

# The Changing Role of Bank Branches

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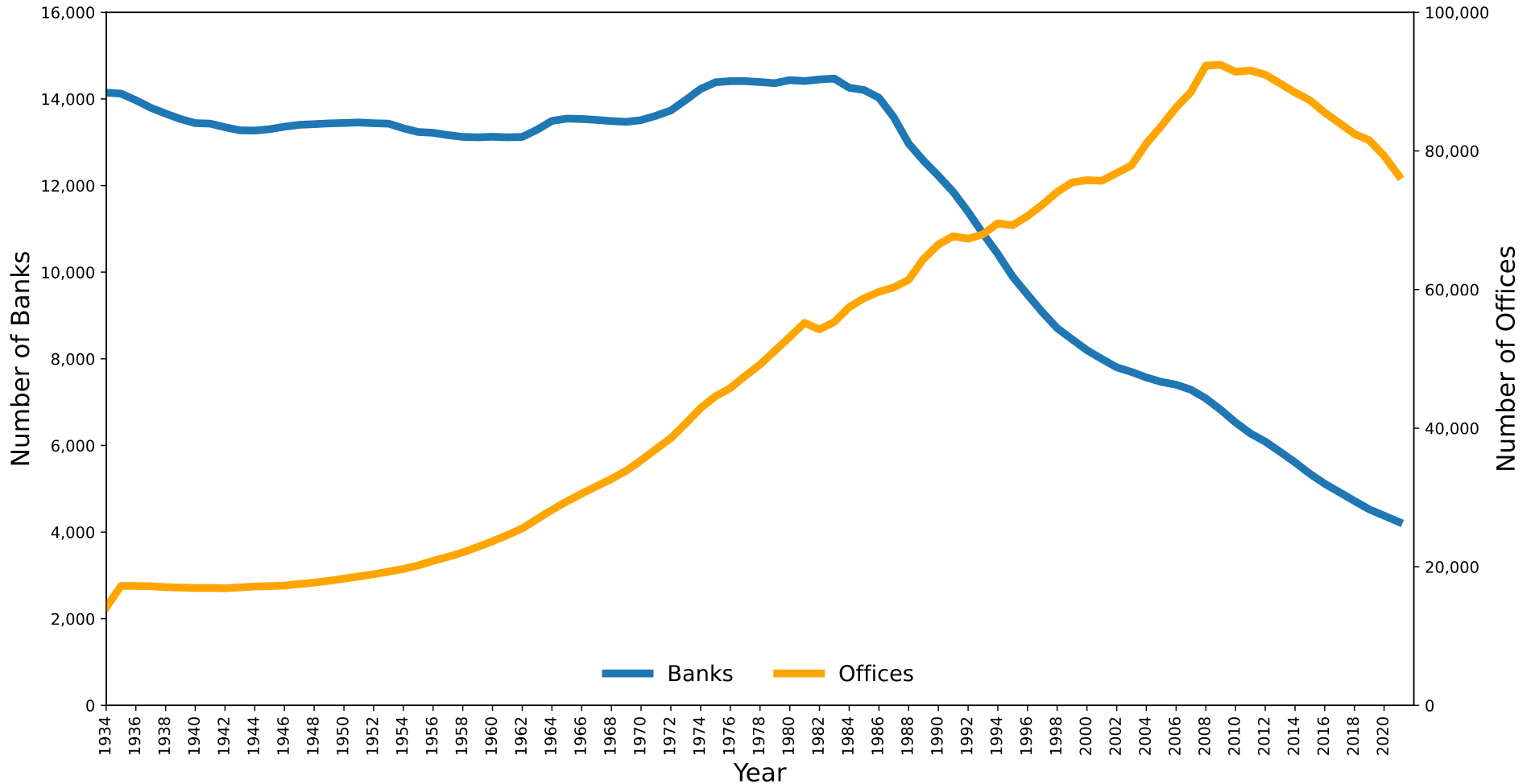
# Traditional Branch-based “Banking” v. Fintech-based “Banking”

1. Some Facts

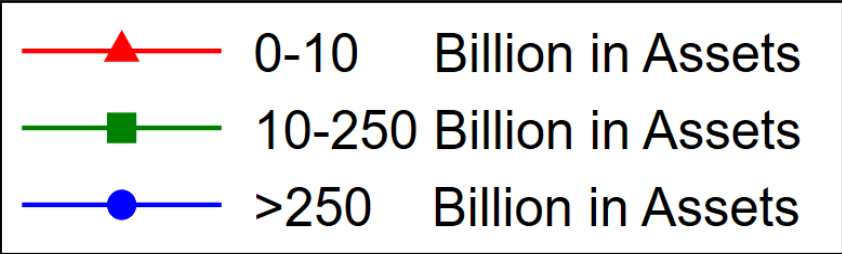
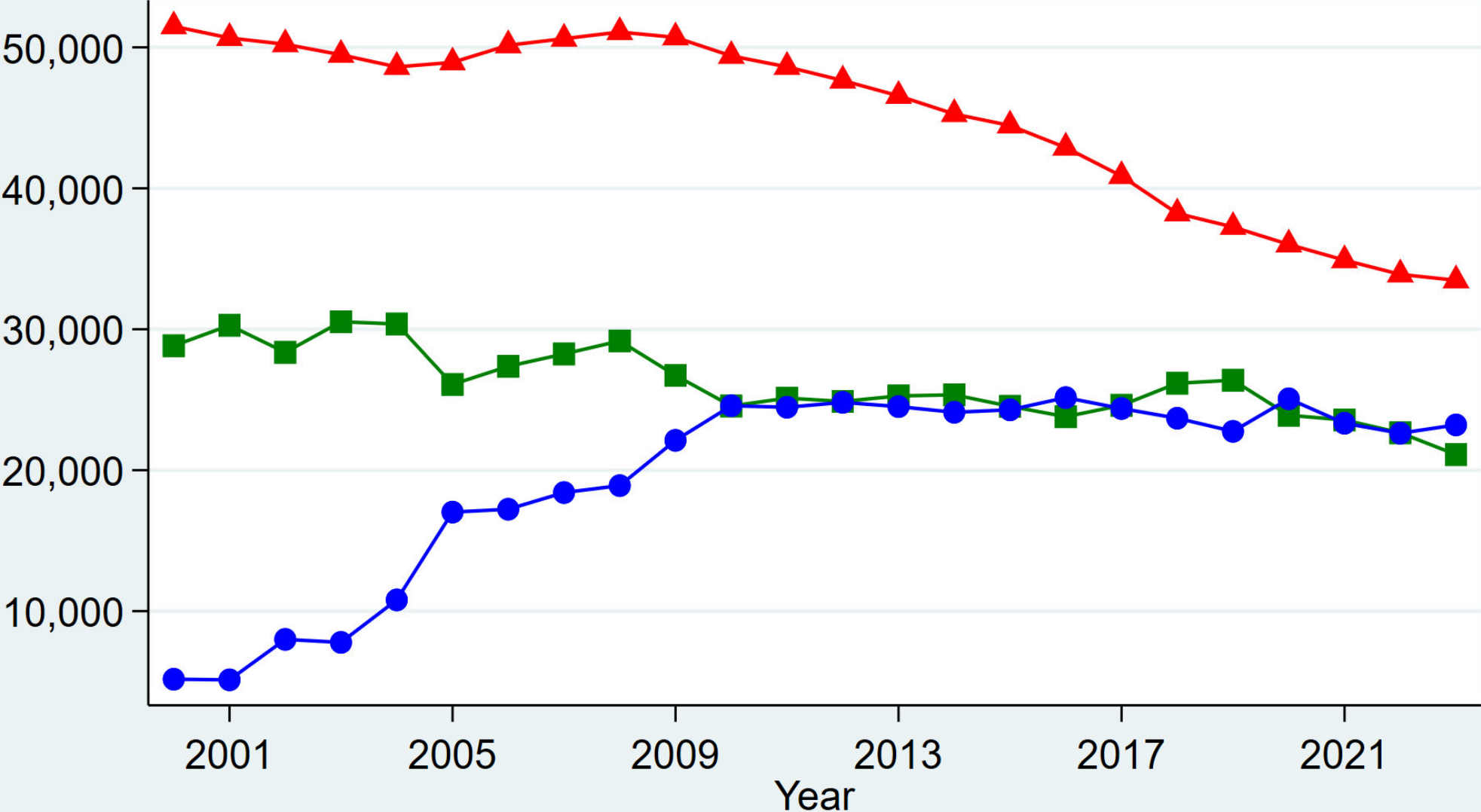
2. Looking **back**: Why were branch networks to important?

