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AN OVERVIEW OF THE GOVERNMENT

Speakers: DON W. RIEGLE, JR.*
MICHAEL J. ROSCOE
Recorder: TIMOTHY C. PFEIFER

This meeting will give Product Development Section members a chance to network. Following the business session, guest Don Riegle will speak.

MR. MICHAEL J. ROSCOE: It's my privilege to introduce our speaker. Senator Don Riegle is a former senator from Michigan. He has represented Michigan in Congress for 28 years, retiring in January 1995. Just prior to his retirement, he served as the Chairperson member of the Finance and Budget Committees. He was the only member serving concurrently on these three economic policy committees. Senator Riegle had served as a Republican for six years or so before becoming a Democrat in 1973. He was educated at the University of Michigan, with an MBA from Michigan State, and he's completed the Ph.D. courses, excluding the thesis, from the Harvard Business School. While Chair of the Banking Committee, Senator Riegle was known as a hardworking, bipartisan consensus builder, and he was widely praised for his effective handling of the Senate Whitewater inquiry. I look forward to what he has to say to all of us.

MR. DON W. RIEGLE, JR.: I was wondering, as I was hearing those introductory points, what you would think about anybody who spent 28 years in the Congress. It's a long time. You're seeing more people, like Sam Nunn, Bill Bradley, and others, who are in their 50s, and are electing to leave the Senate, oftentimes in situations where there was little doubt that they could be reelected. In years past, the general presumption was that if you made it to the U.S. Senate, which always carried this label of the most exclusive club in America, you'd stay until you died in your chair. That has happened with some people.

The Senate is changing, and so is politics. I asked a couple of the people at my table if there's any chance they might run for public office. I got a quick turndown. But I'd just say at the outset, please don't rule it out. Because we are a democracy, we're a self-government system, and we've pretty well stood the test of time after all these years since the founding of the country. It all depends upon citizen government. And especially if we're going to get into a term limit situation, then we're going to have to have many more people serve. There's probably some good to that part of it, in terms of having more people serve, but not if everybody says, "I don't want to do it." We're really in trouble if, out of groups like these, there aren't some people who are willing to run at some point for these offices. They have to be filled, and we want them not just filled, but we want individuals who can give some leadership, and who have some ideas. So, please don't rule out the possibility of careers in politics.

I spent 10 years in the House and I spent 18 years in the Senate. Actually, we've had so much happen in our system over that period of time that I had the chance to serve under seven different Presidents, starting with Lyndon Johnson, who, in some respects, was

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*Mr. Riegle, Jr., not a member of the sponsoring organizations, is Chairperson of Executive Committee of Shandwick Public Affairs in Washington, DC.

probably the most fearsome exerciser of power (although he got sidetracked on Vietnam, which took him down), and including Bill Clinton at the present time. During my six years as banking chairperson, we had a great deal happen in the committee. We passed bills including the Interstate Banking Bill, and many other things designed to straighten out problems in the financial system. I don't know that we got them all, but we got most of them passed. I think it's fair to say the financial structure is on a much sounder footing than it's been in a long time. The bankers, when they used to come in and see me, as they did often as banking chairperson, were always crying crocodile tears, but that's just the nature of bankers. It was almost as if the better things became, the worse they felt. One of the comments in the office was that the rug in the office never had a chance to dry because of all the tears about things that weren't quite right in banking. There are always things that can be made better, but we're doing pretty well in the banking system today, and as you probably know, the FDIC is about to lower deposit insurance premiums because we're to the point where we've reestablished the safety margins we need, and I think that's all to the good.

Since leaving the Senate, I've joined an international company called Shandwick, which has 90 offices around the world. It's involved in public affairs and public relations work. Our lead client is McDonald's, so if any of you have a problem with a Big Mac or you get some french fries that are soggy, call me. In Washington, where I spend about half my time now, we do have a full-blown political revolution under way, certainly with respect to the new Congress and the Republicans taking charge in the last election. We have that on one side, and all the dynamics that you're seeing because it's very focused, very much in the news, and very much driving the political commentary; but you also have, in the executive branch, in President Clinton, a governor from a small southern state. Jimmy Carter, as a former Democratic president, the last one before Clinton, came from a southern state, but one much larger, Georgia. One way to think about some of the growing pains that Clinton, or anybody in that situation would have, going into the job, is to imagine you've been a governor of a state with only four Congressional districts, which is the case in Arkansas. Even for a period of several terms, it's a heck of a jump to go from that, without a day's worth of federal government experience, into the White House and to undertake the function as president. That's a vertical learning curve, and you've seen some of the problems associated with that, although Clinton certainly now has his sea legs. After essentially three years in the job, he's fully geared up for his reelection effort.

