Timothy Clark, Astrid Dick, Beverly Hirtle, Kevin J. Stiroh, and Robard Williams

The Role of Retail Banking in the U.S. Banking Industry: Risk, Return, and Industry Structure

- In recent years, retail banking has become a key area of strategic emphasis in the U.S. banking industry, as evidenced by rising trends in retail loan and deposit shares on commercial bank balance sheets and a continuing increase in the number of bank branches.
- This "return to retail" contrasts with the 1990s, when banks sought to diversify revenues, deemphasize branch networks, and target financial services to a broader range of clients.
- An analysis of this strategic shift suggests that interest in retail banking fluctuates in predictable ways with the performance of nonretail banking and financial market activities.
- The recent "return to retail" episode may be more persistent than past cycles because it is being driven almost entirely by the very largest U.S. banks, which have been building large branch networks and investing in other retail banking infrastructure.

1. Introduction

The U.S. banking industry is experiencing renewed interest in retail banking. These activities—broadly defined as the range of products and services provided to consumers and small businesses—have grown in importance over the past several years. Retail-related positions now account for larger shares of commercial bank balance sheets, and the number of bank branches continues to grow. The recent focus on retail contrasts sharply with industry views held during the 1990s, when banks' attention turned to broadening products, diversifying revenues, substituting alternative delivery channels for branches, and offering a multitude of financial services to all types of retail, corporate, and wholesale customers.

This "return to retail" is reflected in a greater number of media reports on retail banking activities, in the frequency with which retail banking activities have been mentioned in banks' public statements, and in the attention given to these activities by industry analysts.[1] A 2004 report by Standard and Poor's—"Retail Sector Anchors Large Complex Banks in U.S."—and a

[1] For instance, a search of *American Banker* online indicates that 501 articles published between January 1, 2003, and December 31, 2004 (or 3.5 percent of all articles published during that period), included the phrase "retail banking," compared with 401 articles published between January 1, 1999, and December 31, 2000 (2.2 percent of all articles published).

Timothy Clark is an assistant vice president, Beverly Hirtle a senior vice president, and Robard Williams a vice president at the Federal Reserve Bank of New York; Astrid Dick was an economist and Kevin J. Stiroh a vice president at the Bank at the time this article was written.
Correspondence: <beverly.hirtle@ny.frb.org>

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2003 Salomon Smith Barney discussion of U.S. banking becoming "refocused on retail" typify the view that retail has become a key area of strategic emphasis in the U.S. banking industry. Indeed, the renewed focus on retail activities seems to have been a key motivation behind a number of recent large-bank mergers, such as Bank of America's acquisition of FleetBoston Financial and JPMorgan Chase's acquisition of Bank One.[2]

This article documents the "return in retail" in the U.S. banking industry and offers some insight into why this shift has occurred. Trends in retail loan shares, retail deposit shares, the balance sheets of U.S. consumers, and the number of bank branches all indicate an increased focus on retail activities. We discuss the effect of this focus on individual banks and ask whether the related investment in infrastructure—principally, branch networks—is justified and sustainable for the industry as a whole. We examine a range of external sources: reports by equity analysts, rating agencies, and consulting firms; discussions and data provided by banking companies in annual reports, investor presentations, and other public outlets; and academic research examining various aspects of retail banking.

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At the bank level, the principal attraction of retail banking seems to be the belief that its revenues are stable and thus can offset volatility in the nonretail businesses, such as corporate and commercial real estate lending, trading, and capital market activities. Some banking industry analysts go even further, claiming that retail banking offers high returns along with low risk. We present some evidence that retail banking activities offered high risk-adjusted returns relative to nonretail activities in the early 2000s, but that more recently the returns from retail and nonretail banking have converged. More formal analysis of large, publicly traded bank holding companies from 1997 to 2004 by Hirtle and Stiroh (forthcoming) suggests that both risk and return decline as these firms become more focused on retail banking activities. This finding, which is consistent with traditional finance theory, highlights the importance of taking a longer run perspective when considering how risk and return are affected by broad shifts in business strategy.

At the aggregate level, our review shows that interest in retail banking fluctuates in rather predictable ways with the performance of nonretail banking and financial market activities. We document the features that the recent "return to retail" has in common with past cycles, but also recognize important factors suggesting that this episode may be more persistent. In particular, this retail banking cycle is being driven almost entirely by the very largest U.S. banking firms. Branching deregulation in the 1990s enabled large banks to compete more effectively with smaller local institutions by establishing branch networks spanning large geographic areas. These banks have made substantial investments in large branch networks and other retail banking infrastructure, a development that seems unlikely to unwind quickly. Retail banking, for example, accounts for 50 to 75 percent of revenues at many large bank holding companies, so the key role of the very largest banks in the "return to retail" gives extra weight to these developments.

