

The Effect of the Gramm Leach Bliley Act on the Financial Services Industry

The Honors Program
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EXECUTIVE SUMMARY

The financial services industry has fascinated me since high school when I participated in a University Program focusing on the industry. During this time I became familiar with the Gramm-Leach Bliley Act (GLBA) and other legislation that was reshaping the industry. In this paper I shed light on key events and acts that have transformed the financial services industry with a particular focus on the GLBA. I argue that the GLBA is not revolutionary, but rather evolutionary. Second, I argue that the consumer privacy portion of the GLBA is the most vital part because of the massive amount of personal information available in today's market. Finally, the Gramm-Leach Bliley Act impacts me directly since I hope to become a Financial Advisor and the provisions of the Act will permit me to sell all types of financial instruments.

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INTRODUCTION

The financial services industry is very dynamic requiring ongoing monitoring and analysis to keep up to date with innovations and technological advances. Congress has attempted to keep up with these changes by regulating, deregulating, and systemizing the financial services industry. For the majority of the 20th century, the Glass-Steagall Act ruled the scene as firms were not allowed to merge. These prohibitions end up forcing consumers to travel to different institutions to fulfill their insurance and securities needs. In some cases, banks found loopholes around these restrictions. There are many real world examples of banking institutions purchasing firms specializing in other areas, such as insurance, prior to the passage of the Gramm-Leach Bliley Act.

Deregulation and consolidation continue to shape the financial services industry. Today consumers are able to plan their retirement, acquire insurance for their entire family, and trade securities all under one roof (and even the internet). This emergence of innovation has led to reform. Although there have been noteworthy acts which have helped shape the industry, none have been as altering as the Gramm-Leach Bliley Act.

The Gramm-Leach Bliley Act, also known as the Financial Services Modernization Act, was enacted in 1999. It repealed the Glass-Steagall Act and allowed commercial banks, securities companies, and insurance firms to consolidate. Upon the passage of this Act competition opened up among banks, securities companies, and insurance companies as they were able to offer similar, broad services under one roof without restrictions. The Gramm-Leach Bliley Act changed the interface of the financial services industry by forcing financial services firms to develop new means of conducting business as competition has sky rocketed. In this paper I examine why the Act was inevitable and also focus on consumer protection issues which I believe are of vast importance. The remainder of the paper is outlined as

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follows. In Section III, I provide a brief history of the Glass-Steagall Act. In Section IV, I discuss ways in which banks were attempting to circumvent the Glass-Steagall Act, which made its impact less revolutionary. In Section V, I touch upon the advantages of the GLBA from a competitive point of view. Finally, after evaluating consumer privacy, I discuss the four hypotheses which depict specific parts of the financial services industry and how they are affected by the Gramm-Leach Bliley Act.

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Some Important Terms Defined

Before discussing the topics at hand one must comprehend the terms and acts which are in question. The Glass-Steagall Act, which preceded the Gramm-Leach Bliley Act, did not allow banks to offer commercial banking, investment, and insurance services under one roof. There were two separate acts which were passed as a reaction of the United States government in an effort to alleviate pressure from the Stock Market Crash of 1929. The first of the two acts was the Glass-Steagall Act enacted February 27, 1932 which took the United States off the gold standard giving the Federal Reserve greater control of the money supply. This lasted only a year until June 16, 1933 when the Banking Act amended provisions creating safer banking and making it less prone to conjecture. The primary provisions of the act included: separating commercial banks and securities firm's activities from one another, incorporating the Federal Deposit Insurance Corporation (FDIC), and introducing Regulation Q which put a ceiling on the savings deposits interest rate while disallowing paying interest on commercial demand deposits.¹ It was not until November 12, 1999 when President Bill Clinton signed the Gramm-Leach Bliley Act repealing its predecessor, the Glass-Steagall Act.

The Gramm-Leach Bliley Act defines "financial institutions" as: "...companies that offer financial products or services to individuals, like loans, financial or investment

¹ EMC Corporation. Compliance Brief: Gramm-Leach Bliley Act. Kahn Consulting Inc. 2005.