You also have the Republicans, particularly in the House, led by Newt Gingrich and by Bob Dole in the Senate. Dole is a very experienced legislative leader. Therefore, this collision is occurring literally as we speak. There's a light up at the top of the dome of the Capitol that is always lit at night when the Congress is in session, and that light has been on more nights in the last year than probably any time in recent memory, simply because of the enormous volume of activity, the long hours, and the number of votes as the politics play out.

Embedded in all of that is what's going on in financial services. I was asked to talk about two areas, namely, what is happening in financial services as to how insurance is likely to be impacted by legislative and regulatory activity. I also want to touch on political dynamics, where I think they stand right now, and where I think we're headed in the next year, such as how this presidential race will play out, and what's likely to happen in the Congress.

It's a dog-eat-dog environment in Washington, to say the least, and I want to give you one first-hand account that I was told about a couple of days ago. If you imagine Gingrich and his crowd and how tough they've been in asserting a position (the Contract with America, running the legislative trains on time, confronting Clinton), you conclude that these folks are not a bunch of shrinking violets. The other day, Gingrich made some accommodating noises in a press story about, perhaps finding a way to compromise things with the White House. Many of the young firebrand first-term members of the House Republicans took offense at that, so they called a meeting, and these 45 House freshman Republicans ordered Speaker Gingrich to come to the meeting. You might get the feeling that Gingrich is running the show, and in part he is, but when they called the meeting and said be here at such-and-such a time, lo and behold, he was there. You see, he needs their votes, not just to prevail himself in terms of his speakership, but also in order to carry the agenda. So, he came, along with Dick Armey, his number two guy, and the other two top people in leadership; so all four of the leaders marched in. And they had their heads taken off by this group of 45 freshman Republicans. I've not seen this in the paper, but I can tell you this happened. You might say, well, how can that happen? What more could Gingrich be doing to satisfy his own troops than what he's been doing? As I say, they thought he was sounding a little too conciliatory. The first-term members are very serious about their charges, after all, they are in favor of term limits for the most part. They all campaigned on that, so they don't necessarily anticipate being around more than six years, because most of them took pledges not to run beyond that length of time, even if there weren't a national term limit law. They want to get this thing done the way they think it ought to be done. So, apart from what Gingrich may be facing in battling it out with Clinton on the one side, he obviously is getting some heat from his own troops on the inside.

I want to go into what's happening in the Banking Committee as it relates particularly to insurance, in which you have a keen interest. In order to try to understand what's likely to happen to the insurance industry with respect to the change of practice and law within the federal level of government, you have to look at the radical changes that are taking place in the financial services industry, and particularly in banking. It goes without saying that banks have a huge appetite for wanting to fully enter the insurance industry, and this has been building up over a period of time. The long-running effort by the insurance industry to keep the banks at bay is one of the main battles that's being waged now in Washington beneath the level of all of this heavy artillery that's going back between the President and the Congress on all of the major issues within the budget. This fight is going on not only within the halls of Congress, but also it's going on within the courts in an extraordinary way, and within the regulatory apparatus as well.

The banking industry in the U.S., as you can see from everyday's newspapers, is consolidating in a rapid fashion. A recent report by the Office of the Controller of the Currency noted that in the 1980s and early 1990s, we've seen a consolidation in the banking industry that's been unparalleled since the Great Depression. I think it will continue to accelerate. But to give you an idea, between 1980 and 1993, the number of banks operating in the U.S. dropped by 25%, primarily due to mergers. U.S. commercial banks with over a billion dollars in assets substantially increased their share of industry assets from just over 60% in 1980 to almost 75% by 1993. Today, because this consolidation is accelerating, 85% of the banking assets are held by just 15% of the industry. We see banks moving away from the traditional business of banking. Some banks today make virtually no loans, but rather almost totally engage in trading activities, and clearly we see the increasing globalization of financial markets as we do in more and more product areas outside of the financial services.