Our study proceeds as follows. Section 2 begins with an overview of retail banking and describes how its activities are managed at many large bank holding companies. We then examine, in Section 3, historical trends in retail banking and document the renewed interest in retail. In Section 4, we consider some of the factors that contributed to the most recent surge in retail activities. From a microeconomic perspective, we review claims by banks and industry analysts about risk and return, and ask whether the claims stand up to the available evidence. From a macroeconomic view, we investigate how the interest rate environment may have affected these observed trends. We also address the question of whether the recent emphasis on retail is likely to be permanent or transitory. Section 5 summarizes our findings and discusses areas of future research.

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2. What Is Retail Banking?

Retail banking is the cluster of products and services that banks provide to consumers and small businesses through branches, the Internet, and other channels. As this definition implies, banks organize their retail activities along three complementary dimensions: customers served, products and services

[2]See, for example, *Wall Street Journal* (2003) and Deutsche Bank Securities (2004).

offered, and the delivery channels linking customers to products and services. (The box illustrates how several large banks describe their own retail banking activities.)

Organizationally, many large banking companies have a distinct "retail banking" business unit with its own management and financial reporting structure. Our description focuses on the common elements across these retail banking business segments. There are, however, differences in the way institutions organize and manage retail activities, so we also discuss the most significant variations.

Consumers and small businesses are typically the core retail banking customers. Consumers are served almost entirely by the retail banking business unit, although some large organizations have a separate subprime consumer finance

In Their Own Words: How Banks Describe Their Retail Banking Activities

These descriptions are from the 2005 annual reports of four large banks. This group certainly does not constitute an exhaustive list of institutions that provide detailed information on their retail banking activities. However, the passages cited here are representative of the information provided by large banking organizations that identify distinct retail business segments in their annual reports.

Bank of America

"Bank of America serves more than 38 million consumer and small business relationships in the nation's fastest-growing and most diverse communities. Sales, service, and fulfillment are provided through more than 5,800 banking centers and nearly 17,000 ATMs in 29 states and the District of Columbia. We also offer our customers the leading online banking service in the United States, with more active online bill payers than all competing banks combined, as well as a 24-hour telephone banking service that earns high ratings for speedy and easy self-service. With product and sales teams coordinating closely within these various distribution channels, Bank of America has grown to become the nation's largest provider of checking and savings services, the No. 1 credit and debit card provider (effective with completion of the MBNA merger on Jan. 1, 2006), the No. 1 small business lender, the leading home equity lender, and the fifth-largest originator of consumer mortgages."

Citigroup

"Citigroup's Global Consumer Group provides a wide array of banking, lending, insurance, and investment services through a network of 7,237 branches, 6,920 ATMs, 682 Automated Lending Machines (ALMs), the Internet, telephone and mail, and the Primerica Financial Services sales force. Global Consumer serves more than 200 million customer accounts, providing products and services to meet the financial needs of both individuals and small businesses."

JPMorgan Chase

"Retail Financial Services helps meet the financial needs of consumers and small businesses. We provide convenient consumer banking through the nation's second-largest ATM network and fourth-largest branch network. We are the second-largest home equity originator, the fourth-largest mortgage originator and servicer, the largest non-captive originator of automobile loans, and a top provider of loans for college students. We serve customers through more than 2,600 bank branches and 280 mortgage offices, and through relationships with 15,600 auto dealerships and 2,500 schools and universities. More than 11,000 branch salespeople assist customers with checking and savings accounts, mortgage and home equity loans, small business loans, investments, and insurance across our 17-state footprint from New York to Arizona. An additional 1,500 mortgage officers provide home loans throughout the country."

Wells Fargo and Co.

