

Remarks of Donald R. Meyer
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International Bankers Association in California
Institute of International Bankers
National Association of Chinese American Bankers
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Thank you for inviting me to join you today. I feel like I am amongst old friends since I had the privilege of attending many IBAC monthly luncheons in San Francisco over the years as a representative of an international bank. I have been Commissioner for about a month and my new position makes me think of a recent New Yorker cartoon showing a young man lying on a beach saying to his companion, "I see myself going into some form of public service, like banking."

I am sure that all of you feel like your business is akin to a public service from time to time because of all the regulatory requirements! Some history to put foreign banks in California in perspective.

According to *Financing an Empire – The History of Banking in California* by Dr. Ira B. Cross, the first foreign bank to open in California was the Commercial Bank of India, a British bank that opened an agency office in San Francisco in 1863 and closed in 1866. The British & California Banking Company Ltd., opened in 1864 and closed in 1866. Bank of British North America opened in 1864. In

1918 it was succeeded by British American Bank, the predecessor of Bank of Montreal, which still maintains a representative office in California. Bank of British Columbia, operated from 1864 until 1901 when it was absorbed by the Canadian Bank of Commerce, predecessor to our oldest licensee, the Canadian Imperial Bank of Commerce.

According to our records, the first foreign banking corporation licensed by the State Banking Department was the Russo-Chinese Bank, St. Petersburg, Russia. It incorporated December 10, 1895 and a San Francisco branch was authorized on April 5, 1904. When the State Banking Department took over from the Board of Bank Commissioners in 1909, Russo-Chinese Bank received License # 24. It voluntarily closed on 11/15/1910, and its business was taken over by Wells Fargo Nevada National Bank, one of the predecessors to Wells Fargo Bank, N.A.

Turning to the present day we find that California, with the seventh largest gross domestic product in the world and 32.7 million people, attracted significant foreign trade and investment. The 1997 U.S. Department of Commerce Benchmark Survey reported fixed capital investment in California from foreign sources of over \$103 billion.

Twenty-three of the top 25 world banking firms are represented in California. Ninety-four percent of foreign bank assets in the United States are in state-chartered entities.

There are currently 56 agencies and branch offices of foreign banks doing business in California and 23 foreign banks have representative offices. It appears from call reports that at the end of 1999, foreign branches and agencies made 23% of the commercial and industrial loans reported statewide. Some of these loans may be to entities located outside California.

As of 12/31/99, assets of state-chartered banks that were subsidiaries of international banks totaled around \$26 billion which is around 23%

of the total assets of all state-chartered banks.

Foreign banks with agency and branch offices in California continued to decline from the high point reached a decade ago. Total assets were down 31.3% from \$39.9 billion in 1998 to \$27.4 billion in 1999. Loans outstanding were down 30.3% over the same period, from \$34.6 billion to \$24.1 billion, while deposits edged down from \$6.5 billion to \$5.9 billion, a 9.2% decline. Total operating income was down 33.3% from \$3.6 billion in 1998 to \$2.4 billion in 1999. The number of banks with state-licensed agencies and branch offices was 57, down from 66 a year previous, a decline of 13.6%.

We anticipate that strategic global business realignments, the internet, and financial modernization laws allowing the formation of financial holding companies combining banking, securities and insurance, will cause this trend to continue. Simply put, the traditional branch will wither away.

We have not heard of any foreign-based Internet banks operating in California but they are bound to appear soon since we are observing increased activity by the twelve virtual (no branch) Internet banks with deposit insurance. This morning's Wall Street Journal reported that Sony, Itochu and other Japanese consumer-oriented retail firms plan to enter the banking business using the Internet.

Are any of the bankers in this room offering an inter-active website of their foreign bank to California customers? Clearly, the trend toward globalization combined with the ease of electronic communication makes it likely that a physical presence will not be required to do much of what foreign banks have done in the past through local offices in California. Do you need a local branch to issue, confirm, process and pay letters of credit?

Finally, I would like to seek your assistance in finding applicants for our many job openings for Financial Institution Examiners. We will need to find over 30 new examiners this year and some of them will

end up examining your institution so its important for all of us to find people with good skills including language proficiency. I have placed job announcements on the table at the front or you can check for information on the Employment Opportunity portion of our website at <http://www.dfi.ca.gov/Careers.htm>