

## *Defying the Trends: Where Branch Counts Remain Steady (or Even Growing!)*

The banking industry has experienced a well-documented decline in branch counts over the past 10 years, as electronic channels have emerged and in-branch transaction counts have waned. Accordingly, any number of articles and presentations have questioned the ongoing need for branches, and predictions of the branch channel's demise remain routine fodder for dramatic proclamations at industry conferences.

However, the reality is more nuanced. No doubt, electronic channels continue to fulfill an increasing share of transaction demand; and correspondingly, industry-wide branch counts have declined in recent years. Overall, banks and credit unions shed a net 8,500 branches over the past four years, and the resulting count of 95,000 bank and credit union branches nationwide sits 16% below the peak levels of 2010. Despite those statistics, several underlying components of those totals point to continued confidence in branch banking as a viable channel for balance growth.

First, note that much of the decline in branch counts reflects institutions closing direct overlaps that arose from in-market mergers. Closures that followed the merger of BB&T and SunTrust into the newly named entity of Truist accounted for more than 10% of the industry's entire net branch decline from 2019 - 2023. These and other merger-related closures of overlapping branches do not impact the convenience proposition of the bank to the consumer. If one branch closes but a surviving branch sits a block away, that does not diminish the bank's coverage of the market, or indicate any lesser belief in the importance of branches.

Note also, the decline in branch counts in many cases reflects a reorientation of assets from lower-potential markets into higher-potential markets – not a wholesale abandonment of branches as a channel for client acquisition. Consider that in the 2023 FDIC reporting year (ended June 30), the industry's net decline of more than 1,500 branches was a composite of 2,530 branch closures, offset by more than 1,000 branch openings.

Thus, while bankers are paring ineffective and unprofitable locations in declining markets, they are

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concurrently investing in higher-opportunity markets. In that the median cost of new freestanding branches in the U.S. is now \$2.4M and inline branches more than \$700m, the construction of 1,000 new branches likely represents a capital investment of more than \$2B in new branches in the U.S. in the past year (assuming a 75% / 25% divide of freestanding versus storefront service models).

Most importantly, bankers continue to maintain branch networks in high-potential markets; as the decline in branch counts

is not uniform across geographies, but rather reflects a logical process of resource allocation, aligning capital investment with market opportunity.

Of the 114 metropolitan statistical areas in the U.S., 11 showed either increases or no change in branch counts over the past four years: Austin, Charleston, Charlotte, Dallas, Des Moines, Fayetteville (AR), Greenville (SC), Nashville, Oklahoma City, Omaha and Provo. These markets vary sharply in size: Dallas is the fourth-largest metro in the nation with 8 million residents; Fayetteville contains only 580,000 residents. However, these resilient branching markets share other demographic commonalities.

*(continued on page 2)*

Most notably, all are fast-growing regions. The U.S. household base increased by 3.5% over the past five years. Of the 11 markets with flat or increasing branch counts, 10 showed household growth rates of at least 8% from 2018 to 2023 – more than double the nationwide pace. The lone outlier, Omaha, still outperformed the U.S. overall with 6% household growth in that timeframe. Each of the markets also enjoy robust economies. At a time when the nationwide unemployment rate remains near a 50-year low, the markets that have escaped branch consolidation fare even better. Eight of the 11 markets showed unemployment of less than 3% over the past 12 months, with Austin and Charlotte bouncing between 3.0% and 3.5% in that timeframe, and Dallas essentially mirroring the U.S. overall statistic.

While the larger markets on the list benefit from diversified economies, the smaller markets benefit from specific economic and employment drivers: major universities in Fayetteville and Provo; the state capital complex in Des Moines; the lure of coastal retirement destinations in Charleston.

Several markets that fall just below the branch-neutral threshold (i.e., with declines of only 1% or 2% in branch counts over the past four years) share the same attributes as the top-tier group. For example, Colorado Springs and Ogden are fast-growing metros with specific governmental (military and educational)

economic anchors; and Minneapolis, San Antonio and Tulsa are all fast-growing, diversified metros with robust underlying economies.