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advice, or insurance.² The Federal Trade Commission (FTC) has jurisdiction over financial institutions similar to, and including these:

- Non-bank mortgage lenders,
- Loan brokers,
- Some financial or investment advisors,
- Debt collectors,
- Tax return preparers,
- Banks, and
- Real estate settlement service providers.

These companies must also be considered significantly engaged in the financial service or production that defines them as a “financial institution.”

It is also important to understand the difference between a consumer and a customer. The Gramm-Leach Bliley Act defines a ‘consumer’ as

“an individual who obtains, from a financial institution, financial products or services which are to be used primarily for personal, family, or household purposes, and also means the legal representative of such an individual.”

A ‘customer’ is a consumer with a continuing relationship with a financial institution. If the relationship is long-term then they are most likely a customer. For instance, if an individual hires a broker to acquire a personal loan they are considered a customer of the broker, whereas the person using the cash-checking service is a

² In Brief: Financial Privacy Requirements of Gramm-Leach Bliley Act, Federal Trade Commission. February 2, 2007. <<http://www.ftc.gov/bcp/online/pubs/buspubs/glbshort.htm>

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consumer of that service. This serves importance later on when discussing the privacy areas of the Gramm-Leach Bliley Act.

Another distinction which must be made is the difference between a financial holding company and a bank holding company. A bank holding company is any entity that owns ten percent or more of a [bank](#) and must register with the governors of the Federal Reserve System. Bank holding companies were created first as a means for banks to circumvent certain regulations imposed by Congress. Advantages of a bank holding company were they can assume debt of shareholders on a tax free basis, borrow money, purchase other banks and non-bank entities more easily, and they have an easier time issuing stock. They also have a greater legal authority to repurchase its own stock once issued. On the other hand, there is more regulation involved with bank holding companies as compared to financial holding companies. For instance, if there are more than three hundred shareholders the bank holding company must file with the SEC.³ Before the passing of the Gramm-Leach Bliley Act only bank holding companies existed but since it was enacted a new entity arose: financial holding companies. The primary difference between the two is the regulation oversight. A bank holding company is regulated by the FDIC whereas a financial holding company is regulated by the Fed. Also, financial holding companies are able to participate in more activities which were granted to them via the passing of the GLBA.

³ Ledig, Robert H. Gramm-Leach Bliley Act Financial Privacy Provisions. 21st Century Money, Banking, and Commerce Alert: 2003.

THE GREAT DEPRESSION AND BANKING

There were a series of events which eventually led to the creation and passing of the GLBA. The National Banking Act of 1864 allowed banks to “engage only in activities that were ‘incidental’ to the business of banking. Insurance activities were excluded from the list of permissible activities. Securities activities, however, were permissible as long as banks conducted these activities in affiliates.”⁴ In the 1920s there was a boom in the i-banking world as bonds were issued in large amounts to help pay for World War I. This boom lasted only a few years until the stock market crash of 1929. Due to the high level of defaults in the four years following the stock market crash over 5,000 banks (twenty percent of the total in existence) failed which contributed to the Great Depression. With these harsh times for the economy and America there were many who tried to determine the reasoning behind it. Congress believed that banks being involved with securities activities and issuing large amounts of debt led to the Great Depression. This ignited the idea which led to passing the Glass-Steagall Act in 1933. The Glass-Steagall Act disallowed banks from “issuing, underwriting, selling, or distributing any type of securities with the exception of U.S. Government Agency securities and certain municipal bonds.”⁵

Many banks were not pleased with the new regulations that were imposed by Congress through such acts as the Glass-Steagall Act. Banks attempted to find ways around such regulations by forming holding companies which the bank would be sold to. For example, a holding company would buy nonbank subsidiaries such as insurance firms and then use the bank resources to engage in those activities. Congress eventually grew wise to the bank’s actions and immediately passed the Bank Holding Company Act which made the activities of nonbanks owned by holding companies be “closely related to banking.” This environment remained unchanged

⁴ Yeager, Timothy J. The Financial Modernization Act: Evolution or Revolution? Federal Reserve Bank of St. Louis: December 2004.