The foreign exchange market, just as an illustration, has evolved from a billion-dollars-a-day business in 1974 to a trillion-dollars-a-day business. The process of consolidation and off-balance-sheet activity is difficult to miss. Over the last few years, you couldn't pick up a newspaper without reading about a large merger or acquisition involving U.S. commercial banks. Back in 1992, Bank One Corporation purchased five commercial banks worth a total of $12 billion. Bank America purchased three banks, which allowed it to grow from a $115 billion institution to over $200 billion. Already, in 1995, a number of megamergers have been announced by the top 50 bank holding companies in the U.S. Chase Manhattan announced a merger with Chemical Bank, which will now form the largest commercial bank in the U.S., with total assets of almost $300 billion. This process of consolidation is being driven primarily by two factors: one is obviously a search for increased efficiencies, and the other is a relaxation of geographic restrictions. U.S. commercial banks are also feeling increased competition from nonbanks and foreign banks. That has made it difficult to maintain profit margins, and so this consolidation wave is underway to try to obtain economies of scale. As you look at the earnings coming out yesterday and the day before for Nations Bank, Wells Fargo, and a number of the other big banks, you see outstanding numbers resulting.

Another aspect of this has to do with the Interstate Banking and Branching Efficiency Act of 1994. That's also speeding up the rate of consolidation. This Act is now being phased into law, and the Comptroller of the Currency has estimated already what the hypothetical impact will be on bank consolidation, just from taking down some of the geographic restrictions. According to the Comptroller's study, the 1994 Interstate Bank Act would result in 1,200 fewer banks in the country just if every multistate bankholding company merged all of its out-of-state subsidiary banks into branches of the lead bank in the home state.

Technology is also driving consolidation at a very rapid speed. As we see computers applied in more areas, nonbanks are increasingly competing directly with banks, and product deregulation is also being mentioned as a contributing factor. These epic structural changes occurring within the U.S. banking industry, which is really more global in context, is having an enormous pressure on what the nature of the business is.

The banking people want into the insurance business. They don't feel there's any reason to be kept out, despite the practice and patterns over the years, and the fact that insurance is still regulated at the state level, as opposed to much of the banking law, which is partly state, but principally federal in structure. To work your way down through this dynamic change in the financial structure in banking to reach insurance, you have to go through the Glass-Steagall Law, along with insurance powers, both within the House of Representatives and between the House and the Senate. It seems like every new Congress decides it's going to deal with changes in the Glass-Steagall Act, which is a law carrying forward from the 1930s that mandates the separation of commercial and investment banking activity. This Congress is no different. Banks are now involved to a limited extent in securities activities. Securities companies, to a limited extent, are now involved in commercial banking. But each of these types of financial institutions has an interest in breaking down the existing barriers between commercial banking on the one side, and investment banking on the other.

The politics of Glass-Steagall reform are extremely complicated. As a result, prior attempts at reform have failed, but that has not stopped Congress from moving forward, and they're moving forward at the present time. There are three different Glass-Steagall reform proposals. Jim Leach (R–IA), the Chairperson of the House Banking Committee, has one. Alfonse M. D'Amato (R–NY), Chairperson of the Senate Banking Committee, has another. There's a third within the Clinton Administration, essentially put forward by the Controller of the Currency, that goes in a third direction. Domestic bank holding companies would all benefit under any of these three proposals, but the fact that they're different in appeal in subtle ways to quite different constituencies, creates something of the same legislative logjam that we've seen before.

It's going to be very tough to get anything done in that area, and this has been the pattern in past years. Chairperson Leach is very frustrated about this. If you read the *American Banker* paper recently, he sent a seven-page letter to the bankers. Leach feels very strongly that the banks are backing away from the banking package he's put together because he had to take out certain insurance powers that the banks were most hoping for in order to try to find a way to fit a legislative package through the legislative process within the House of Representatives. It turns out that in this big fight between banks and insurance agents as to who is going to dominate the insurance business, that while Leach is ready to open it up and allow the banks to come in and clear the field here, the Chairperson of the Rules Committee in the House feels just as strongly the other way. You're going to have a bill coming out of the Banking Committee, but that doesn't take it to the House floor, because it has to go through the Rules Committee. The Rules Committee is a very powerful committee in the House, and the Chairperson of the Rules Committee can take one of Leach's bills by the neck and choke it to death. Leach is very frustrated right now, and this, of course, puts Gingrich in the middle between two of his chairpeople because he's trying to please Leach on the one hand, while trying to please Solomon on the other hand, and he's trying to keep the rest of the agenda going. It's unclear, as we meet here right now, what will finally happen in that area.