One surprising point of divergence across the top-tier markets lies in branch concentration. It would be logical that markets with high per-capita branch concentration levels would show greater levels of branch consolidation and vice versa, as markets converged toward national means. However, at a time when nationwide there is one branch for every 1,340 households, Omaha, Fayetteville and Des Moines each show ratios of 1,000 to 1,100 households per branch – levels that might predict some level of consolidation to bring ratios in line with national norms. At the opposite end of the spectrum, Austin, Charlotte and Dallas all show ratios near 1,600 households per branch, indicating ample capacity for these markets to absorb additional branching and still remain comfortably above typical branch concentration levels (Minneapolis and Colorado Springs also join that “less concentrated” tier).

In sum, even as the nation overall has shown significant levels of branch consolidation in recent years, bankers are continuing to invest in top-tier markets, especially those displaying strong household growth and with robust underlying economies. This reflects the inherent economic truth that capital flows to the opportunities offering the highest returns. So while bankers may have turned more judicious in terms of overall branch-capital allocations, they wisely continue to maintain investment levels in top-tier markets, even if withdrawing investment from lower-potential markets in order to do so. ■ ■ ■ ■

## Retail Branch Benchmarks

Bancography strives to share trends in retail banking with our colleagues in the industry. Now that the height of the pandemic is two years behind us, we are pleased to provide updated branch-level benchmarking data. This data is compiled from Bancography clients during 2023 and 2024, and where applicable, current statistics are compared to Bancography’s 2018 benchmarking data.

The highlights from the data include a continued decline of in-person transactions at the branch. For bank branches, average transactions decreased by 37% from 2018 levels, and credit union branches experienced an even greater decline of more than 50% in that timeframe. These reductions stem from additional

mobile and online capabilities, as well as increased use of Interactive Teller Machines (i.e., video remote tellers), especially among credit unions. Freestanding branches, as expected, see a greater volume of transactions than smaller inline or in-store branches. Credit union freestanding branches reported the highest transaction counts of all branch types (5,000 per month).

On the sales front, bank branches have seen an increase in monthly direct loan production and a slight decrease in new deposit account openings. In contrast, credit union branches saw a decrease in both loan and deposit account production over 2018 levels. Some of the credit union branch loan production decline is attributed to an increase in indirect (continued on page 3)

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lending with auto dealers. Decreases in deposit account production likely reflect online account opening capabilities that both banks and credit unions have implemented over the past several years.

Staffing in the branches remains in the five to seven full-time equivalent (FTE) range, with the bank branch median at five FTEs and the credit union branch median at seven FTEs.

Bancography offers a Retail Staffing Review of your branches, which includes a benchmark analysis and a retail staffing model. Contact us at [info@bancography.com](mailto:info@bancography.com) or (205) 254-3255 for more information. ■■■■

Per-Branch Benchmarks	Banks	Credit Unions
Transactions per month (average)	2,900	4,500
Transactions per month (median)	2,500	3,200
Deposit accounts opened per month (average)	31	150
Deposit accounts opened per month (median)	20	90
Direct loans closed per month (average)	10	24
Direct loans closed per month (median)	6	16
Average FTEs	5.1	7.4

## Loyalty by Age – Branch Versus Digital Transactors

For its Customer Experience research tracking program, Bancography conducts thousands of telephone interviews. Data from those interviews yields valuable insights into brand loyalty. More than 90% of survey participants conveyed that they have visited a branch in the past three months.

Our February edition of *Bancology* examined the relationship between client age and customer experience ratings during the new-account opening transaction conducted in the branch. In this article, we zero in on those clients who visited a branch in the past three months and who transacted via digital channels only; and show how age impacts brand loyalty among customers. These transactors were asked their likelihood to recommend the institution to friends

and associates, illustrated by purple dashes. For the branch transactors, only 64% of those between 18 - 24 years old were willing to recommend the institution, versus 75% for those older than 65.

The survey further inquired whether the respondent considers the sponsoring institution to be their primary financial institution (PFI), as illustrated by the orange dashes. As the branch transactor client ages, they are less apt to deem their institution as their PFI – despite their willingness to recommend it to others.

The graph to the right examines the same loyalty questions by the purely digital transactors. Willingness to recommend the institution varied by age group, illustrated by the purple dashes. Like the branch transactors, those who utilize digital channels only were less likely to consider the sponsoring institution as their PFI as they age.

