

## North Carolina Case Study: Bank of America Corp.

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### OVERVIEW AND COMPANY HISTORY

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The 1998 financial merger between the San Francisco-based Bank America Corp. with the Charlotte-based regional giant NationsBank created the Bank of America Corp. This merger constituted the largest financial merger in US banking history to that point, joining the second largest financial institution based on deposits with the largest bank in the Southeast. This first nationwide banking institution controlled assets valued at over \$570 billion, and today is the largest domestic retail bank based on deposits, with 4,800 branches in 22 states. Bank of America provides an optimal case study to detail the development of the financial sector and the changing role that North Carolina plays in the increasingly global finance industry.

A brief review of Bank of America's history identifies its strong market presence in retail banking and helps explain its continued efforts to establish the first coast-to-coast retail bank. Nations Bank, a forerunner of Bank of America, was founded in Charlotte as Commercial National Bank in 1874 and, through a series of acquisitions of other NC consumer lending and retail banking institutions, became the largest and fastest expanding financial institution in North Carolina. The first interstate market expansion strategy took place in the 1980's with the 1982 bid for First National Bank of Lake City, Florida, and the 1988 takeover over of First Republic Bank of Dallas, Texas. This strategy had a predominantly Southeastern market focus and resulted in an expansion of assets to \$60 billion. In the 1990's, newly renamed NationsBank continued aggressive interstate expansion into Georgia in 1991 (Atlanta-based A+S Sovran Corp), Missouri in 1996 (Saint Louis-based Boatmen's Bancshares), and Florida (Jacksonville-based Barnett Bank), creating the largest financial institution in the Southeast, holding assets in excess of \$284 billion.<sup>1</sup>

Its West Coast counterpart, Bank America, started in San Francisco in 1904 as the Bank of Italy. While Bank America recognized the potential of expansion outside California, it found itself restricted by very strict interstate banking regulations. Instead, it expanded the diversity of its product offering beyond retail banking early, especially into insurance products. The 1956 Bank Holding Company Act, which prohibited banks from owning non-banking subsidiaries such as insurance subsidiaries, forced Bank America to split off its insurance program, which became TransAmerica. To deal more effectively with growing demand following World War II, Bank America invested heavily in information technology, creating innovative breakthroughs such as automated check processing, magnetic ink character recognition and the BankAmeriCard, the first bank credit card, which later became Visa. In 1983, Bank America expanded beyond its state borders with the purchase of SeaFirst Corp. of Seattle. Two mergers in the 1990's, the 1992 acquisition of California rival Security Pacific Corp. (with branches and holdings in Arizona, Idaho, Oregon and Washington), and the 1994 purchase of Continental Illinois National Bank and Trust Company of Chicago, advanced Bank America's depository holdings nationwide to position it as the second largest domestic financial institution based on deposits, behind only NationsBank.<sup>2</sup>

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## RECENT STRATEGY ADJUSTMENTS

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This brief look into the corporate history of the formation of Bank of America reveals both the origins of many of the market and product expansion strategies pursued today as well as the development of the industry over the past century. Both NationsBank and Bank America started as state retail and small business banks, and established lucrative local clients, which was essential before the formation of national banks. The initial growth opportunities for both banks came within their home states. Interstate banking only became possible after significant regulatory reform, and this development initially took a regional form.

Clearly, the 1998 merger between Bank America and NationsBank was the result of the pursuit of a common interest: to establish the first coast-to-coast interstate retail and commercial lending giant in the history of the US financial sector. The advantages of nation-wide branch banking are clear: a large customer pool for bigger asset holdings and more diversification opportunities for lending. Customers can benefit from greater security, reputation, and available retail banking locations. This strategy continues with new acquisitions, including Boston-based Fleet Boston for \$47 billion, in order to expand its market share into the New England region.<sup>3</sup> The announced deal immediately propelled Bank of America's holding assets over the \$1 trillion mark, making it one of the three banks nationwide to achieve this level of assets (the other two are Citigroup and JPMorganChase after its merger with BankOne).<sup>4</sup> Recently, Bank of America has focused on expanding its market share internationally to accommodate its clients' increasingly global demands. This global focus parallels the earlier US expansion, as the world financial capital sector remains nationally fragmented.