I want to just quickly touch on one thing before going to politics and Whitewater. We have a very interesting legal anomaly that affects this question of who can be in the insurance business, and also the pattern of regulation of insurance in the country. We have this item in the law that goes back to a bill that was enacted in 1916. It's called Section 92 of the National Bank Act, which authorizes a national bank located in a town with a population of 5,000 or less to sell insurance subject to the regulations of the Comptroller of the Currency. Bear in mind that this was written in 1916. In 1986, the Comptroller of the Currency interpreted this provision very broadly so that a national bank or its branch, which is located in a place of 5,000 or under population, may sell insurance to existing and potential customers located anywhere in the U.S. While this provision was drafted obviously to allow banks in very small places to be able to offer insurance because maybe there weren't going to be enough other ways for people to buy it, that anomaly in the law has been stretched out through the previous controller to authorize national banks to sell insurance across the U.S. Obviously, that's not something that the insurance industry feels very good about. National banks have statutory authority to sell insurance, and under the Comptroller's interpretation of this, national banks can sell insurance nationwide from a town of 5,000. This brings national bank powers into conflict with state laws in the many states that prohibit banks from selling insurance at all. The Supreme Court has agreed to decide whether states can prevent national banks from selling insurance.

Think about this for a minute—in two recent cases, two circuit courts of appeals split on the question of whether state laws are preempted with respect to national banks. In one of these cases, the Court of Appeals for the Sixth Circuit held that a Kentucky law forbidding banks from selling insurance was preempted by Section 92, which is the town of 5,000 provision, and did not qualify for reverse presumption under the Federal McCarren Ferguson Statute. On the other hand, in a parallel case (*Barnett Bank* vs. *Gallagher*) the Court of Appeals for the 11th Circuit reached exactly the opposite conclusion, this is democracy. That court held that under McCarren-Ferguson, the Florida law forbidding insurance agents from being owned by banks was not preempted by Section 92. The Supreme Court is going to decide which of these two circuit courts, if either, it agrees with. The insurance agents have been meeting with Senator D'Amato, seeking his support for legislation specifying that national banks must comply with state insurance laws, so that you would fence this in. That, of course, would prevent national banks from selling insurance in states that prohibit bank sales of insurance. There are now press reports that speculate that Senator D'Amato will seek to attach this provision to his broad financial modernization bill that's coming down the track. If he does, that provision is going to be very strongly opposed by the banking industry.

With respect to annuities, those vehicles have traditionally been sold by insurance agents and regulated as insurance. But in 1990, the Comptroller of the Currency ruled that national banks may sell fixed and variable annuities. The Comptroller reasoned that annuities are special financial products that differ from other forms of insurance, and that the sale of annuities is, "incidental to the business of banking." The share of annuities sold through banks and thrifts has now risen to over $13 billion in 1993, or roughly 20% of all the annuities sold. Thus, you've seen a very rapid change as a result of that interpretation. Just last month, the Supreme Court upheld the Comptroller's decision to allow national banks to sell annuities. In a unanimous decision, the Supreme Court held that the Comptroller had reasonably concluded that the sale of annuities are incidental to banking. The decision was seen as giving the Comptroller greater flexibility to authorize new bank activities, for the court held that the business of banking is not limited to powers enumerated in the national bank statute.

If you throw all this in one stew pot, the courts aren't clear on what ought to be done. The states have a very strong interest in this. Underlying all this is that at the heart of the Republican legislative revolution in the House and Senate, political revolution is more a movement of breaking down federal power and giving power back to the states, not just in programs like Medicare, but presumably in other things. If you take a broad national business like insurance, which has a long tradition of being regulated state by state and under the primacy of state regulation, how does that fit with a philosophy of overriding that to bring power to Washington, when the whole move is to send power from Washington? These tremendous collisions of power and interest that have been around since as early as the turn of the century, and embedded in that early law with the town of 5,000 rule, are still alive and around today. In fact, the banks feel so strongly about wanting to make sure that there won't be even a five-year moratorium that prevents banks from getting into the insurance business (which is one of the compromises being talked about), that they are now threatening to withhold their support, or come out against any banking bill that doesn't open the door to banks getting more fully into insurance products. Stay tuned on this because it's going to be fought out over the next year.