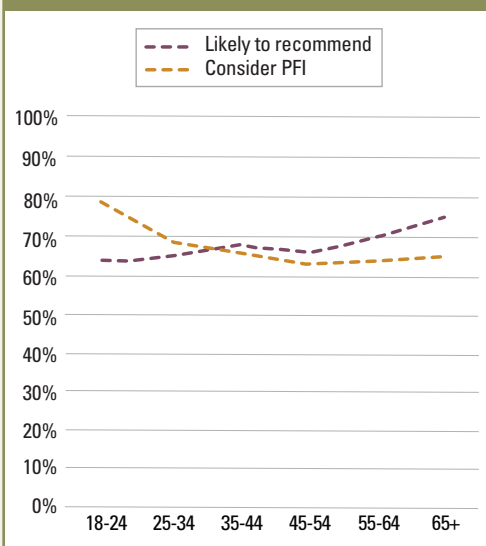
On average, branch transactors are four percentage points more likely to recommend the institution than their digital counterparts. The greater difference is that the branch transactors are ten percentage points more likely to consider the sponsoring institution

as their PFI. While all transaction modes are necessary, customer relationships are created and fostered in the branch.

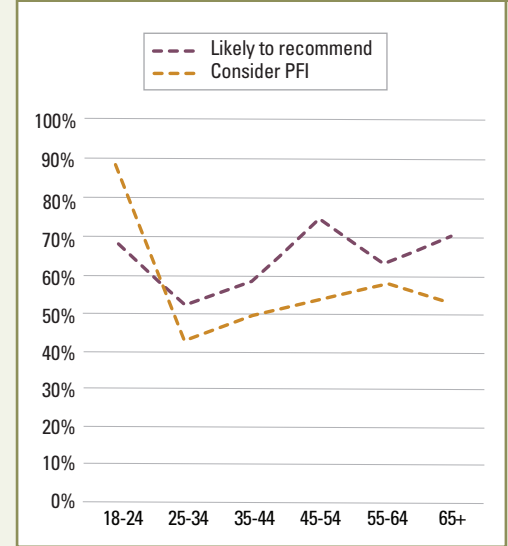
The relationship between age and these two loyalty indicators is found across all primary marketing research conducted by Bancography, and does not vary by client.

For more information about Bancography's customer experience program, contact us at [research@bancography.com](mailto:research@bancography.com) or (205) 251-6227.

Loyalty by Age - Branch Transactors



Loyalty by Age - Digital Transactors



## The Efficiency Ratio, and How Much Scale Matters *(It's Not as Much as You Think)*

There are many measures that summarize bank performance, but in terms of the immediate effectiveness of an institution, one of the most insightful measures is the efficiency ratio. Calculated as noninterest expense divided by the sum of net interest margin plus noninterest revenue, the efficiency ratio frames performance in an answer to a simple question: how many cents in expense does it take us to generate a dollar in revenue?

Whereas measures such as return on equity remain dependent on the bank's capital structure at the time, and return on assets gives no insight into the scale of expenditures required to generate those returns, the efficiency ratio neatly captures both sides of the income equation. There are only two primary ways to increase earnings in our industry: sell more or spend less (a pedantic view might cite reducing charge-offs as a distinct third option); and the efficiency ratio captures our success at both tactics. Consider two banks of equal size, one with total revenue (net of interest expense) of \$8M and total noninterest expense of \$7M, and another with total revenue of \$2M and total NIE of \$1M: both are generating net income of \$1M, and will thus both show the same ROA. Yet the first bank is undertaking much greater effort for its return, and much more complexity – as indicated by its greater