"The Community Banking Group offers a complete line of banking and diversified financial products and services to consumers and small businesses with annual sales generally up to $20 million in which the owner generally is the financial decision maker. Community Banking also offers investment management and other services to retail customers and high-net-worth individuals, insurance, securities brokerage through affiliates, and venture capital financing. These products and services include the *Wells Fargo Advantage Funds*℠, a family of mutual funds, as well as personal trust and agency assets. Loan products include lines of credit, equity lines and loans, equipment and transportation (recreational vehicle and marine) loans, education loans, origination and purchase of residential mortgage loans, and servicing of mortgage loans and credit cards. Other credit products and financial services available to small businesses and their owners include receivables and inventory financing, equipment leases, real estate financing, Small Business Administration financing, venture capital financing, cash management, payroll services, retirement plans, Health Savings Accounts, and credit and debit card processing. Consumer and business deposit products include checking accounts, savings deposits, market rate accounts, Individual Retirement Accounts (IRAs), time deposits, and debit cards. Community Banking serves customers through a wide range of channels, which include traditional banking stores, in-store banking centers, business centers, and ATMs. Also, *Phone Bank*℠ centers and the National Business Banking Center provide 24-hour telephone service. Online banking services include single sign-on to online banking, bill pay, and brokerage, as well as online banking for small business."

unit with its own brand identity. At the other end of the spectrum, services used primarily by high-net-worth individuals and households, such as trust and brokerage services, are nearly always provided by business units that specialize in these activities and offer them to all bank customers (for example, retail brokerage services are provided by a larger brokerage or asset management business segment).

The small businesses served by retail banking business units range from small start-ups and sole proprietorships to more established firms with annual revenues of $1 million or more. Most banks define "small business" by annual sales or revenue volume, generally with a cutoff separating small business customers and middle-market corporate customers. This cutoff can be anywhere between $1 million and $20 million in annual sales (larger banks tend to have larger cutoffs). At some banks, middle-market corporate customers—those with sales volumes up to $100 million to $250 million—are also served by the retail banking business unit, although it is increasingly common to serve these midsize businesses along with large corporate customers in a single corporate banking business line.

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In terms of products and services, deposit taking is the core retail banking activity on the liability side. Deposit taking includes transaction deposits, such as checking and NOW accounts, and nontransaction deposits, such as savings accounts and time deposits (CDs). Many institutions cite the critical importance of deposits, especially consumer checking account deposits, in generating and maintaining a strong retail franchise. Retail deposits provide a low-cost, stable source of funds and are an important generator of fee income. Checking accounts are also viewed as pivotal because they serve as the anchor tying customers to the bank and allow cross-selling opportunities (Dick et al. 2006).

On the asset side of the balance sheet, the key retail banking products are consumer credit and small business loans. Consumer credit includes credit cards, mortgages, home equity lending, auto loans, education loans, and other personal loans. Some very large banking organizations have national consumer credit operations—principally for credit cards and mortgages, though also sometimes for auto loans—that are managed separately from the main retail banking business line. The separate management of these national businesses most likely reflects past regulatory restrictions against interstate banking and branching that, until the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, precluded banks from operating branches on a national scale.

Although loans and deposits are the primary products, retail banking units provide a range of other financial services to consumers and small businesses. For individual consumers, these services include sales of investment products (such as mutual funds and annuities), insurance brokerage, and financial and retirement planning. For small businesses, they include merchant and payments services, cash handling, insurance brokerage, and payroll and employee benefits services.

Banks generally see the branch network as the central delivery channel in retail banking and perhaps the single most important component of the retail franchise. This view represents a significant turnaround from a decade ago, when branches were seen as an expensive and outmoded way to deliver retail banking services—one almost certain to be supplanted by remote delivery channels such as ATMs, telephone call centers, and the Internet.[3] These remote channels are now viewed as complements to the branch network. Call centers are used primarily for customer service and problem resolution, while online/electronic banking is used for information dissemination, transactions, and, increasingly, new-account origination. Finally, branches are pivotal for attracting new customers and generating cross-selling opportunities. Branches are now often staffed by licensed personnel who can sell investment products and insurance and who may also be linked to formerly stand-alone business lines, such as a mortgage or finance company (Dick et al. 2006).

The three dimensions of the retail banking business—customers, products and services, and the delivery channels linking customers with products—are interrelated.

[3]Orlow, Radecki, and Wenninger (1996) summarize the views on branching that prevailed in the mid-1990s.