Although the Bank Holding Company Act of 1956 was amended in 1967 to allow financial institutions to diversify product offerings to non-bank related operations, such as insurance, Bank of America has not expanded its product offerings since it was forced to sell off its insurance subsidiary. Nevertheless, recent company efforts aim to expand the range of products in order to cover all client needs and gain competitiveness over specialized banks. This integrated banking model combines investment and corporate banking units with intellectual and financial capital to gain greater market share in equity and debt origination and in sales and trading.<sup>5</sup> The underlying assumption is that with the ability to deliver a broader range of financial products and services comes product and revenue diversification, which allows for a more stable and predictable revenue stream.

The emphasis on specialty financial products is supported by a solid customer and deposit base that fuels and finances high-risk investment opportunities with high profile and lucrative clients. The *Wall Street Journal* reported on October 5<sup>th</sup>, 2004 that Bank of America plans to invest as much as \$600 million in its investment and corporate banking units worldwide in an effort to expand significantly beyond its retail banking base.<sup>6</sup> So far, commercial and retail banking accounts for more than 50% of its profits, while investment banking accounts for 11% of profits. This is not the first stab at

capturing market share from the Wall Street veterans like as Goldman Sachs and Morgan Stanley, and skeptics still point at perceived disadvantages in merger advice and stock and bond underwriting over strengths in syndicating loans and junk bond underwriting.

Bank of America is investing a considerable amount of its resources in improving technology, both in order to lower operating and transaction costs and to gain competitive advantage by staying at the forefront of web-based e-commerce and e-payment development. The underlying strategy is to provide customers with the ability to manage their accounts and payment options any time of the day anywhere in the world. Such technological innovations help customers adjust to the increasingly global supply and demand chain at low cost to everyone involved. It also helps Bank of America capture competitive and lucrative corporate clients for their diverse product range. Bank of America offshores application maintenance and software development services to three Indian-owned and operated software development partners: Infosys, Tota Consultancy Services, and Accenture.<sup>7</sup> From the value chain perspective, Bank of America outsources low value-added activity and areas in which it does not have specialized knowledge, such as software development, in order to focus on specialized, high value-added activities in banking and finance.

To capitalize on technological development and prevent IT partners from shifting value down the value chain, Bank of America set up a wholly owned and operated IT subsidiary in India, Continuum Solutions Pvt. Ltd., which will employ up to 1,000 employees by mid-2005.<sup>8</sup> The subsidiary will be trained to complete relatively expensive, back-office transaction processing and high-end, complex processing. This offshoring of back-office transaction processing is in line with industry developments, as financial services firms are planning to relocate up to 500,000 jobs internationally (18% of the US financial services work force) over the next five years.<sup>9</sup>

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## BANK OF AMERICA IN NORTH CAROLINA

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From the point of view of North Carolina's banking and finance industry, the important aspect of the recent developments described in this case study is how the changing location of the industry in North Carolina relates to changes within the industry itself. Bank of America is headquartered in Charlotte and currently operates all of its product divisions from this location. However, recent expansions in products outside retail and commercial banking have required shifts in operations to New York City and Boston for investment and asset management, respectively.<sup>10</sup> As business expands nationally and as clients demand specialized and personalized services on the spot, Bank of America has had to respond by spreading its operations from Charlotte to where its products are demanded.

One example of this shift is the construction of an expanded financial center in New York City, which is responsible for much of the \$600 million investment Bank of America is making in its corporate and investment banking unit. Upon completion, this center will assume full operation of Bank of America's corporate banking unit. Additionally, part of

the acquisition of Fleet Boston stipulates the retention of the newly formed asset management unit in Boston, a sign of increased decentralization of bank operations. As a result, Charlotte has become a national hub for retail banking (see Cary Nordan interview in this site), as also evidenced by other major retail banking giants located in Charlotte. This creates a specialization in the management and oversight of enormous financial holdings.