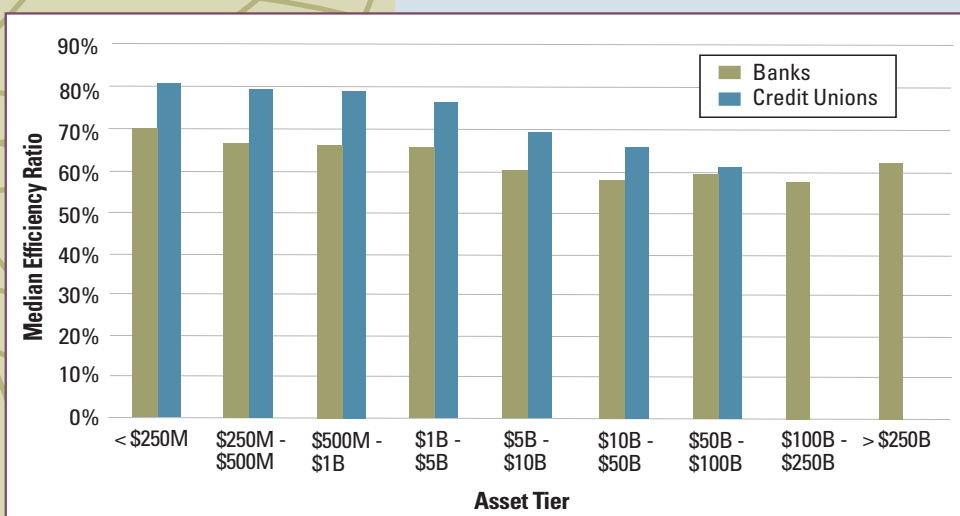
outlays – and thus likely more risk, too; and all this is impounded in an efficiency ratio of 87.5%. In contrast, the second bank needs only \$1M in NIE to create \$2M in revenue, yielding an efficiency ratio of 50%. Just as the name of the measure would suggest, the latter bank is generating its earnings much more efficiently.

Bankers have often justified mergers in the name of efficiency, and theoretically, that makes sense. When two \$1B banks merge, the resulting entity does not need two marketing directors, or two chief financial officers, or two core systems...so even maintaining revenues as is should yield an improved efficiency ratio, as the noninterest expenses to create those revenues would decline.

The reality, however, diverges, and at best efficiency appears a step function rather than a function of continuous improvement. That is, there are bands of asset size where banks and credit unions operate at a certain efficiency level, but notable improvements occur only with seismic leaps to a different asset tier. Across the industry, banks with assets of less than \$250M show a median efficiency ratio of 70%; in other words, it typically takes banks in that tier 70 cents of NIE to create one dollar of net revenue<sup>1</sup>. Growing the bank into the next asset tier (defined at \$250M to \$500M) yields immediate benefits in efficiency, with the median ratio falling to 66%; i.e., it now takes four cents less to generate a dollar of revenue.

But in the \$500M to \$1B tier, the mean and median efficiency ratios remain at 66%; and in the \$1B to \$5B tier, those ratios decline only incrementally, to 65%. It is not until banks reach the next tier – \$5B to \$10B in assets – that they begin to see marked improvement, as the median efficiency ratio falls to 60% for banks in that asset range.

And from there, gains become more difficult to realize. The median efficiency ratio for banks falls to 57% in the \$10B to \$50B asset tier, but then bounces back to 59% in the \$50B to \$100B tier; so, banks in that range operate no more efficiently than their peers in the \$5B to \$10B asset tier. The banks in the \$100B to \$250B tier show a median *(continued on page 5)*



<sup>1</sup> The mean for this tier is 73%; and for credit unions in the less than \$250M asset tier, the mean and median efficiency ratios are 86% and 81%, respectively. In all other asset tiers on both the bank and credit union sides of the industry, the mean and median efficiency ratio values are within one percentage point of each other.

efficiency ratio of 57%, but the mean of 58% is identical to the two tiers immediately below; and mean and median efficiency ratios bounce back to 61% for the largest tier of banks – those with more than \$250B in assets.

Any differences in those three largest asset tiers may be statistically insignificant, as each tier contains fewer than 20 banks. And notably, the median and mean efficiency ratios for all banks with at least \$50B in assets is 59%, a shade worse than the 57% ratio in the \$10B to \$50B range and barely surpassing the 60% median of banks in the \$5B to \$10B tier.

So why all the mergers, ostensibly justified by potential efficiency gains? First, some merger gains take a longer period to realize. Costs can be difficult to shed, or offset by one-time expenses; for example, severance payments to terminate top executives, write-downs on the disposition of shuttered branches, or penalties for early cancellation of vendor contracts. Second, entering a larger asset tier can bring additional regulatory expenses, as banks in certain asset tiers are subject to greater oversight; and constrained revenues, for those entering the \$10B asset tier and needing to forgo debit-card interchange revenue as a result, per the Dodd-Frank Act of 2010.

