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People constantly wonder why the US has so many Banks compared to other countries!

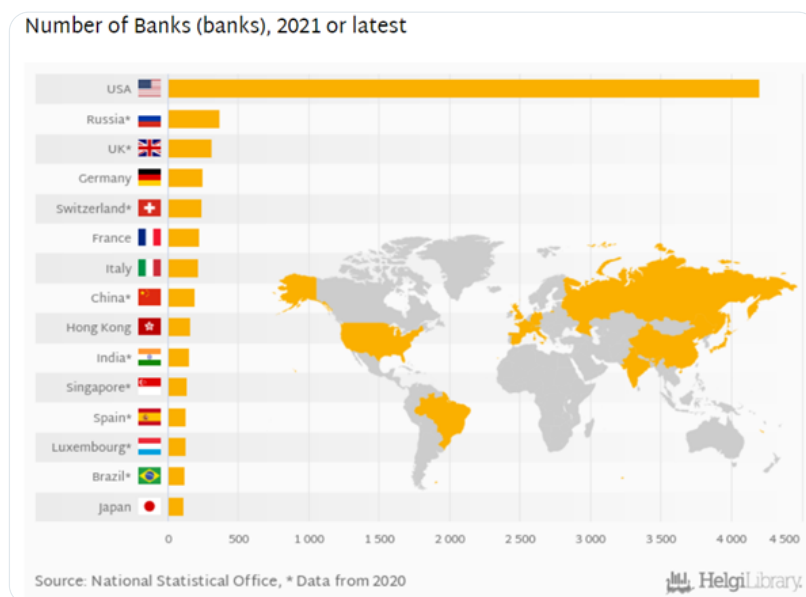
Are you wondering if the US system makes sense?

Do you want to know where it's heading?

Here's some history, charts, and thoughts: 🧵👉

Any observer of the US Banking system will quickly realize that the US is an anomaly on the global scene with over 4,000 Banks and another 5,000 Credit Unions.

The “why” behind this divergence is rooted in the history of our Banking system.



Banking is an important and powerful pillar in how countries are run.

A well-managed Banking ecosystem creates a stable and tradeable form of currency as well as providing products and services that fuel commerce and promote general economic prosperity.

The design of the US Banking system stems from fears that a centralized system would cater to the needs of the influential, not the needs of the populace.

The North was industrialized while the South focused on agriculture.

Decentralization of Banking was the solution.

The specific form and structure of banks in various regions differed significantly, but they all aimed to support a region's economy.

Banks did this by acting as a safe store of money (deposits) and a provider of credit to fuel regional entrepreneurship and consumption.

Decentralization meant that regional Banks could offer products that met the needs of customers in their locality.

The mid-1800s saw the creation of over 1,000 regional specialists that included: Leather Manufacturers Bank, Grocers Bank, Planters Bank, and Importers Bank.

Throughout the 1800s, most Banks existed as a single location. Branch banking barriers began to erode around 1900 with the concept of chain banking (Bank locations owned by a common owner). This reduced bank failure rates by making Banks more resilient to isolated downturns.

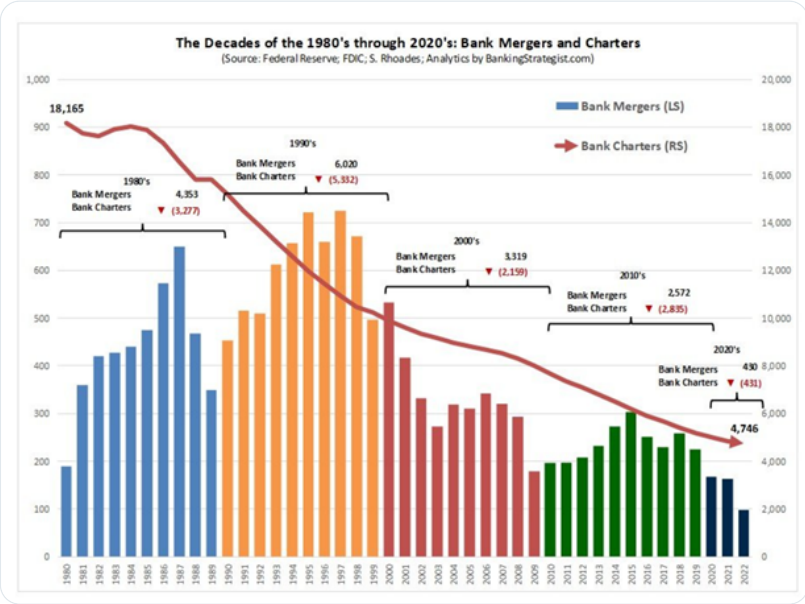
All this changed with policy changes in the 1980s that culminated with the passage of the Riegle-Neal Interstate Banking and Branching Efficiency Act in 1994.

Before these changes, it was illegal for a Bank to buy another Bank or even have branches that crossed state lines!

What happened next was very predictable.

The last 30 years has been the first period of consolidation in the history of the US Banking industry.

The number of Banks in the US has been shrinking by 3-5% a year for 3 decades.



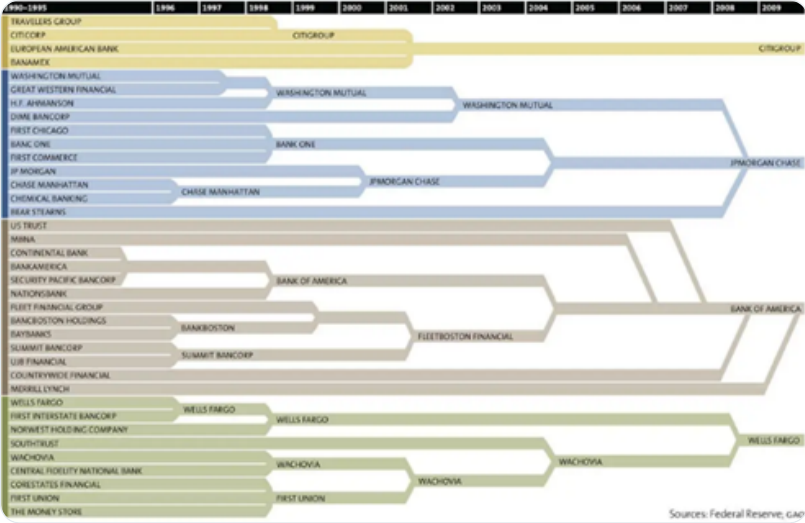
The Why is simple.

Scale matters. Operating efficiency matters. Technology matters. Diversification matters.

In general, bigger Banks are more profitable, efficient, diverse and stable than their smaller counterparts.

The trend has allowed the big to become bigger and has challenged the small to become efficient or die.

What's clear is the direction of the trend. There's nothing to stop it from continuing.



But even with the current consolidation trends, we're nowhere near at the concentration levels of most countries.

For instance, Canada has ~80 banks that serve ~40MM people while the United States has over 4,000 Banks and 5,000 Credit Unions banks that serve ~332MM people.

What's interesting is that Canada hasn't seen a major Bank failure in decades.

In the 1800s and early 1900s they had a regional Bank structure that mimicked that of the US. The resulting failure rates were extraordinarily high (nearly 40% from Confederation until 1923).

Canada currently has a system designed around the concept that a smaller number of national, well-capitalized and well-regulated Banks are superior to a widely diverse Regional Banking ecosystem.

The US is heading in this direction so only time will tell how far we go.

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