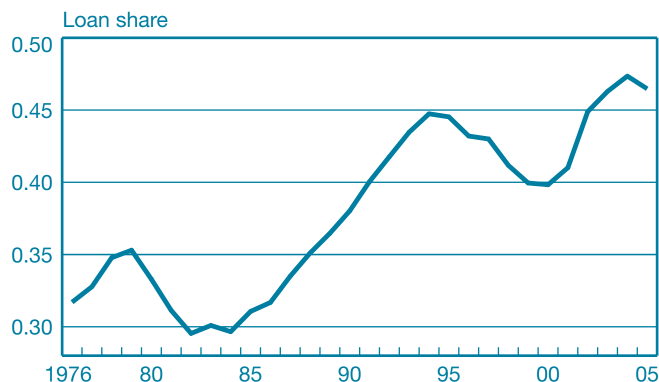
Clearly, the three dimensions of the retail banking business—customers, products and services, and the delivery channels linking customers with products—are interrelated. Consumers and small businesses constitute a coherent customer group largely because of commonalities in the financial products and services they use. These products and services have similar risk characteristics (both generate large pools of small, diversifiable loans where the primary risk is exposure to the business cycle), generating economies of scope in risk management. In some cases, consumers and small businesses use precisely the same products (credit cards are an important source of credit to both consumers and to the very smallest businesses). Furthermore, consumers and small businesses are both well served through the branch network. Finally, branches are the key retail banking delivery channel, largely because of the pivotal role they play in attracting and retaining consumer deposits, the core retail banking product. Thus, the three dimensions must be viewed together in order to understand retail banking completely.

3. The Evolution of Retail Banking

To gauge the evolving importance of retail banking, one would ideally examine a single, comprehensive measure of retail banking activity that could be calculated for individual banks and for the industry as a whole. Potential candidates might be the share of revenue or profit derived from retail activities or the share of risk capital allocated to these business units. Both measures are holistic in that they condense the full range of retail activities—both those that generate balance-sheet positions and those that do not—into a single measure that is comparable across business lines in the firm. Unfortunately, only a small number of large banks include in their annual reports and other public financial statements the figures on revenue, profits, and risk capital for identifiable retail business lines. Such information is not readily available for most banks.

To generate consistent measures of retail banking activity, we turn to an alternative source: data from regulatory reports. The advantage of using such data is that they are available on a consistent basis for all banks over a relatively long period.[4] We focus on three primary indicators of retail activity: retail lending (one-to-four-family mortgages, home equity lending, credit card loans, and other consumer loans), retail deposits (NOW accounts, savings accounts, and small time deposits), and the number of bank branches.[5] We also examine the share of household assets held as deposits.

Chart 1
Retail Loan Share
Credit Card, Other Consumer, and One-to-Four-Family Mortgage Loans as a Share of Total Loans



Source: Federal Financial Institutions Examination Council, Reports on Condition and Income.

Observed trends in retail loan shares, retail deposit shares, the balance sheets of U.S. consumers, and the number of bank branches all indicate an increased focus on retail activities. Chart 1 shows that for the U.S. banking system as a whole, the share of loans made to retail customers has increased significantly since the early 1980s, though with noticeable waves during this period. Much of the long-run increase is due to the growth of mortgage-related lending and, to a lesser extent, credit cards, particularly at larger institutions. This result reflects two developments: the decline, beginning in the mid-1980s, of the thrift industry, a traditional sector for mortgage lending, and technological changes that enabled large banks to realize scale economies in credit card and mortgage activities.[6]

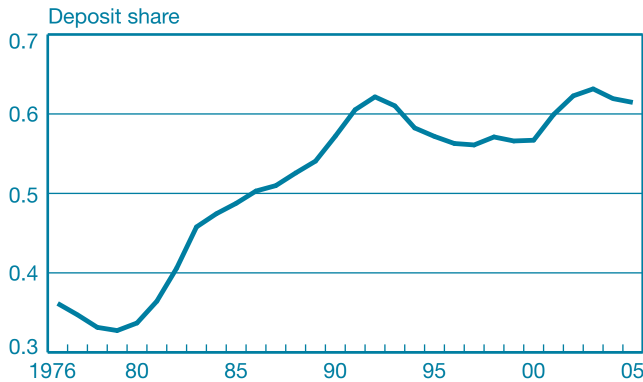
The recent surge in retail banking is evident in the retail loan share, which has increased sharply since 2000. This increase has been led by growth in home equity lending and, to a somewhat

[4]We use balance-sheet data on loans and deposits from the Federal Financial Institutions Examination Council Reports on Condition and Income (the Call Reports) filed quarterly by all commercial banks (available at <http://www.chicagofed.org/economic_research_and_data/commercial_bank_data.cfm>), as well as data on branch ownership from the Summary of Deposits Reports commercial banks and thrifts file annually with the Federal Deposit Insurance Corporation (available at <http://www2.fdic.gov/sod>).