But the minimal degree of gains from reaching greater size may also reflect a fundamental challenge of our industry. In a sector where sales are still gained one customer at a time via personal interactions, it can be difficult to grow without adding personnel, whether in branches or remote channels such as call centers. If electronic channels assume a greater proportion of new-account volumes in future years, we may see efficiency ratios improve in larger asset tiers. But at present, the purported efficiency benefits of mergers appear to be consumed by the increased complexity of larger institutions.

Growth appears to yield great efficiencies if bringing a bank above \$5B in assets. But merging to a lower level (e.g., two \$1B banks joining forces) may make sense only if executed as a predicate to subsequent growth into that

Bank Efficiency Ratios					
Asset Tier	Count	Mean	Median	Top Quartile	Bottom Quartile
< \$250M	1,802	73.3%	69.9%	59.6%	80.9%
\$250M - \$500M	966	67.1%	66.0%	56.5%	75.8%
\$500M - \$1B	776	66.7%	65.6%	56.6%	75.4%
\$1B - \$5B	708	65.2%	64.9%	55.5%	73.5%
\$5B - \$10B	118	59.6%	59.5%	50.5%	66.4%
\$10B - \$50B	106	57.5%	57.2%	52.1%	64.8%
\$50B - \$100B	13	58.1%	59.1%	53.7%	66.4%
\$100B - \$250B	16	57.9%	56.4%	46.6%	67.9%
> \$250B	14	60.9%	61.0%	54.1%	66.2%

Credit Union Efficiency Ratios					
Asset Tier	Count	Mean	Median	Top Quartile	Bottom Quartile
< \$250M	3,579	85.8%	80.6%	70.8%	90.7%
\$250M - \$500M	387	79.6%	79.1%	72.7%	86.7%
\$500M - \$1B	286	78.5%	78.8%	72.5%	85.3%
\$1B - \$5B	363	76.2%	75.8%	69.7%	81.9%
\$5B - \$10B	54	69.5%	68.7%	65.0%	75.5%
\$10B - \$50B	19	68.0%	65.3%	61.6%	73.6%

\$5B+ tier. And merging beyond the \$10B point appears to demand an honest assessment of possible efficiency gains before execution.

Notably, credit unions show the same step function pattern, with minimal difference in efficiency ratios between institutions with less than \$250M in assets versus those with \$250M to \$500M or \$500M to \$1B in assets. Credit unions see modest gains by growing into the \$1B to \$5B asset tier, as median efficiency ratio falls to 76% from 79% in the prior tier; and then significant gains as median efficiency ratio falls to 69% in the \$5B to \$10B tier; and then a smaller drop to 65% for the 20 credit unions in the \$10B to \$50B tier<sup>2</sup>.

In each of the four asset tiers up to \$5B, credit union efficiency ratios lag their bank peers in the same tier by 11 to 13 percentage points. That disparity shrinks to nine percentage points in the \$5B to \$10B asset tier and to only eight points in the \$10B to \$50B tier.

Finally, note that means and medians do not tell the entire story, and there are greater

successes (and shortcomings) in each tier beyond those two whole-population measures. In fact, the top-performing quartile of banks in the \$250M to \$500M asset tier all show efficiency ratios of less than 56%, whereas the bottom quartile of banks in the \$10B to \$50B tier all show efficiency ratios of more than 65%.

Relating that to the number of banks in each of those tiers, that equates to 240 banks in the \$250M to \$500M tier that soundly outperform at least 25 of the banks in the \$10B to \$50B tier<sup>3</sup>.

In sum, scale appears no guarantor of improved efficiency. However, there is evidence of sweet spots, (i.e., asset tiers that banks and credit unions should strive to reach where they would be likely to see marked efficiency gains), but also evidence of plateau zones (i.e., broad asset spans across which efficiency gains will prove difficult to realize). And bankers should plan their merger and organic-growth strategies with those thresholds in mind. ■ ■ ■ ■ ■

<sup>2</sup> The study omits Navy Federal CU (\$170B in assets, 54% efficiency ratio) and State Employees' CU of North Carolina (\$55B, 67% efficiency ratio) as each would form a peer group of one, obviously not statistically meaningful for mean and median comparisons.

<sup>3</sup> Similarly, the top quartile of credit unions in the \$250M to \$500M asset tier show efficiency ratios of less than 73%, even as the worst-performing quartile of credit unions in the \$10B to \$50B tier all show efficiency ratios of 76% or higher.