3. Looking **ahead**: How will banking & finance change?

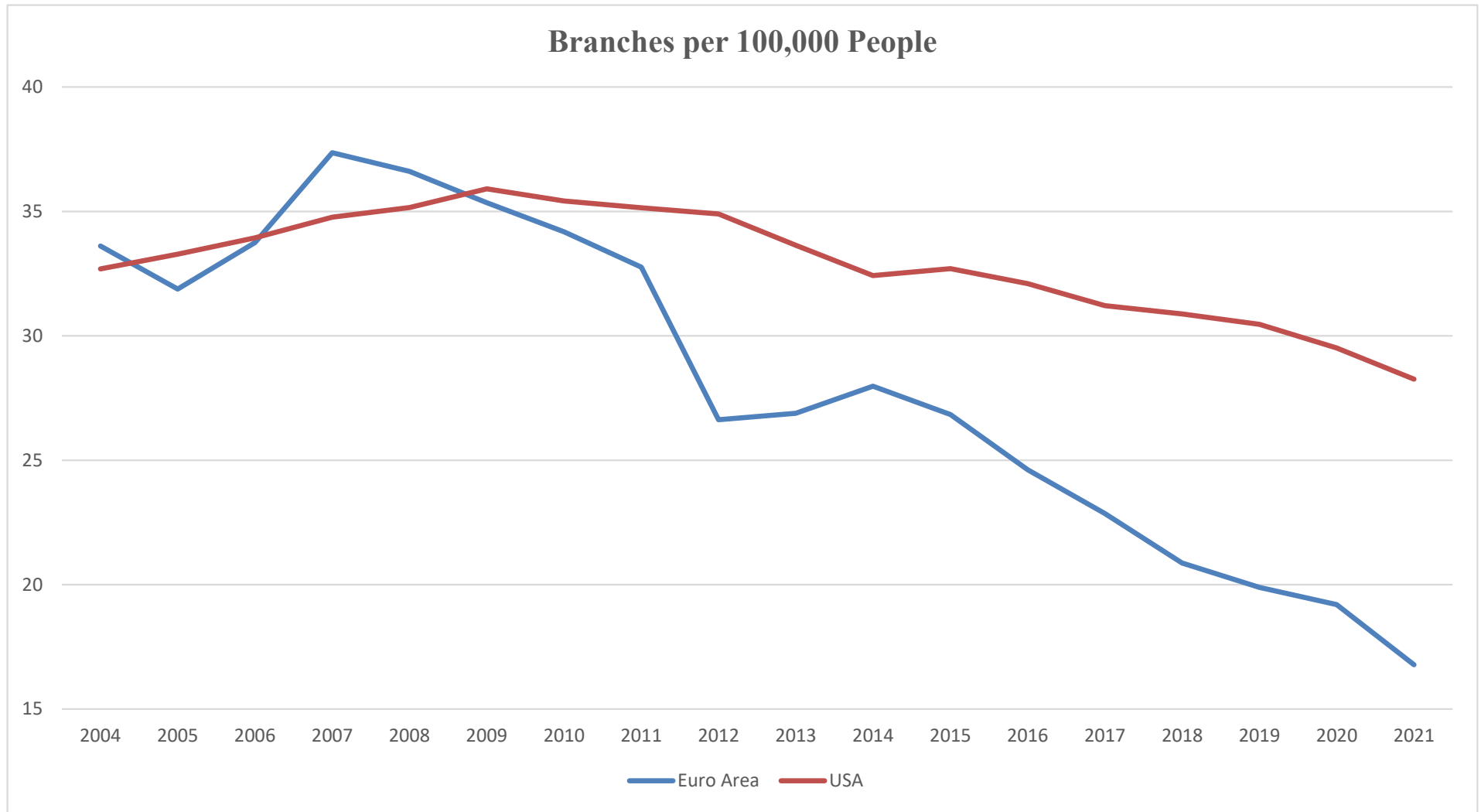
# Number of Banks and Branches



