bpi | BANK POLICY INSTITUTE

Exposing Some Serious Untruths About Bank Mergers, Bank Branches and Banking Access

Jan. 18, 2022

A common criticism of bank mergers is that they lead to a disproportionate number of branch closures and thereby diminish access to banking services, but a new BPI research note examines 40 years of data and shows this is false: branches are just as likely to be closed by banks that do not merge or acquire.

What Happened:

- **From 1980-2012, rapid industry consolidation did not reduce the number of branches; in fact, the number of branches *grew* significantly even as the number of banks *shrank* significantly.** Over that 30+-year period, the number of banks decreased by more than half from 14,434 to 6,087, but the number of bank branches *more than doubled*, from 38,738 to 84,898.
- **Over the past 10 years, when the number of branches at large banks did shrink, banks that did not engage in any merger activity closed just as many branches as those that did.** Focusing on the 48 banks that had at least 150 branches as of June 2012, these banks had a net decline of 10,104 branches between June 2012 and June 2020. However, half of this net decline occurred at 17 banks that had no merger activity, and only half occurred at the remaining 31 banks that engaged in at least one merger or acquisition.
- **In sum,** mergers are not driving the ongoing, national downward trend in number of bank branches.

So, What Has Been Driving This Trend?

Data show that banks' decisions to close branches are strongly influenced by local population losses, which affect branch usage. The research note examines where branch closings occurred, and the answer was in areas with declining population growth — and thus declining demand for banking services. (Of course, declining growth may also drive mergers, with attendant branch closures.)

In recent years, branch closings also have been driven by growth in digital banking, which has reduced the functions that need to be performed in person at a brick-and-mortar location.

So, even if branches are closing primarily for reasons having nothing to do with mergers, is that still a bad thing? Should branch closings be banned in general?

The Reality:

Further data show:

- Consumers' distance from their local bank branch has been largely unaffected by post-2012 branch closings.
- Branch closings and gaps in branch coverage do not appear to have a meaningful effect on the share of a population that is "unbanked."
- "Banking deserts" (areas with no bank branches) are not associated with a significant increase in unbanked share of the population.

The bottom line: Forty years of evidence demonstrates that mergers do not lead to a disproportionate number of branch closures and do not cause consumers to be unbanked. Financial inclusion requires finding ways to reach people who are hesitant about dealing with a bank, but there is no evidence that holding on to underutilized brick-and-mortar branches is the best way to accomplish this.