

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994

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The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (IBBEA) removes two longstanding impediments to the efficient evolution of the U.S. financial system. The Act breaks a federal logjam on interstate banking and branching. After a one-year transition period, IBBEA effectively repeals the Douglas amendment to the Bank Holding Company Act, which was intended as a barrier to interstate acquisitions of banks by bank holding companies. Effective June 1997, restrictions will disappear on consolidations of affiliated or newly-acquired banks in other states into branch offices of a single bank, except in states that pass legislation specifically opting out of this provision. However, interstate operations by means of de novo bank branching must be expressly authorized by individual states.

Geographic and product-line impediments to efficiency throughout financial markets have been concerns of the Shadow Financial Regulatory Committee. While the Committee applauds the relaxation of geographic restrictions on banks, important other obstacles continue to hinder the ability of U.S. financial institutions to adapt efficiently to technological change and new competition. Prominent examples include various constraints on securities and insurance activities of banks.

The Committee continues to urge the removal of all turf-protecting restricting restrictions on the particular services that various classes of financial institutions can provide. Without these fetters, user needs and preferences would be able to shape more effectively the product lines and geographic reach of competing entities. Supervisory and regulatory resources now devoted to enforcing unnecessary restrictions would be freed to concentrate on the public-interest goals financial regulation is expected to achieve. These goals may be summarized as the enhancement of economic growth, efficiency, stability, and fairness while minimizing abuses and the bailout risks and costs that regulatory and supervisory decisions in the past have shifted to taxpayers.

IBBEA appears to acknowledge the importance to the remaining impediments. The Act directs the Secretary of the Treasury, in consultation with other financial regulatory agencies and also with a new advisory commission, to undertake and complete within 15 months a study of the strengths and weaknesses of the U.S. financial services system.

The Committee hopes this study will be treated by those involved as one of the most important parts of IBBEA. The study should cover the full range of financial institutions and markets and treat the competitiveness of these entities in a global context. In addition to assessing the rules of private financial competition, the study must address two key issues of regulatory oversight.

First, clear-cut responsibility must be established for achieving the expressed goals of regulation. Decisions made by officials must be made more responsive to broad societal goals and less responsive to pressures exerted by narrow sectoral interests.

Second, taxpayers and markets must be given information by which to assess the true quality of regulatory performance. Regulators must reveal, on a timely basis, better information about what they do and why they do it. Such disclosure requirements are needed to assure effective outside monitoring.