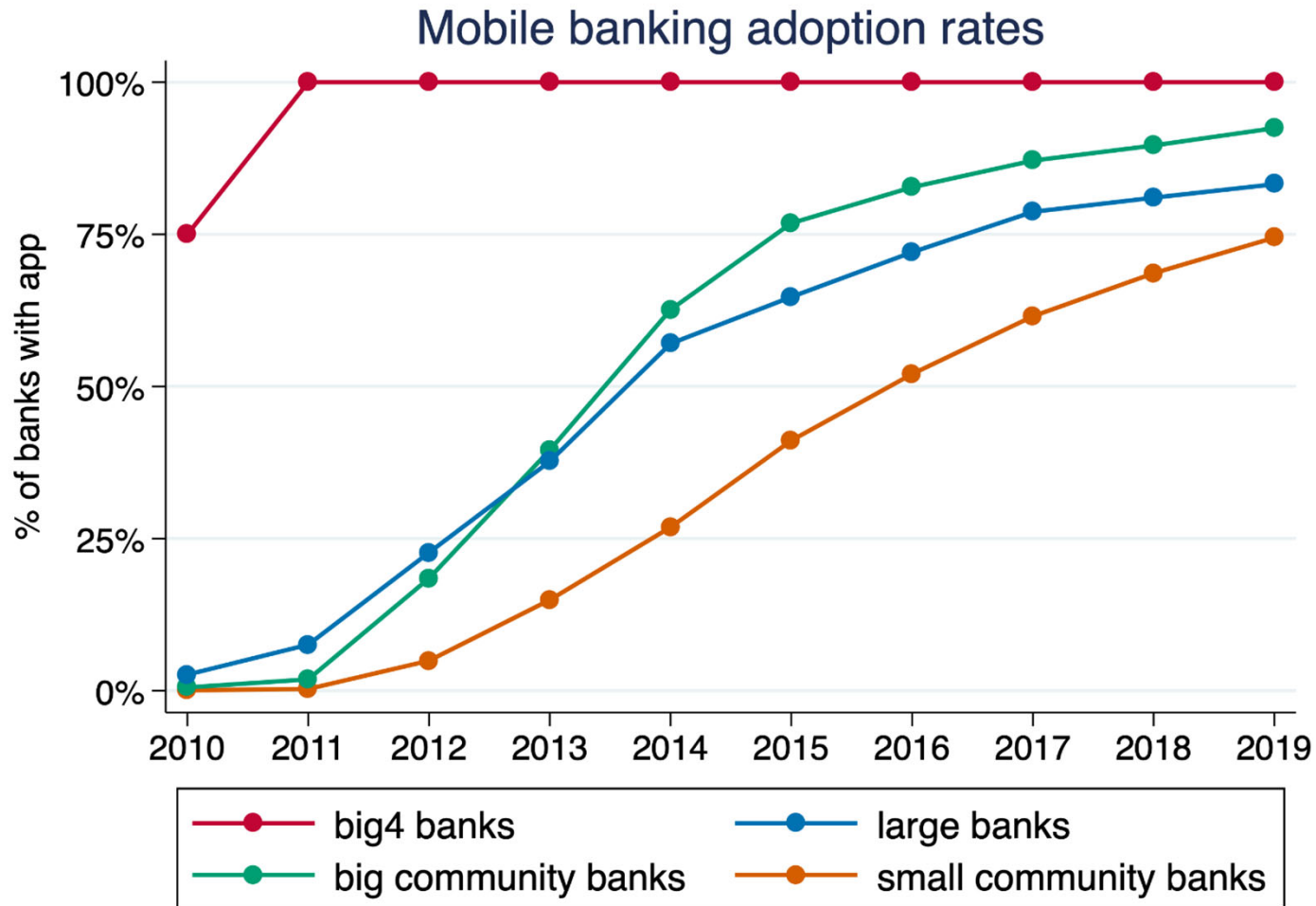
### Number of Branches by Bank Size



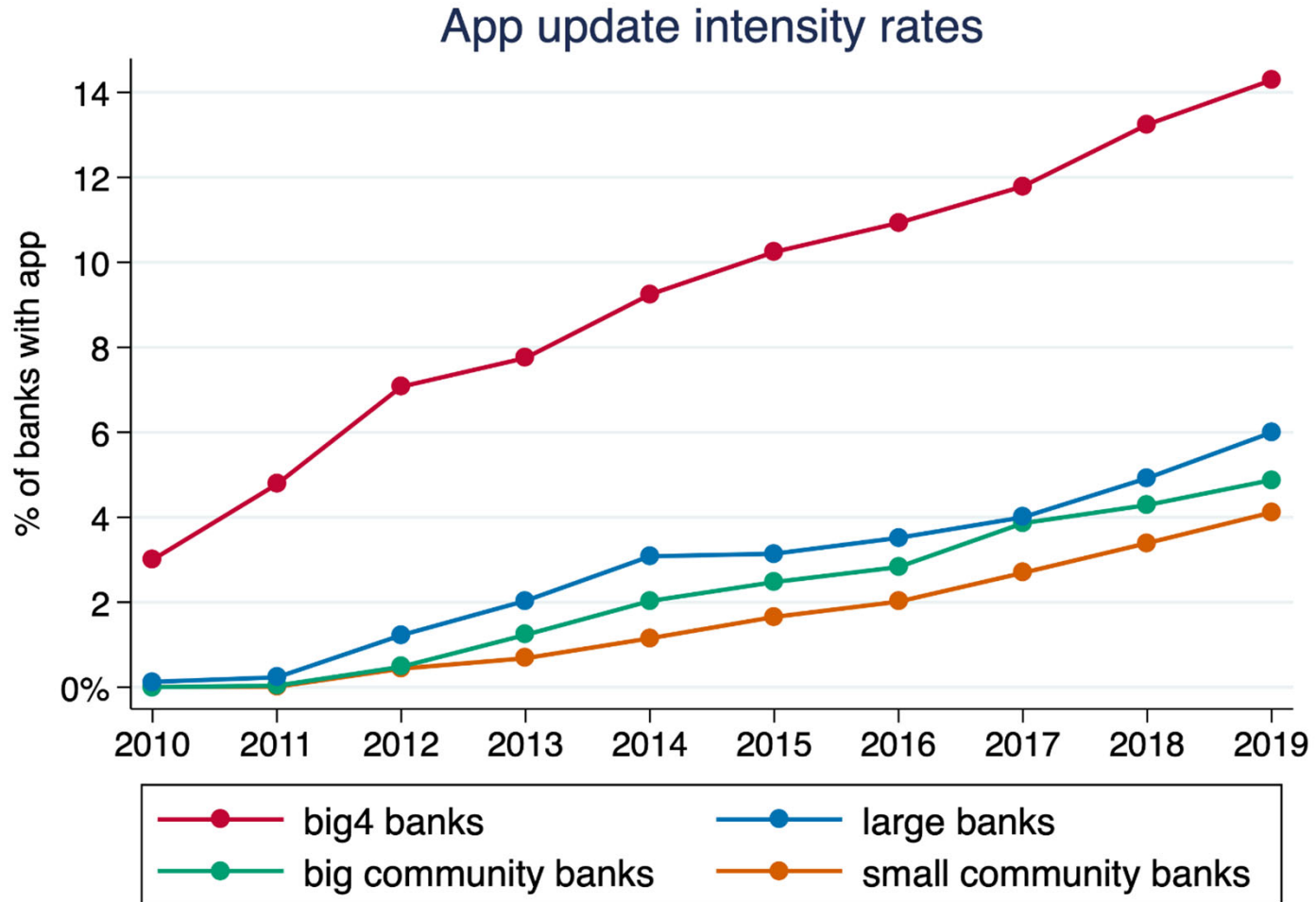
# Branch Density US v. Euro Area



# Share of