Senator D'Amato, right now, is occupied with many things, including just having gone on the Senate Finance Committee, running the Dole campaign in the state of New York, being the Senate Republican Campaign Committee Chairperson, and a variety of other things. He's also been conducting the Whitewater hearings, the follow-up from the hearings that I was conducting. He's already had 13 days of hearings on the handling of the papers that were in the office of Deputy White House Counsel Vince Foster on the night of his death. He's about to start another set of hearings, which you're going to hear about quite soon in the news, that will start at the end of October 1995, and will continue probably throughout the month of November.

If the Senate Banking Committee's going to be tied up on Whitewater hearings, what are they going to be doing on insurance powers, Glass-Steagall, banking deregulation, all the rest of these things? That's a very good question because there are only so many hours in the day, and I think Whitewater will push all those things aside, at least for awhile. The hearings that are going to start now are going to focus on the criminal referrals by the Justice Department in the Resolution Trust Corporation regarding some of the misdeeds down in Arkansas in the savings and loan area, and also the White House acquisition of transcripts from the Office of Government Ethics, in their investigation into the White House Treasury contacts. We looked at some of that last year, but there were parts of it that we did not get into.

A third phase of hearings is going to start in January 1996, and that's going to get down to where the real wound may be in this whole area, and that is what they call the Arkansas phase of Whitewater. This will involve a very careful look at Madison Guaranty, the 1990 gubernatorial campaign, where money sloshed around in different ways, Capital Management Services, a man named Dan Lassiter (you'll read about him if you read the editorials in *The Wall Street Journal* every day), the Arkansas Development Finance Authority, the Rose law firm, and the Arkansas State Securities Department. Does that sound like something that might take a few days or a few weeks? When you put that right in the middle of the work schedule, with all of these very arcane, highly contentious banking and financial services issues, including who's going to be in the insurance business, I think those things are going to get pushed to the back of the line.

You should know one other thing about Whitewater, and that is the funds authorizing the Whitewater investigation expire in February 1996. Obviously, the Democrats would like to see it over by then, and the White House would like to see it over by then, so that it doesn't wash down into the election period and the presidential race. I can assure you that, if anything turns up that has any sizzle to it in these hearings, the Republicans will appropriate more money and continue to look at things right down through the presidential year.

Let me now quickly finish on the presidential year, and where I think we're headed. I want to just give you a quick thumbnail on the race so you can have a couple of benchmarks in your mind. Imagine you're Bob Dole. You've been around for many years in the Republican party. You've run for President, and you almost got to be the nominee. You've run for Vice President with Gerald Ford. This is your last time at bat, and you really feel you deserve the nomination because you've been a good soldier, a diligent legislative leader, you work as hard as anybody in the place, you're smart as a whip, and you have a sense of humor. You say to yourself, "This is my turn." Lo and behold, in the U.S. Senate, where there are now about 56 Republicans, 3 other

Republican senators decide they're going to run for President. They're not going to support their leader, Bob Dole, whom they voted for presumably to be the Republican leader, but they're saying by their own candidacies, "Don't elect Dole, elect me." You have Phil Gramm, Dick Lugar, and Arlen Specter saying that. So you have four Republican senators running for President, not just Bob Dole. I think it's fair to say that this irritates Dole just a little bit. In addition to those four, you have Alexander, Buchanan, Alan Keyes, and Dornan. Bill Bennett decided not to run and Pete Wilson decided to run, and then not to run. No one knows quite yet what Colin Powell's doing, but he's selling a large number of books in the meantime. My guess is that the press right now really loves the notion of a Powell candidacy. Here's a guy who's never had to cast any votes on the public record, so it's a clean slate, and there are many positive features about Powell. They can't wait to get him out there, in this pristine form, and then tear him to shreds, of course, which is what tends to happen. Colin Powell, being savvy in terms of military strategy and engagement, probably has figured out that the level he's on right now won't quite stay that way if he gets out into the hurly-burly of a political campaign. There'll be a lot of punches coming from many directions. I'll be surprised if he decides to run for President, but I've been surprised before. I don't see that happening, as the cards sit there right now.