⁵ Gramm-Leach Bliley Act: A New Frontier in Financial Services. Federal Reserve Bank of San Francisco. February 6, 2007.

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until the 1970s when the regulation imposed earlier in the century had taken its toll decreasing the number of bank failures. Due to this notion some believed that the geographic restrictions placed on banks were no longer needed. Studies were conducted indicating that perhaps securities activities of commercial banks were not the primary factor leading up to the Great Depression. These new notions led to the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994. This Reigle-Neal Act repealed the McFadden Act now allowing bank holding companies to purchase banks in other states. This was a primary cause for the increase in bank branches and decrease in number of total banks.

SECTION 20 LOOPHOLE

Similar to the McFadden Act, the Glass-Steagall Act seemed to be fading away as many felt deregulation was imminent. Section 20 of the Glass-Steagall Act stated that bank were “prohibited from affiliating with other financial institutions that were ‘engaged principally’ in the issue, floatation, underwriting, public sale, or distribution of financial assets.” Although this seems clear as to what is meant by Section 20, many fought over what is meant by the term “engaged principally” and the interpretation was highly questioned in court. Through these court rulings the term was widened and in 1996 bank affiliates were able to underwrite up to twenty five percent of revenue in corporate bonds and equity. This allowed many of the larger bank holding companies to use this to their advantage holding such items which they dubbed “Section 20 Securities Affiliates.” Eventually, when the Gramm-Leach Bliley Act was passed the percentage increased to forty-five. Some companies which used this broadening of terms to their advantage include: Bank of America, Citigroup, Deutsche Bank, Wells Fargo, J.P. Morgan, and Barclays Bank.

It was only a matter of time before the Glass-Steagall Act was fully repealed as many of those larger banks (some mentioned above) pushed for deregulation for reasons such as increased economies of scope and scale, and to exploit revenue efficiencies. Norwest Bank attempted to offer a variety of financial service products in 1986 and in the same timeframe American Express also made efforts to diversify their services. The final surge of companies trying to consolidate came in 1998 when Citigroup was granted a temporary exemption from the Federal Reserve for the right to acquire Travelers Insurance. Citigroup agreed to this with the mindset that Congress would repeal the barriers prior to their exemption expiring. This held true, to the delight of Citigroup, as in November 1999 the Gramm-Leach Bliley Act was passed effectively deregulating much of the financial services industry. This allowed banks to form financial holding companies and perform any, and all, activities which are considered “financial in nature.” Through the “Section 20 Subsidiaries” and some banks

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attempting to consolidate regardless of the law, it was apparent that it was only a matter of time that an act would come along and deregulate the industry.

The primary function of enacting the Gramm-Leach Bliley Act was that it essentially deregulated the financial services industry. It did this by expanding the powers that the institutions it affected had to operate with. When the act was officially put through legislation there was the allowance of what has been known to be called a Financial Holding Company (FHC). Financial Holding Companies are allowed to engage in “any activity that is financial in nature.” Since the GLBA was passed, financial holding companies were now able to get involved with other activities which include, but not necessarily limited to, ‘loan making and deposit taking, insurance underwriting and other insurance activities, merchant banking, investment banking, brokerage services, and other securities activities.’⁶ This proves to be a tremendous benefit for such financial holding companies because they can now take advantage of not only revenue efficiencies of their various services, but also economies of scale and scope which were not available before the act was passed.

⁶ Yeager, Timothy J. The Financial Modernization Act: Evolution or Revolution? Federal Reserve Bank of St. Louis: December 2004.