Mobile Apps

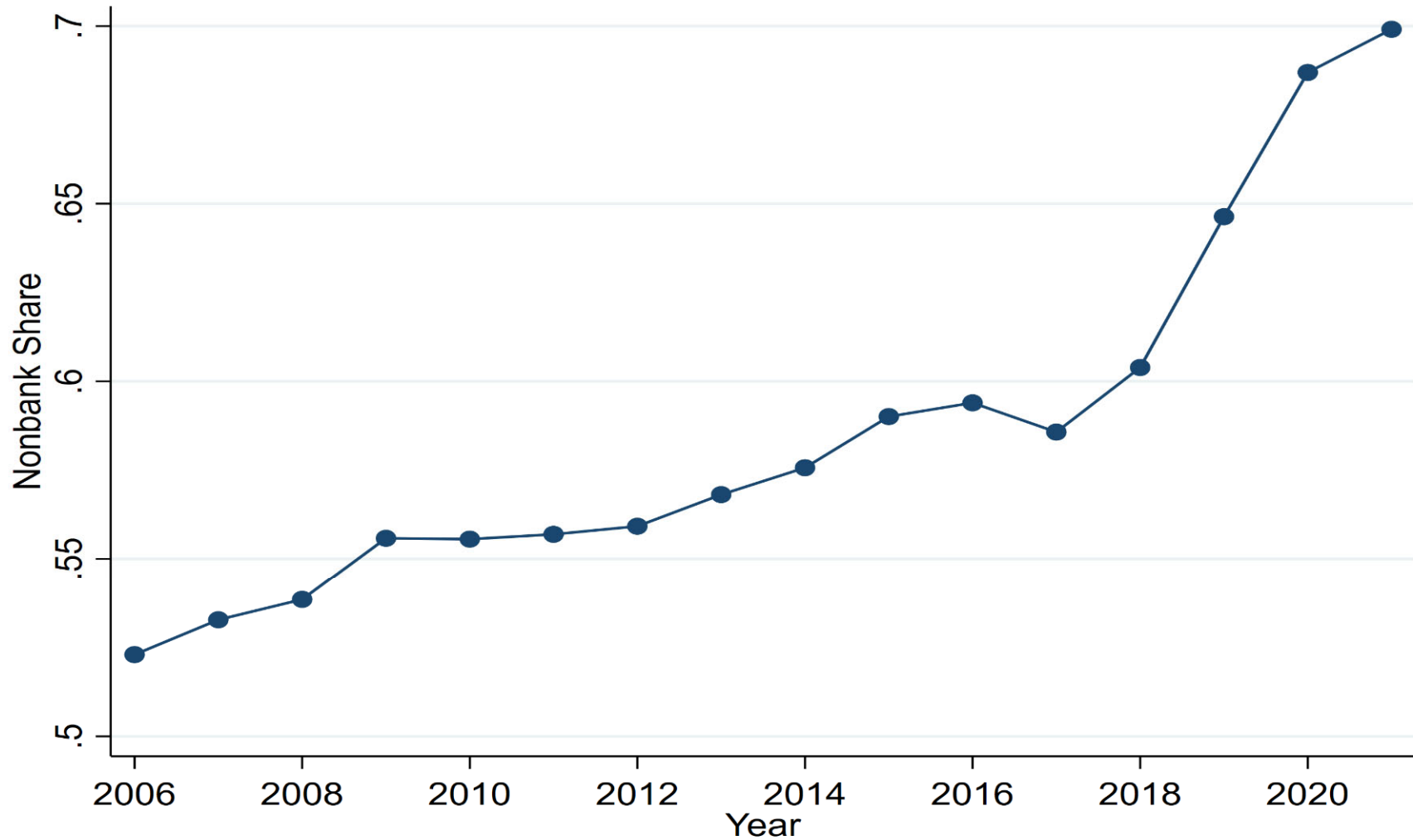


# Quality Mobile App



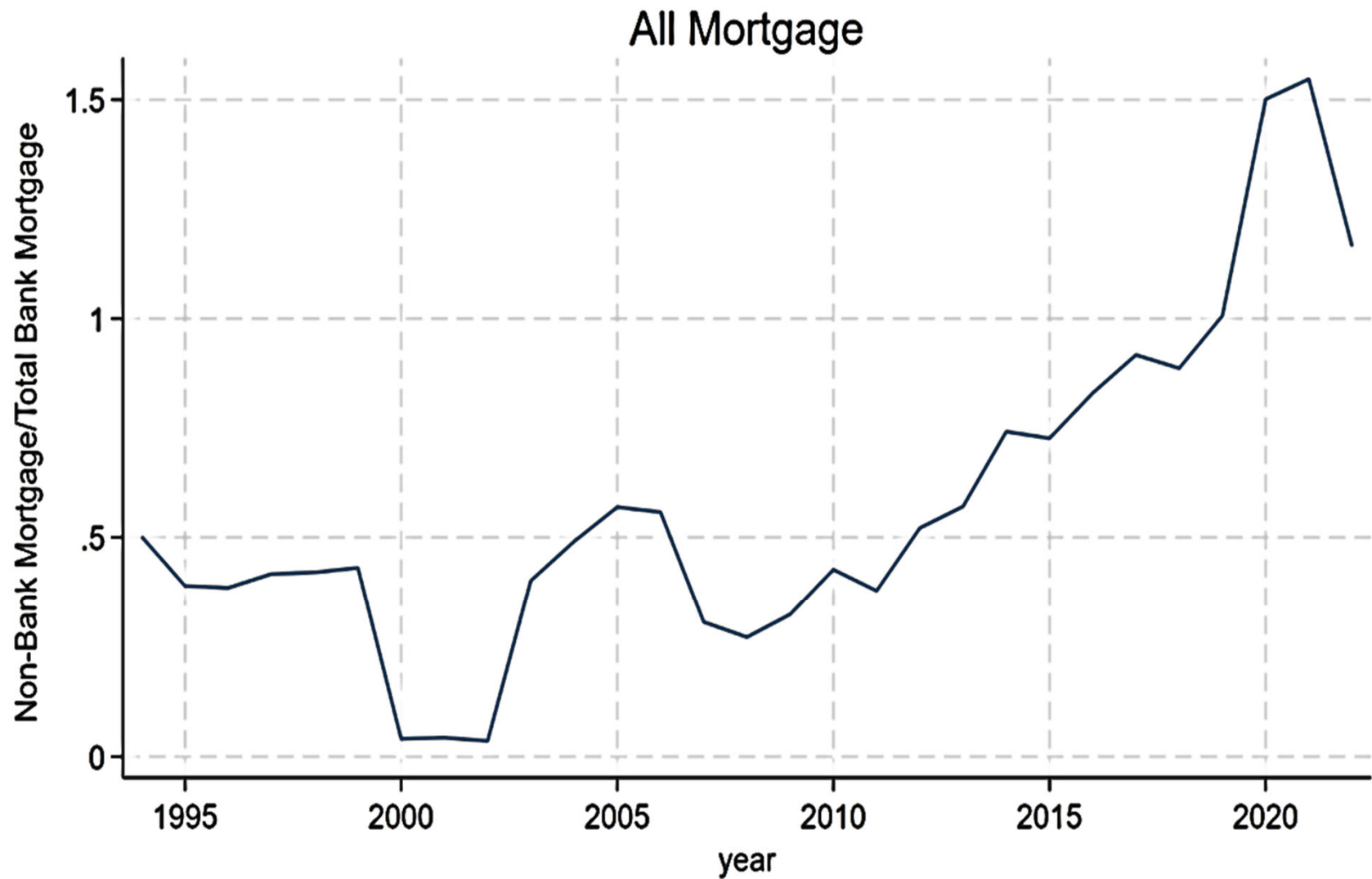
# Do Branches Still Matter?

