

BANK BRANCH DENSITY AND BANK RUNS

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Discussion by Diana Bonfim

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SUMMARY OF THE PAPER

Fact: branch density (number of bank branches to total deposits) declined over the past decade.



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Why does it matter?

- Banks with few branches had large deposit inflows between 2010 and 2022.
- BUT these banks were more susceptible to outflows in 2023.
- Does technology make the banking system more unstable?



SUMMARY OF THE PAPER

Great paper:

- Novel results and important implications.
- Branch density measure is an appealing and simple way to capture differences in bank technology.



MY COMMENTS

01

WHERE ARE THE
DEPOSITS?

02

BRANCH NETWORK
VS DEPOSIT
PRICING

03

WHAT HAPPENS
AFTER THE STORM?

04

POLICY
IMPLICATIONS

05

MINOR ISSUES



1. WHERE ARE THE DEPOSITS?

The authors find that “low-branch density banks are more likely to have branches situated in urban locales with higher income levels, younger demographics and a more educated populace”.

Puzzle: If low-branch density banks capture deposits mostly online, how informative are these locational results?



2. BRANCH NETWORK VS DEPOSIT PRICING

Recent related paper:

Kundu, Shohini, Tyler Muir and Jinyuan Zhang (2024), Diverging banking sector: new facts and macro implications.

They distinguish **high-rate banks** (with **few branches**) from **low-rate banks** (traditional branch network). Deposits at low-rate banks are stickier.

Question - what drives the results: **technology** or **pricing**?



2. BRANCH NETWORK VS DEPOSIT PRICING

Related question:

- if deposits at these banks are indeed a much more expensive funding source AND if they spend much more on IT, is there business model viable?

Is this mix that makes this business model risky or maybe unviable?

Suggestion: dig deeper into interaction between technology and pricing.



3. WHAT HAPPENS AFTER THE STORM?

The results contrast the 2010-2022 period with the 2023 banking crisis. This was a **short-lived episode**.

What happened after that?

Where did the deposits go? Did some come back?

What are the implications/external validity?

Was this a panic or a fundamental run?

If the latter, what were the fundamentals? Branch density? What else?

What happened to these banks during the pandemic? (Erel and Liebersohn, 2020)



4. POLICY IMPLICATIONS

Convincing **main result**: banks with low branch density experience worse outcomes during the 2023 episode.

But why?

- **how much can** be attributed to the **branch density**/bank technology?
- what is the role of **deposit pricing** (discussed before)?
- these were the **fastest growing** banks – is it a story about weak **relationships**?
- did excessive liquidity make banks reckless (**risk-taking channel**)?

The policy implications will differ depending on the reasons behind the results.



4. POLICY IMPLICATIONS

If the results are mainly due to pricing and fast growth, perhaps **competition** is the focus for action.

If it is about changing business models, then perhaps there is a case for stronger **supervisory** oversight.

Can changes to **deposit insurance** avoid similar episodes in the future? From a financial stability perspective, do we prefer banks that rely on a dormant and uniform depositor base OR an educated, attentive depositor base that actually **monitors** the banks?

In a world with **CBDC**, would outcomes be different?

Suggestion: horse race between different explanations?



5. MINOR ISSUES

- How do the results look like if the 3 banks that failed are excluded from the sample?
- Data on IT refers to 2017. Isn't that too far back, for such a fast-changing activity? (IT budgets tripled between 2010 and 2017.)
- Curiosity: what happened with Western Alliance Bancorporation (80% share price drop but no failure)?
- "decline in branch density": SVB always had low branch density (FRB and SB did decline). Does it matter?
- High density banks are quite different. Shouldn't the comparison be anchored on very low-density vs low density banks?
- It's puzzling that MTM does not play a role in the estimation of stock returns.

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