ADVANTAGES OF GLB ACT

Although I see the GLB Act as being more evolutionary as opposed to revolutionary there are still advantages that come with it. Revenue efficiencies arise because the deregulation has allowed these institutions to offer many more services and they are able to cross-sell their clients offering them a wider range of services increasing potential revenue. This can be done in many ways from selling loans and securities underwriting, or selling insurance to a client while also selling certificates of deposits. Economies of scale can be achieved through the integration of such functions as 'information technology and managerial overhead.' Consolidating such aspects of the back-office allows a bank to create such economies of scale. Economies of scope, similarly, can be obtained because of the ease to transfer information from, say, a loan customer to the brokerage department when underwriting information for the same customer. These three aspects benefit all banks (but as we will see later, particularly larger banks are benefited) while also creating more competition among firms as the number of banks has decreased, but the number of branches has increased substantially. Furthermore, by consolidating financial institutions were able to save money on certain costs and overhead allowing them to lower the prices for customers potentially increasing their customer base.

CONSUMER PRIVACY

Mentioned above are the characteristics of the Gramm-Leach Bliley Act which will alter the landscape of the financial services industry from a competitive point-of-view. There has been more change in the past ten years to the financial services industry than any time since the Depression era. Some unfamiliar with the industry, history, and the act itself may believe consolidation is a new notion. On the contrary, firms have been making efforts to merge and consolidate for many years. Couple that with Section 20 Subsidiaries and it becomes clearer that the Gramm-Leach Bliley Act was inevitable. Although consolidation is vastly important, I feel the most important aspect of the act is consumer privacy protection.

In the past several decades there have been tremendous advancements in technology. This ranges from the advancement of cell phones, televisions, internet, PDAs, etc. Almost all of these steps forward have benefited our world in some way. Whether it is being able to keep in touch with our families and offices, record a television show for viewing at a later date, or acquiring information off the internet at lightning quick speeds, technology is evolving every day. On the subject of the internet, individuals are able to review and alter their financial statements daily via the web. This greater access allows consumers to check up on everything from their bank accounts to their 401(k) anytime during any day of the year.

With the increase level of activity passing through the internet there comes with it lots of personal information which customers must give up in order to gain access to these accounts. Similarly, except for a consumer's name and age, the majority of information regarding their personal lives is created in transactions which involve another party. This can be illustrated through the purchase of a new home. Here there are several parties involved which include: the home owner, the country recorder, and a bank, if a mortgage is needed. In order to close a home there is

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certain financial information needed which the buyer willingly gives out. The question then becomes, “Who owns the rights to that information?”

There are advocates of both sides of the debate regarding disclosure of personal and financial information. Credit providers and merchants see the increased flow of data as being advantageous. If merchants get a hold of the information they can study it to get a better feel for household preferences allowing them to more effectively target their marketing campaign. Credit providers can employ similar tactics except they would use household finance information along with spending habits to more accurately price their loans.⁷

On the other hand, not all believe that the loss of privacy is worth it. For instance, once you do purchase your home it will not be long until you begin getting telemarketing calls ranging from donations to selling everything under the sun. Not to mention an even bigger issue: identity theft. Identity theft was not a major concern for anyone ten to fifteen years ago, but with the advancement of the internet and the increase of personal information on the web hackers and thieves have access to a plethora of information they can steal and use to their advantage.

The increased privacy protection has not risen solely due to increased technology. Real world occurrences have led to tighter regulation as thousands of customers have lost money due to institutions selling their personal information. There are two high profile cases which helped move towards a more privacy oriented financial services industry. First, Charter Pacific Bank of Agoura Hills, California was found guilty of selling millions of their customer’s credit card numbers to an adult website in November 1997. The website charged and billed these customers for services rendered although they never really purchased any services. To avoid getting caught the adult website set up separate merchant accounts with different names.

⁷ Baur, Paul W. Consumer Financial Privacy and the Gramm-Leach Bliley Act. Federal Reserve Bank of Cleveland: March 2002.

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Eventually, in September 2000, the site was found to be guilty in a \$37.5 million judgment. The bank claimed they did nothing wrong and immediately halted their selling of credit cards.