## Non-bank share of SBL Rising



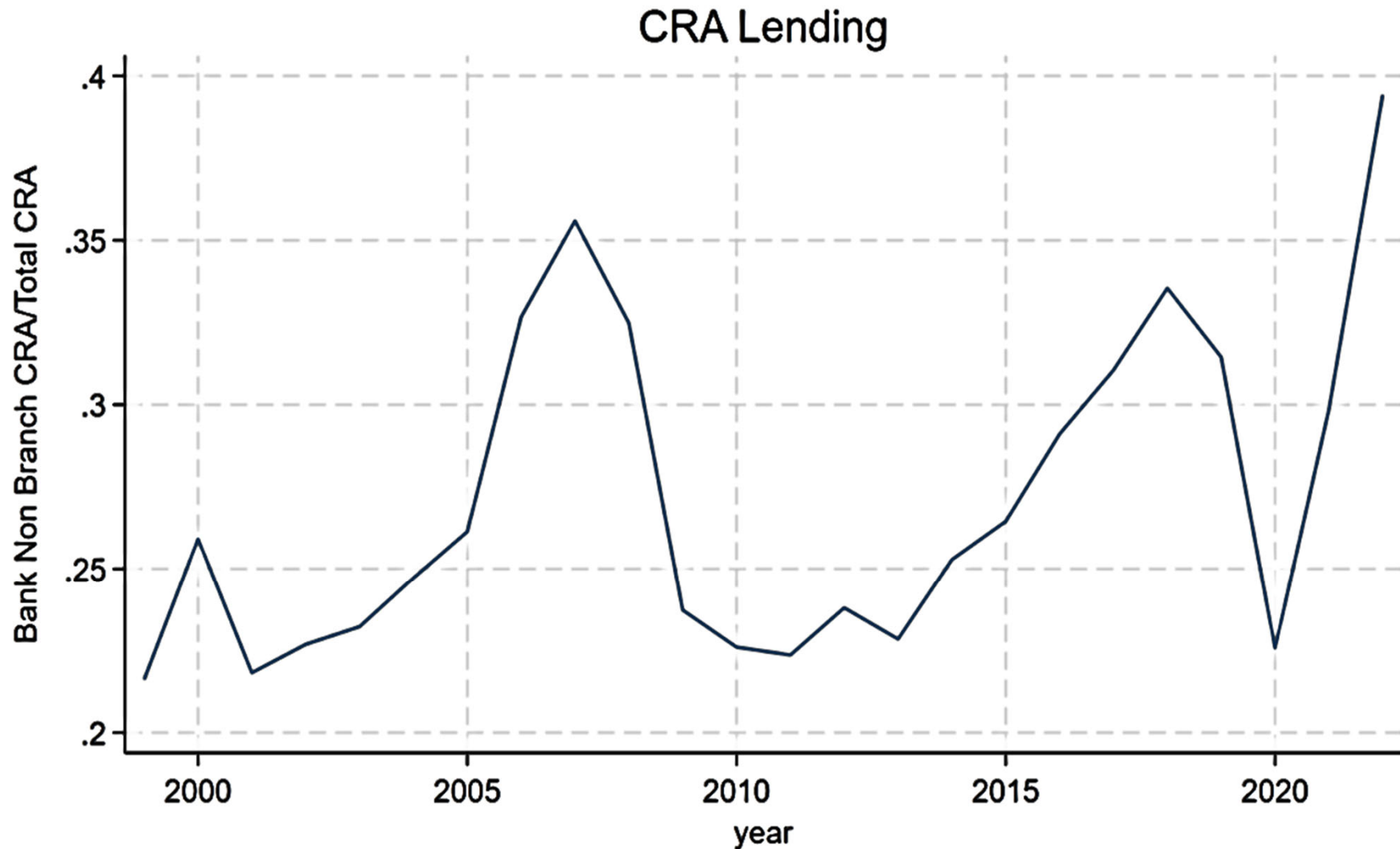


# Non-bank Share of Mortgages Rising



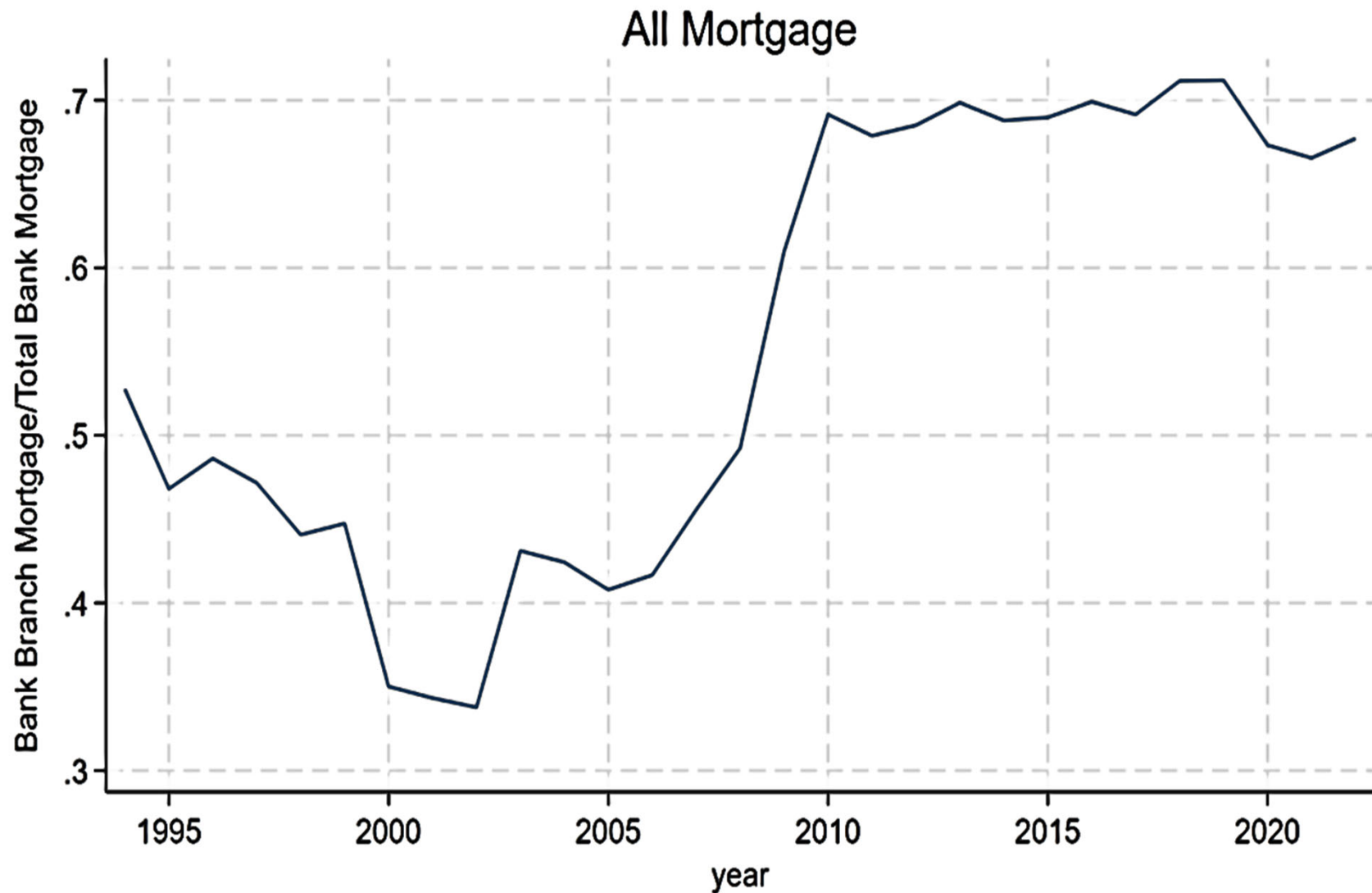
Source: HMDA