There are two other very important wild cards at the moment, in addition to what Powell does or doesn't do. Obviously, one is Ross Perot. Anybody who relegates Ross Perot to the dust bin makes a mistake. He received 20% of the vote in the last election. I found out the other day, by the way, thinking about Powell and the possibility of Colin Powell running as a third-party or an independent candidate, that Perot spent about $45 million of his own money just to get on the ballot in the 50 states the last time around, which shows you how tough it is to qualify an independent candidate. It's one thing if Powell, you, or anybody else decided to run and you received the endorsement of the Perot machinery, which automatically would put you on the ballot in the 50 states, and you didn't have to spend the $45 million. Even if you had it to spend, and Powell doesn't have it to spend, in the time frame that's left to get it done, I'm not sure even that it can be done. The notion of still another independent party effort that can actually get on the ballot is really not a practical matter, although people talk about it partly because it's an attractive idea to many. I think if Powell's going to do it, he either has to do it within the Republican party or the Perot party, but that doesn't look too likely to me as things stand right now. I don't rule out, by the way, the possibility of Pat Buchanan ending up on the Perot party ballot. Buchanan's a very tough, savvy guy. He's been around a long time. I knew him years ago when he was part of the Nixon administration and I was a Republican. He's a wily guerrilla fighter, and if he ends up on the ballot as a Perot candidate, there's a nice alignment in issue positions on North American Free Trade Agreement (NAFTA), that might provide an interesting twist.

I think the most interesting wild card of all is Newt Gingrich because the conventional wisdom right now is that Gingrich is happy being Speaker of the House. He's leading a revolution. He won't be diverted enough to think about running for President—don't bet on that. I say that just trying to use a little internal logic. I think Gingrich has been enormously successful by being counterintuitive. Many people didn't think the Contract with America idea was a very good political idea. In hindsight, it was a pretty good idea. It looks like it worked in that election. He became Speaker—many people didn't think that would happen—by using unconventional methods. I suspect that Gingrich, in his own mind, and this is strictly hypothetical on my part, might say, "Well, if I were nominated, if I were the Republican nominee, and if I were in a head-to-head race with Bill Clinton, could I beat Bill Clinton? Or is Bill Clinton just that much better a person or that much better a candidate or that much better a political strategist, that if the race were between Gingrich and Clinton, that Clinton automatically wins?" I can see Gingrich looking at that, in light of his own history, and saying in a head-to-head race, I can beat that guy. That's a long way from making him the nominee, but I thought it was significant recently, that Gingrich was beginning to call around, talking to some of the governors, asking should he get back into the speculation about the presidential race. Why is he doing that?

Dole's candidacy looks a little peaked right now and there are some reasons for that. In the head-to-head match-ups, all of a sudden, Clinton is running about eight to ten points ahead of Dole nationally. That doesn't convert automatically into an electoral college victory, which is different, but it's one of the reasons why, if you look at Clinton's travel schedule, he is in California about every third week because you have to have the electoral votes of California or you don't become President in either party. Dole continues to fade, and I think he's in a tough situation because I think he's politically shopworn as a candidate, despite the fact that he's a man of enormous talent, and I respect that talent. I've served with him all 28 years in the Congress; 6 of those years, I was a Republican with him in the House, and I can tell you how effective he is in carrying out his point of view and legislative agenda. In this business of being up or down in a presidential race, if there's a discernable feeling that maybe he's not strong enough to beat Clinton, I think the party, with the head of steam that it has, may very well seek to find another nominee, and Gingrich might find himself the beneficiary of that kind of a groundswell.

Let me just say a final word about Clinton. Clinton is a very tough customer. Anybody who underestimates Clinton does so, I think, unwisely. I've seen people in my work life, and you have, too, who are very good workers, work eight hours a day, knock out great work, and then go out and live the rest of their life. Then you see people who work 12 hours a day, the same way. Some work 14, 16, or 18 hours, just as a matter of course. Clinton and Bob Dole are both 18-hour-a-day people. But Clinton has as much energy and works as hard as anybody I've ever seen. He loves it and the harder he works, the more he seems to enjoy it. He is burning the midnight oil on issues and efforts to try to decide what he wants to do, when oftentimes other candidates are fast asleep. He's very durable. You've seen him down for the count before. They call him the Comeback Kid for a reason. His campaign will have raised, by the end of this year, virtually all of the campaign money they need to run with next year. I've never known that to happen before. I don't even know where the money's coming from, but it's an extraordinary feat, and as somebody once said, money is the mother's milk of politics, and that's quite right. If you can raise the money, and have it to spend when you need to so that you can implement your strategy where you want to implement it, you have a big strategic edge in a campaign.