In 1998, NationsBank, who had merged with Bank of America, shared their customer information with an affiliate Nations Securities who then convinced low risk customers to buy higher risk investments. Hundreds of customers lost a great deal of money and many senior citizens lost retirement money leaving them nothing left from their personal savings.⁸ Both these cases occurred within the past ten years right before the GLBA was enacted and affected thousands of people proving its severity.

Regulation P

These two examples prove that privacy is a major issue when dealing with financial services and the Gramm-Leach Bliley Act has done a superb job of taking that into account. Although, it was not until 2001 when the Federal Reserve, Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, and Office of Thrift Supervision issued Regulation P (Privacy of Consumer Financial Information).

Regulation P applies to anyone engaged in “activities deemed financial in nature or incidental to such financial activities.”⁹ There are two primary provisions within Regulation P. First, every financial institution has the obligation to establish security programs to ensure that nonpublic consumer information is kept safe from both external and internal threats. Also, since technology is changing and evolving on a daily basis the security programs must be tested and evaluated periodically to make sure they are up to date. Furthermore, there are a variety of programs firms institutions may employ which is why there are specific guidelines which are

⁸ Federal Trade Commission. “Standards for Safeguarding Customer Information.” Vol. 67, No. 100 (2002): pp. 36484-36494.

⁹ Baur, Paul W. Consumer Financial Privacy and the Gramm-Leach Bliley Act. Federal Reserve Bank of Cleveland: March 2002.

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considered when implementing an appropriate program. “These provisions minimize the risk that nonpublic consumer information is unintentionally released.”¹⁰

The second guideline under Regulation P is that the financial institutions are required to distribute a copy of their privacy policy to all their customers. Along with all the privacy information it must also demonstrate under what scenarios their information will be disclosed to a third party which is not affiliated with them. If a situation arises where the financial institution wants to purposely disclose a customer’s information to a third party, the customer must have the option to “opt out,” which is to say they demand their information not be shared. However, there are situations where no opt-out rights are granted. These include:

- A financial institution sharing information with third party firms providing essential services such as data processing or servicing accounts;
- The disclosure is required legally;
- A financial institution shares customer data with third party firms that market the financial institution’s products and services.¹¹

Also, the reason the distinction between consumers and customers is important is because only customers are permitted to receive the privacy notice from the financial institution automatically. Consumers can receive the notice, but only if they share and distribute the consumers’ information with a third party which is not affiliated with them.

There is so much personal information circulating around the internet and company databases it is a must that the privacy regulations become more stringent as these technologies evolve. Fortunately, the Gramm-Leach Bliley Act recognizes this and takes the initiative to develop safeguards in an effort to prevent identity theft and

¹⁰ Disclosure of Nonpublic Personal Information. Gramm-Leach Bliley Act. January 31, 2007.

¹¹ In Brief: Financial Privacy Requirements of Gramm-Leach Bliley Act. Federal Trade Commission. February 2, 2007. <<http://www.ftc.gov/bcp/online/pubs/buspubs/glbshort.htm>

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other mishaps with stolen personal information. In addition to Regulation P, the act also implements a Safeguards Rule and Pretexting Protection.

Safegaurds Rule/Pretexting Protection

This Safeguards Rule falls under the privacy section of the Gramm-Leach Bliley Act and was briefly mentioned earlier. Essentially, financial institutions must create a written security plan depicting how they plan to protect their clients' nonpublic personal information. This plan must include:

- Denoting at least one employee to manage the safeguards,
- Constructing a thorough risk management on each department handling the nonpublic information,
- Develop, monitor, and test a program to secure the information, and
- Change the safeguards as needed with the changes in how information is collected, stored, and used.¹²

The purpose of this Safeguard Rule is to protect their clients. This is a practice which all institutions, no matter their service, should be doing. This statute pushes financial institutions to take necessary precautions to manage the private data given to them by their customers while complying with the Gramm-Leach Bliley Act.

The Pretexting Protection is also cited in the GLB Act. Pretexting happens when an individual attempts to get hold of personal nonpublic information without permission and the proper authority. This is a serious matter as there are many ways for one to pretext and gain access. This includes making attempts over the phone, through mail, e-mail, and even what is known as "phishing" which is using a fake website to collect one's data.