# But Branches Still Matter *to Banks* (Cyclical, but no Trend)



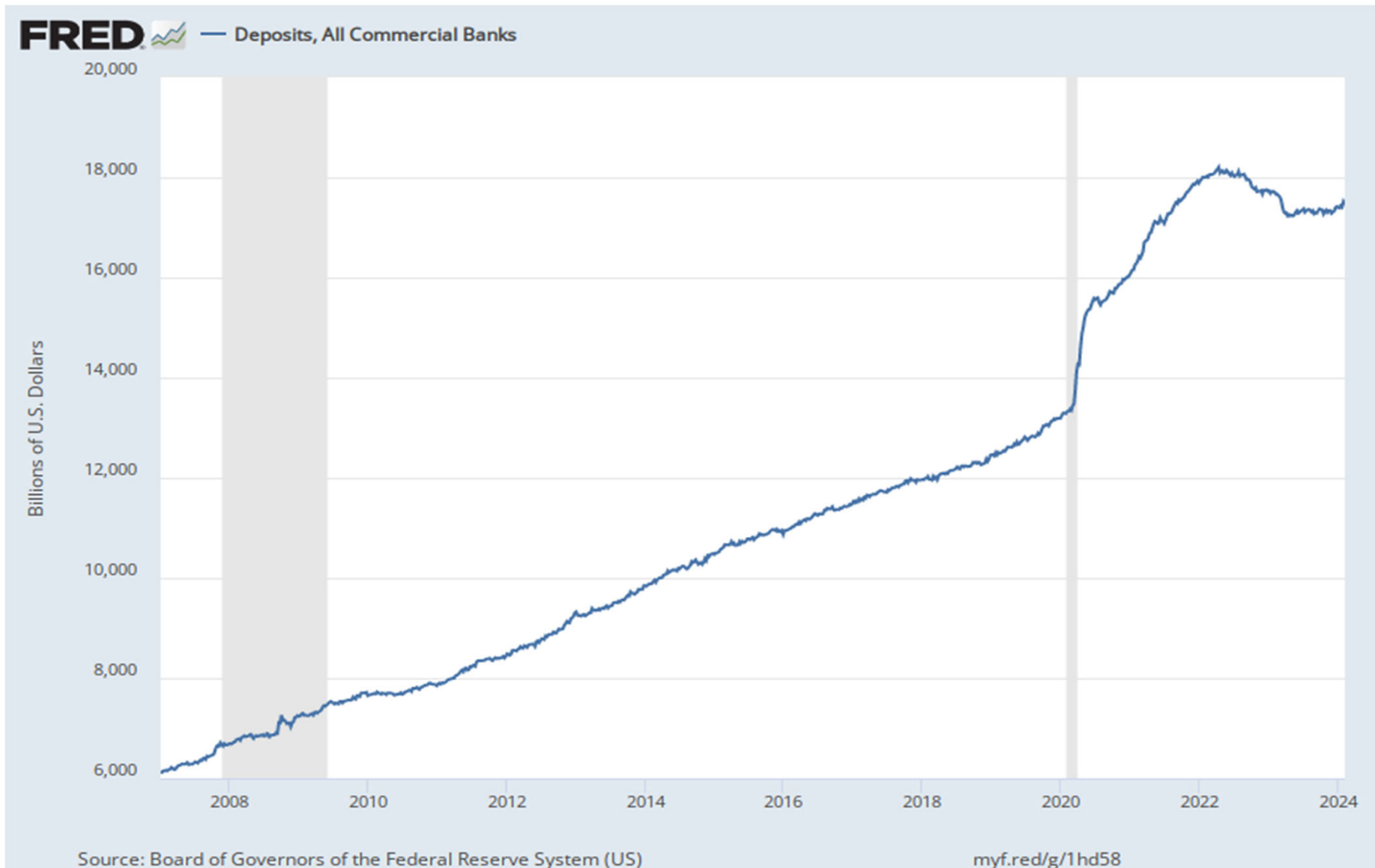
See Granja, Leuz and Rajan, *JF*, 2022

# But Branches Still Matter *to