hanover and Chemical Bank could spur other mergers between the megagiants in New York, those in California, and those located in Chicago.

The monumental cost of bailing out the thrift industry, the large increase in nonperforming loans in bank portfolios, the continuing high incidence of bank failures, and the drop in market capitalization of many of the largest banks have focused attention on the urgency of bank reform. This reform will consist of a combination of deregulation and reregulation that is likely to include the following actions:

1. Expanding the powers of banks to permit them to underwrite and sell corporate securities, mutual funds, and insurance products, either along the lines of "universal banks" or through a subsidiary in a financial services holding company.
2. Removing restrictions to geographic expansion that would allow wider diversification of market assets and risks.
3. Easing regulatory burdens, including multiple regulatory agency oversight.
4. Lowering maximum lending limits to any one customer and returning to higher loan-to-value guidelines for all types of real estate lending, as was the case prior to 1982.

5. Closing down more quickly depository institutions with inadequate capital.
6. Providing the FDIC bank insurance fund with the financial wherewithal to survive the current crisis.

In dealing with the insurance crisis, Congress must devise an effective means that would assure the soundness of the banking system, while bolstering the competitive strength of financial institutions so that they can contribute to an expanding, low-inflation economy. This book attempts to place into historical perspective the changes that have taken place within the financial services industry, so that we can benefit from looking back at the past and avoid the mistakes of history as we redefine and reregulate the industry for the century that lies ahead. The book explores what the future might hold for members of the industry. The underlying thesis becomes *regulation*, and *deregulation* and the potential need for *reregulation* within segments of the financial services industry. This brings to the forefront six salient questions that must be answered:

- Was regulation of financial markets and institutions called for in the 1930s?
- Was deregulation of financial markets and institutions called for in the 1970s and 1980s?
- Is reregulation of financial institutions called for in the 1990s?
- What has been the impact of deregulation on the financial services industry?
- What changes in regulation and financial structure are likely to take place by the year 2000?
- Don't we really need a more sophisticated type of market-oriented regulation?

Some of the key questions raised for readers interested in the banking industry are:

- Are banks going down the same path as savings and loan (S&L) institutions? Will the FDIC's Bank Insurance Fund (BIF) follow in the same footsteps as the Federal Savings and Loan Insurance Corporation (FSLIC)?
- Why did so many banks and thrifts fail in the last 15 years? Who is to blame?
- What are the key variables that should be monitored to detect bank failures?
- Which banks are likely to fail or to merge?
- Will there continue to be consolidation and increased merger activity within the banking industry?
- Given that most bank mergers in the 1970s and 1980s were not particularly successful, why is the current round of mergers being hailed as a success story by Wall Street analysts?
- Will industrial corporations be permitted to own banks? Will banking powers and products be enhanced? Will more banks be selling insurance products by the end of the decade?