¹² Gramm-Leach Bliley Act. Wikipedia, the free encyclopedia. November 7, 2006. <<http://wikipedia.org>>

HYPOTHESIS PROVED

As discussed earlier, there were already firms practicing the consolidating practices which the Gramm-Leach Bliley Act eventually allowed legally. Thus, this act did not necessarily fundamentally change the landscape of this so-called “mixing” of banking and other activities but instead “ratified and extended what was already being practiced as a result of the gradual liberalization of the Glass Steagall restrictions.”¹³

On top of my original assertion that the Gramm-Leach Bliley Act is evolutionary are other, more detailed claims which I hope to prove.

Positive Wealth Effect for All Sectors

The first claim is that the Gramm-Leach Bliley Act aided the financial services industry in the sense that it created value for all sectors involved. This can be summarized by stating that it created a positive wealth effect. Again, mentioned earlier, one advantage brought about through the passing of the act was the creation of economies of scope and economies of scale. This was created post-GLB and prior to this, banks and other financial institutions were limited to diversify thanks to the Glass Steagall Act. Presently, these same institutions are able to reprocess certain information which it has already purchased across a multitude of financial services. Furthermore, asset portfolio diversification created through economies of scale is also generated using existing technology among other things to dispense products until that time were unacceptable.

Decreased Systematic Risk

Next, the Gramm-Leach Bliley Act decreased exposure to systematic risk within the financial services industry. There are many guidelines set forth within the act which push for more stringent rules and regulations forcing firms to manage their risk more proficiently. Mainly focusing on the organizational structure of a financial institution, other areas are discussed in great detail such as consumer privacy. The GLB Act restricts power in numerous ways. There are certain activities that firms can not

¹³ Al Mamun, Abdullah; Hassan, Kabir M.; Son Lai, Van. “The Impact of the Gramm Leach Bliley Act” Journal of Economics and Finance. Vol. 28, No. 3 (2004): pp. 333-347.

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partake in which are forbidden. Also, there are other activities which may only be carried out by FHC subsidiaries. This is done so as to limit the risk within a certain institution lowering systematic risk. If things within a firm seem to be getting riskier the Federal Reserve, which supervises the financial holding companies, is granted access to the risk data throughout the company.

“The GLB Act also takes a variety of steps to limit the safety net spillover. More uniquely, the GLB Act introduces the use of market signals to discipline excessive risk taking. For example, the GLB Act directs the Federal Reserve to study the feasibility and appropriateness of requiring large banks to issue subordinated debt. Holders of this debt are unlikely to receive full and timely payment if the bank fails. Therefore, whenever the banks assume higher risk, they will have to pay higher interest to the debt holders. All these measures that ensure financial health along with the diversification opportunity will reduce the exposure to systematic risk for firms across the financial services industry.”¹⁴

Large Institution Law

Upon researching further I have also come to realize that the Gramm-Leach Bliley Act is law which applies more to large financial institutions. One advantage was that this act created economies of scope. The question then becomes what type of financial institutions will have the resources to develop new markets and disperse new products to take full advantage of these new economies? Large ones. Under the Gramm-Leach Bliley Act the financial holding company has the greatest amount of flexibility to diversify. To be granted the status of a financial holding company a firm must be “well capitalized and well managed.” It proves much easier for a larger firm to fulfill this characteristic as opposed to a smaller one.

¹⁴ Al Mamun, Abdullah; Hassan, Kabir M.; Son Lai, Van. “The Impact of the Gramm Leach Bliley Act” Journal of Economics and Finance. Vol. 28, No. 3 (2004): pp. 333-347.