Banks* (Cont'd)

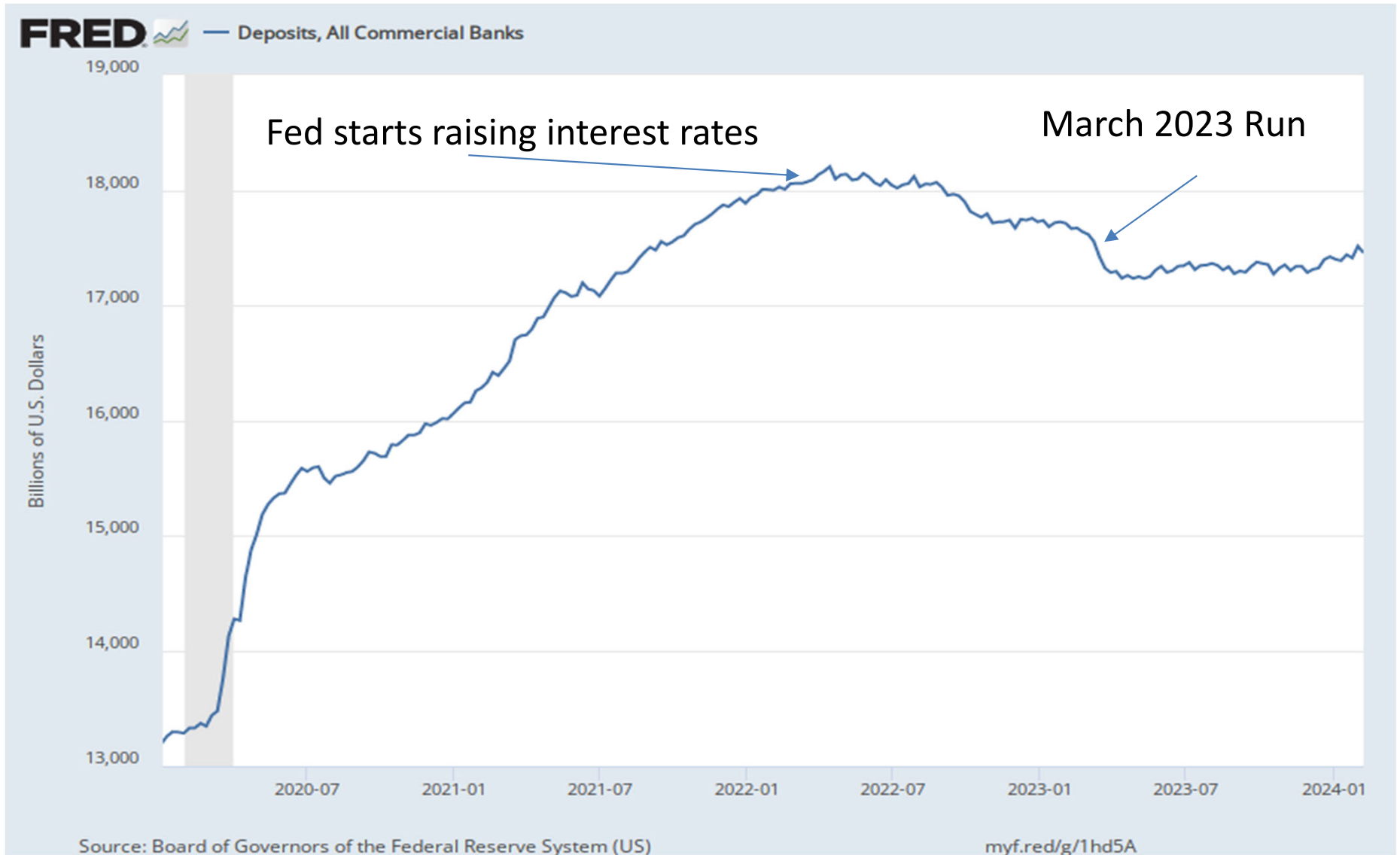


Source: HMDA

# What about Deposits?



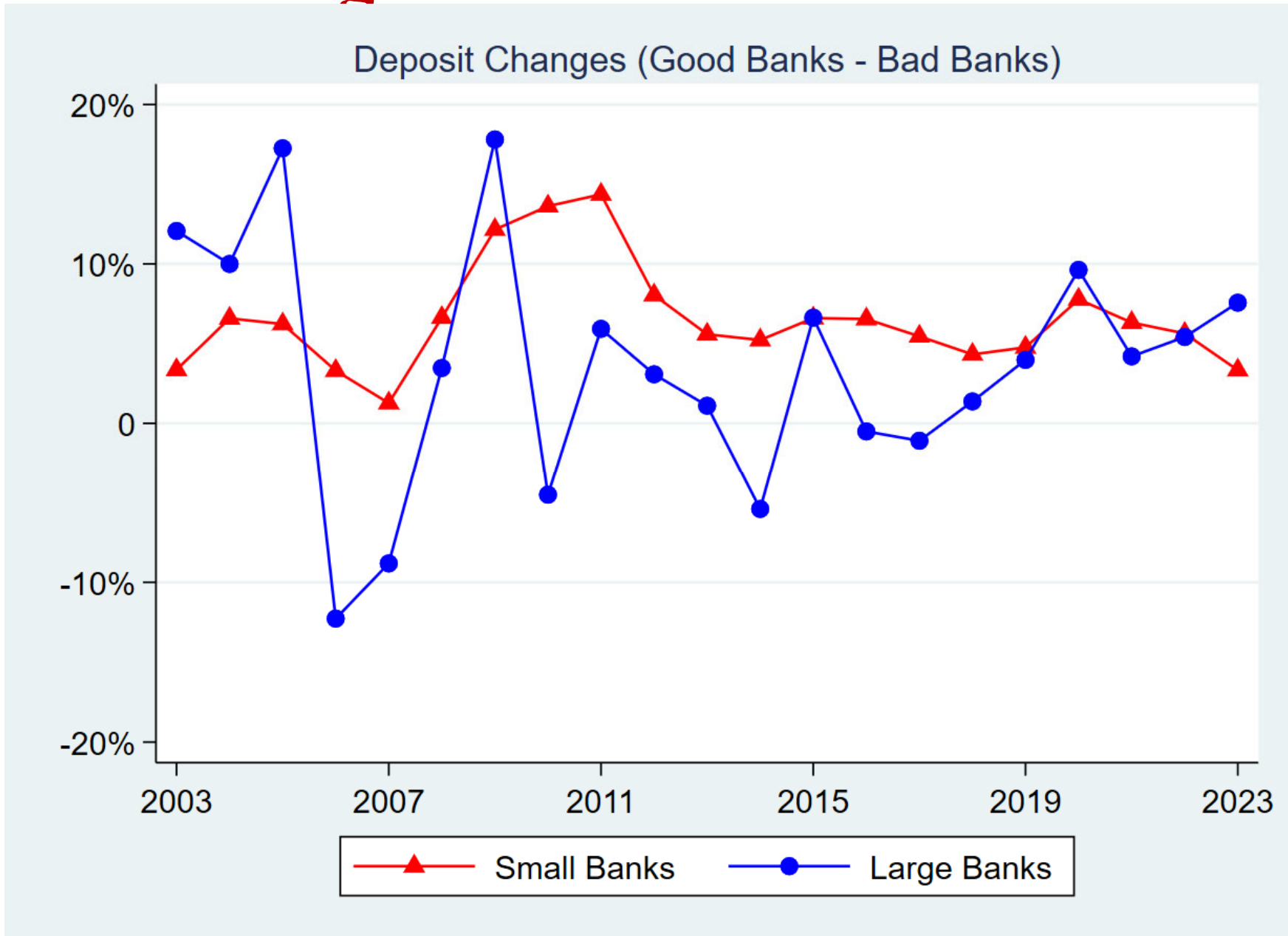
# Deposits in Recent Years...