He's changed his campaign strategy team, as you're reading about this guy Richard Morris who has come in. The old team is out. The new team is in. They look fairly tough and savvy. They've managed to do some things that are getting his numbers up. I remember something that Gerald Ford once told me, back in the days when Nixon was President. As Gerry took me under his wing, he said to me, "Never underestimate the ability of a President of the U.S. to change the political debate in the country literally overnight." Nixon did that; that was a very interesting warning from Ford because at that time, Nixon announced that he was going to go to China, a big deal at that time. Those of you with slightly gray hair will remember that, and it really did change the landscape. Nixon also announced price and wage controls, many things that were unconventional at the time. Nixon kind of reinvented himself, and that was the election in which Watergate, we later found, was featured and he beat the pants off McGovern. Nevertheless, he did change the landscape, and Presidents have the ability to do that. Clinton is, in part, doing that right now with Bosnia, through this decision to send 25,000 troops over there. No one knows how that's going to work out or how it's going to look a year from now, but the Republicans are obviously taking the other side of that argument, saying, "Don't do it," or "Don't do it without a vote."

With respect to the economy, I'm struck by the fact that Alan Greenspan, who probably is the actuary of actuaries when it comes to economic statistics and information, says that these are the best economic conditions he's seen in his adult lifetime. Greenspan looks at a symmetrical picture of information. I think he is genuinely convinced that the economy is positioned globally, and in the U.S., in as strong a position as it's been in anybody's memory. It's probably going to continue to be that way, as the Federal Reserve has acted in a fashion where if it needs to lower interest rates to send a signal, it can do so.

Some people think when the budget is locked in, in order to take down the deficit, there will probably be some further reduction in interest rates. I think that's plausible to expect. But the fact that Greenspan is forecasting a strong economic path ahead, and that more people seem to see that as well, you're probably going to have an economic environment next year that is a fairly decent. Maybe there will be some unforeseen event that knocks things into a tailspin, but when a guy like Greenspan, a good third-party arbiter, looks at things and feels as comfortable as he does, you're probably going to have a continued lift of economic activity globally that in many ways is probably going to benefit this country, and is going to play itself out in the presidential race of next year.

All that being said, I think you could have a situation where the public feels that it's played out a lot of its frustration in electing the Republican Congress of last year. In the kind of nature of the contrariness of the American electorate, we may very well say that next year, we want to have divided government. The whole design of our government is for divided government—that's why we have two circuit courts that can't agree on the insurance issue. It may very well be next year that the public will say, "Let's let the Republicans run the Congress, and let's let Clinton run the Executive Branch, and we'll have all the tugging and grinding of gears, and maybe we'll come out somewhere close to where we ought to be."

FROM THE FLOOR: I was very distressed that our distinguished speaker, in his address, did not once refer to the crux of the matter, and that is, how would the best interests of the insurance-buying public be served, and who should be selling insurance, and how? I would invite him to address that. Also, we have all learned in our textbooks and from legislators/regulators, that the present system of state regulation of insurance was carefully crafted in the interests of the policyholders. How can it be, therefore, that an organization known as the Office of the Comptroller of the Currency, which knows nothing about insurance, can regulate insurance? Surely banks and insurers, and anybody else who is selling insurance, must all be regulated in exactly the same way, and I would ask our distinguished speaker, how the present legislation, or the proposed legislation, will ensure a level playing field for all participants?

MR. RIEGLE: I've learned over the years that one of the magic phrases is a "level playing field." Everybody has a different notion of what the level playing field looks like. It's like trying to land on an aircraft carrier. One man's level playing field is another person's unlevel playing field. The Comptroller just gave a very interesting speech recently. It's interesting because he lays out his answer to your question of why does he, as the Comptroller, have a certain vision as to why banks should be in the insurance business, and why this makes eminent good sense. During my time in the Congress, I was on the other side of that issue. I was never convinced that it was necessary for banks to be in the insurance business. For competitive reasons, they might like to be, and might wish to be, but I could never convince myself that there was a compelling showing or burden of proof that would say that the public interest demands that this happen.

If you come at it the other way, you say, are people's insurance needs being met? Is there competition out there now? Is there product competition, price competition, availability of options and so forth? I think there is to quite a well-developed degree. We don't have a shortage of insurance agents in the country. There are a large number of people out selling insurance, in every manner and form. So, I don't know that you can, from a market point of view, make an argument that somebody else needs to come into the marketplace in order to create the kind of lively competitive conditions that most of us believe are necessary in open markets. We've never had federal regulation in the insurance area to speak of. To go in and disrupt the status quo, I think you have to have a very compelling burden of proof argument that says that this is quite clearly in the public interest. I have not been able to identify that. Now, if I was a banker and saw this as a line of business I wanted to be in, I could see how I could make a very strong argument that I'd like to be in that business, and ought not to be kept out.