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Banking Benefits Most

My last claim is the one in which I wish to focus on and converse in much greater detail. As was mentioned as my first remark all sectors within the financial services industry benefited from the passing of the Gramm-Leach Bliley Act. Although this proves to be true, the banking industry has benefited the most when compared to the other areas. First off, it is easier for banks to take advantage of the economies of scope and economies of scale since their customer base is greater than other sectors. Also, they have more resources dedicated to advertising allowing them to enter new market areas further diversifying their range. Another reason this holds true is due to the creation of the Section 20 subsidiaries which were primarily used pre-GLB allowing banks to become familiar with these services and sectors. With their performance increasing due to their ability to diversify with little risk being taken many banks took advantage. After the passage of the Gramm-Leach Bliley Act many banks were already undertaking these added services so it was not much of a challenge making the transition with the new deregulation laws.

There have been studies which have proven that of those banks implementing Section 20 subsidiaries they have seen an increase in their operating cash flow return on assets which can be attributed to the revenues which is acquired and maintained through non-commercial bank activities.¹⁵

The banking industry benefits the most from the Gramm-Leach Bliley Act. Based on the information from the act, it seems clear that the bill is geared for larger banks allowing them to take full advantage of what it has to offer. This can be broken down even further as Super Regional Banks and Money Center Banks (Appendix A) benefit even more from the Gramm-Leach Bliley Act. Since the passing of the act all firms have the opportunity to diversify at a cheaper rate. Broad banking firms encompass lower profit variances when being compared to a traditional bank. These broad

¹⁵ Covington and Burling. Financial Modernization: Gramm-Leach Bliley Act Summary. American Bankers Association: 1999.

banking firms include both Money Center Banks and Super Regional Banks. These types of banks are not affected as much when other firms avoid banks and generate funds directly from the capital market.¹⁶ This holds true for the simple reason that if there is a decrease in lending activity, the securities activity taken on will offset it. Essentially, larger and broader banks have a heightened ability to reap the benefits brought about through the passage of the GLB Act.

Almost sixty-five percent of all the banks in the United States sell some sort of insurance product. The majority do not sell a wide-range of products which is another reason why these broad banks have a greater chance to obtain profits. The Super Regional Banks and Money Center Banks, thanks to the Gramm-Leach Bliley Act, can not merge and/or acquire insurance companies allowing them to offer an extremely wide-range of products. With their already high capital and advertising range they can enter this underwriting business forcefully leaving any competitors in the dust.

¹⁶ Al Mamun, Abdullah; Hassan, Kabir M.; Son Lai, Van. "The Impact of the Gramm Leach Bliley Act" Journal of Economics and Finance. Vol. 28, No. 3 (2004): pp. 333-347.

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CONCLUSION

Throughout my research of the Gramm-Leach Bliley Act and its affect on the financial services industry I have learned that there is much more to it all than simple deregulation. I believe that privacy, especially in this day and age, is imperative to the Act which makes it much more important. Correspondingly, evolution is a part of human nature and this also holds true for business. Since the beginning of time the way humans conduct business has been evolving and understanding everything within this paper should prove that the Gramm-Leach Bliley Act, too, was an evolutionary process. This evolutionary notion is one thing I have learned throughout my research. I have also learned that many legal acts, such as the GLBA, do not always give equal benefits to all involved. In this case, larger banks reap the benefits more than do smaller banks. Also, I have realized that in the finance industry regulators are always searching for advancement to create new economies and means of earning profits. Repealing the Glass-Steagall Act allowed financial institutions to take advantage of what the GLBA had to offer leading to increase revenue. Looking to the future of the industry it is hard to say where the industry is headed. Globalization will play a major role in the future and how a bank's operations are regulated will be interesting to see. Will the GLBA be adopted by other nations? Also, with an election in the near future one can assume that some changes may be made depending on which party holds office. Regardless, it is difficult to predict where the industry is going, and will be, in the next hundred years but it is safe to say for now it is in good hands.

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APPENDIX A

Money Center Banks

BankAmerica
Bank One Corp.
Bankers Trust
Chase Manhattan
Citigroup
J.P. Morgan

Super Regional Banks

BankBoston Corp
Bank of New York Co.
First Union Corp
Republic NY Corp
State Street Corp

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