# Reallocation of Deposits across Banks

- For Small Banks: Efficiency Enhancing
  - Decline of Small Banks via M&As
- Less so for Large Banks
  - (Technology may be changing this...)

# Change in Market Share: High v. Low Profit Banks



# *Why were branches so important?*

- Branch location affected competition
- Branch presence affected cost of information collection
- Branch regulatory restrictions limited local-market contestability



# Why *were* branches so important (Cont'd)?

- Extent of branch networks affected capital mobility
- Local branch concentration affected monetary policy transmission

# When branching regulatory constraints loosened...

- More competition
- Bank M&As exploded
- More extensive branch networks
  - First within states
  - Then across states
- Cheaper credit
- Better credit allocation

# What happened to borrowers?

- Growth of small & non-incumbent firms
- Growth in entrepreneurship
- Faster economic Growth

# Technology promises to reduce these frictions more(to zero?)!

- Branchless Competition
  - More & Cheaper credit
  - Better terms for depositors
- Greater market contestability
- More capital mobility

# Downsides?

- Capital flight
  - Banking instability a la SVB
- Generational Equity

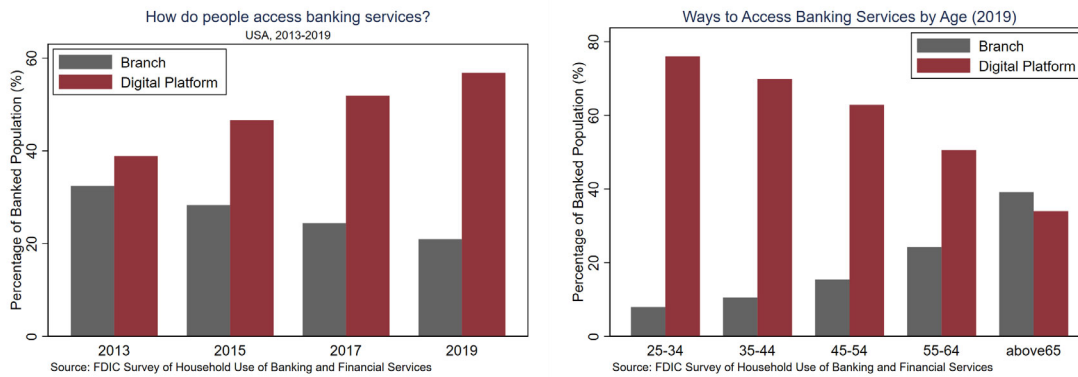
# Downsides?

## Digital Penetration & Demographics

- See Figure from Jiang et al.

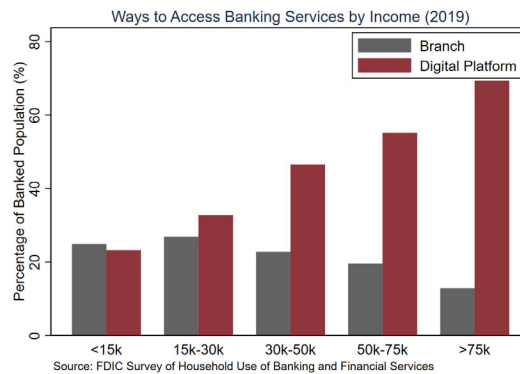
**Figure 1.** Change of Ways to Access Banking Services

This figure displays the distribution of consumers' preferred way of accessing banking services, as reported in the FDIC Survey of Consumer Use of Banking and Financial Services. The survey asks respondents to indicate their "most common way of accessing their accounts," choosing from options of "Bank teller," "ATM/Kiosk," "Telephone banking," "Online banking," "Mobile banking," and "Other." We classify "Online banking" and "Mobile banking" as digital banking and refer to "Bank teller" as branches. This survey question was added to the survey in 2013. Panel (a) plots the bar chart of shares of banked consumers using branch versus digital banking as the primary ways to access banking services from 2013 to 2019. Panel (b) plots the share of banked consumers by age group using branch versus digital banking as the primary way to access banking services in 2019. Panel (c) plots the share of banked consumers by income group using branch versus digital banking as the primary way to access banking services in 2019.



(a) Time Series

(b) Cross Section by Age



(c) Cross Section by Income

See Jiang et al. (2023)

# Is Capital Flight bad?

- 2023 runs led to large and efficiency-enhancing reallocation of capital
  - Maingi (2024)



# Policy Implications

- Fair Lending
- Anti-trust
- Financial Stability
- Monetary Policy

# Conclusions

- Fintech promises to massively lower frictions associated with bank branch networks
- Most of the likely effects are efficiency enhancing
- But, some policy approaches will need to adjust to new realities

**Thank You!**