I've always been worried myself about the tie-in issue. In other words, if you're dispensing credit, home loans, bank loans, college loans and business loans, do you really want to have a situation where the person who needs another product, that is, insurance, feels some pressure, implied or real, to have to buy the insurance in order to increase their odds of getting the extension of credit? I tend to be enough of a populist in my own views that I like the idea of a separation there, that people have the freedom to shop and not feel like they're being cajoled into taking an insurance product in order to make sure they get the loan.

Having said that, I have some sympathy for the bankers, and the fact that the competitive pressures have been quite intense in the banking industry for a lot of reasons. There's been a lot of disintermediation. A great deal of money has gone out into money market mutual funds. The banks have had to scramble to try to find products and have consolidated and enhanced technology and other ways to try to protect their business franchise, and their shareholder value. There's nothing wrong with that. I understand those impulses, and they would be wrong if they didn't try to do that. They have to do what they can to enhance their business franchise. I think you're going to continue to see that kind of pressure. But in terms of some overarching interest that says banks must sell insurance, I can't quite get from where I've seen the lay of the facts to that conclusion.

MR. ALAN W. FINKELSTEIN: This question is on the topic of banks and insurance. About six months ago, I was on a panel discussion at the SOA Spring meeting in New Orleans, talking on the topic of Bancassurance product development. My company had developed a product to reinsure the mortality risk in this retirement certificate of deposit product, and in the 11th hour, I was told that the Internal Revenue Service (IRS) had changed the tax treatment, taking away the advantage of the tax deferral on this particular product. Since then, I've learned that there are at least two bills in Congress that would take away the protection of the deposit being held on this particular annuity. It would no longer be FDIC insured. The American Deposit Corp. has criticized this, asking, "How can you protect the financial security of depositors of America by taking away the protection that they would have received had they put it into a passbook savings account instead?" Another speaker on this panel discussion talked about Allfinance, which is the term commonly used in Europe, where there is a greater affiliation of banks and insurance companies. Here, insurance companies own banks, banks own insurance companies, and the two merge together. His observation was that the U.S. lags far behind Europe in this regard. My question is, What is the likelihood that we will ever see banks and insurance working closely together in our country?

MR. RIEGLE: The concept of one-stop shopping, getting all the financial services under one roof, is a very prominent idea and other parts of the world are in a different position than we are. We grew up a certain way, and now we have this pattern, but that doesn't make it inviolate, or that it should necessarily stay that way. You can put that on an analysis sheet, and say, well, is there greater efficiency, lower cost, more customer choice? (I'm taking it out of just an economic self-interest for a given firm that wants to be positioned in an area.) You can take all those tests, and you can apply them and decide what you want to do. I think, in this situation, it's quite unique in the sense that our whole pattern of regulatory law regarding insurance has been at the state level. That's why we have all these state insurance commissions in the various states. Our history has come a different way. That doesn't mean that we may not want, over a period of time, to dismantle all that and go to a national system, but that's not the way that part of our system developed. There is a real contradiction to the notion of one-stop shopping. There are many of other factors that wash through this. Somebody can say, "Insurance really isn't a very risky business, especially if you're just selling at the retail end, you're not taking the investment risks of insurance, and so forth." Maybe that's right, but if you go into a situation where insurance is going to come in under a general banking umbrella and franchise, does there come a time when the investment practices and everything else are also there, not just selling a retail product that an insurance entity is taking the risk on elsewhere?

Our experience has taught us to be very careful about signing on to blank checks on powers, when you have federal deposit insurance underneath it all. We still do have federal deposit insurance underneath it all. If a banker wants to go into the insurance business, one way to do it, if the law doesn't permit it, is to leave banking and go into the insurance business. There's no barrier to entry to go in the insurance business. If somebody wants to be in that business, fine and dandy. Many people make a great deal of money in it. I do think there are other factors that, when you have federal deposit insurance in place, that you'd better pay attention because it wasn't all that long ago that we had quite a sad experience in that area. I think there are some very careful public policy issues here that have to be looked at. In the end, I would hope we would make our decisions on that basis.