Short-term transition challenges exist in North Carolina, as high-value added and high-skilled activities shift away while an overabundance of highly specialized jobs in retail banking administration remain open. Bank of America, and North Carolina in general, require a workforce that possesses skills that match the industry in North Carolina. There is an abundance of under-skilled and non-specialized finance workers in North Carolina, as the internet bubble of the late 1990s attracted an artificially high volume of financial analysts. This has resulted in a fall in NC financial employment despite increased financial activity, accompanied by a rise in labor demand for specialized retail banking associates.<sup>11</sup>

The increasing specialization of North Carolina in retail banking is further strengthened by additional finance industry trends, including the current offshoring of low-value added transaction activity as well as software development to subsidiary contractors and partners in India. The recent merger with Fleet Boston also increased this specialization, as all asset management operations were retained in and transferred to Boston.<sup>12</sup> While this decentralization and specialization in retail banking causes short-term employment and operational inefficiencies, in the long run, this strategy promotes North Carolina competitiveness in the banking and finance industry and invites other financial institutions to relocate to take advantage of state competitiveness. The specialization of product offerings in financial clusters fits into the integrated financial service model that Bank of America pioneered in the United States. It requires closer cooperation and interaction between the individual financial product units, which can only remain competitive by specializing in the appropriate clusters nationwide. Therefore, we can expect to see continued investment in retail banking administration in Charlotte. Fortunately, specialization not only maintains North Carolina's competitive advantage, but also ensures continued specialization in skills obtained by local employees, making them more competitive for interstate and international competition.<sup>13</sup>

For the NC finance industry to smoothly transition, an extensive retraining program and individual preemptive initiatives to anticipate inevitable industry trends should be developed. Fortunately, North Carolina has a strong competitive edge in education with an extensive community college network and several renowned national universities. Other factors that contribute to the continued competitiveness of North Carolina as a hub for retail banking activity include its high standard of living, infrastructure, renowned medical centers, and more. As leading competitors exert only limited willingness to provide and significantly support worker retraining programs, smart, preemptive public policy aimed to assist the transition to specialization in this industry becomes essential. This policy should work with companies to develop a retraining program targeting the specific skills and requirements necessary for both workers and banks to remain

competitive nationally.<sup>14</sup> Bank of America has expressed continued interest in retaining most national operations in Charlotte, as evidenced by its continued local community investment programs.<sup>15</sup>

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<sup>1</sup> WordIQ. *Definition of Bank of America*. [downloaded December 1, 2004]. Available at [http://www.wordiq.com/definition/Bank\\_of\\_America](http://www.wordiq.com/definition/Bank_of_America).

<sup>2</sup> Ibid.

<sup>3</sup> Bank of America/Fleet. *Merger News*. [downloaded December 1, 2004]. Available at <http://www.fleet.com/bankofamerica/mergerNews.asp>.

<sup>4</sup> Bank of America. *Facts About the Corporation*. [downloaded December 1, 2004]. Available at <http://www.bankofamerica.com/facts/>.

<sup>5</sup> Bank of America. *About Us*. [downloaded December 1, 2004]. Available at <http://corp.bankofamerica.com/public/career/aboutus.jsp>.

<sup>6</sup> Mollenkamp, Carrick. "Bank of America Aims to Boost Corporate, Investment Banking" *The Wall Street Journal (Eastern Edition)*, October 5, 2004, p. C4.

<sup>7</sup> Bank of America. "Bank of America Announces Strategic Partnerships with Global IT Companies." Press release. October 2, 2002. [downloaded December 1, 2004]. Available at <http://www.infy.com/media/BankofAmericaPR--Oct0202.pdf>.

<sup>8</sup> Ibid.

<sup>9</sup> Ibid.

<sup>10</sup> Gavin, Robert. "New England Niche: Boston Solidified Niche in Asset Management." *Boston Globe*, November 9, 2003.

<sup>11</sup> Ribeiro, John. "Bank of America Sets Up Indian Outsourcing Subsidiary." *Infoworld and IDG News Service*, February 18, 2004. Available at [http://www.infoworld.com/article/04/02/18/HNbofaindia\\_1.html](http://www.infoworld.com/article/04/02/18/HNbofaindia_1.html).

<sup>12</sup> See labor and NC financial industry specialization discussion in Cary Nordan Interview Commentary #1.

<sup>13</sup> Talcott, Sasha. "Bank Units Here; Jobs Scattered: Hub Losing Positions in Aftermath of Deal." *Boston Globe*, August 31, 2004.

<sup>14</sup> See labor and NC financial industry specialization discussion in Cary Nordan Interview Commentary #1 (fn 12).

<sup>15</sup> Bank of America. *Program Related Investments*. [downloaded December 1, 2004]. Available at [http://www.bankofamerica.com/foundation/index.cfm?template=fd\\_progrelinvest](http://www.bankofamerica.com/foundation/index.cfm?template=fd_progrelinvest).