[5]Given the typical range of retail banking activities, small business loans should also be included in the retail loan share variable. Unfortunately, data on small business lending are available only starting in 1993, so we cannot construct a consistent historical sample. However, small business loans are a small share of overall loans held by U.S. banks (averaging 5 percent from 1993 to 2005), so the series omitting small business loans seems like a reasonable approximation. The correlation between the retail banking loan share, including and excluding small business loans, is 0.98 over 1993 to 2005, suggesting that this approximation is unlikely to have distorted the pattern depicted in Chart 1.

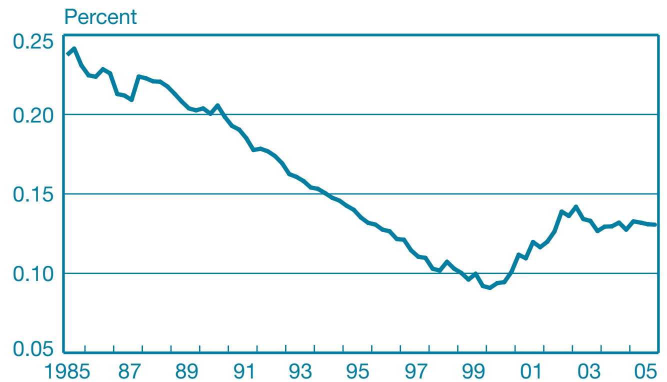
[6]For instance, Carter and McNulty (2005) find that large banks have an advantage in credit card lending, which the researchers attribute to technological innovation and reliance on "hard information" in lending.

Chart 2
Retail Deposit Share
NOW, Savings, and Small Time Deposits as a Share of Total Deposits



Source: Federal Financial Institutions Examination Council, Reports on Condition and Income.

Chart 3
Share of Household Assets Held as Deposits



Source: Federal Reserve Statistical Release Z.1.

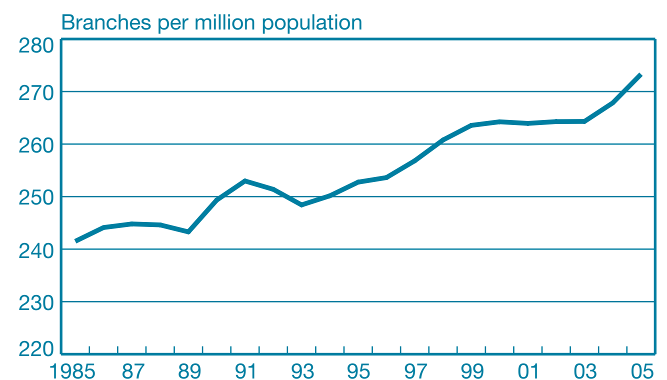
lesser extent, in credit card loans and one-to-four-family mortgages.[7] Chart 2 illustrates similar growth in retail deposits over this recent period, primarily reflecting a surge in savings account deposits.[8] The long-run growth of retail-related positions is also evident in the deposit data, which show retail-related deposit balances increasing during the 1980s with the removal of Regulation Q's ceilings on deposit interest rates. Both retail shares have cycled over time, however, showing similar peaks in the early to mid-1990s.

The growth of retail-related positions on banks' balance sheets is mirrored by corresponding growth in bank-related positions on the household balance sheet. Chart 3 illustrates the share of household assets held in the form of deposits.[9] Following years of steady decline, this ratio began to rebound after 2000, reaching levels comparable to those in the mid-1990s. Some part of this increase reflects a fall in the value of household assets attributable to the stock market's sharp decline in the early 2000s. Even so, household deposit growth accelerated over this period, and deposits as a share of household assets increased even after controlling for declining equity holdings. While households continue to hold a considerably smaller share of their assets in the form of bank deposits than was true in the 1980s, the recent upswing in this share is a marked departure from more than fifteen years of steady decline.

Along with growth in balance-sheet positions, the number of bank branches has been going up (Chart 4). Bank branches per capita have been increasing since the mid-1990s, and this growth has accelerated since 2003. Furthermore, an increasing portion of branches are held by a relatively small number of large banks. As of mid-2003, nearly 25 percent of U.S. branches were held by bank and thrift holding companies with 1,000 or more branches, up from 11 percent in 1994 (Hirtle and Metli 2004).

These four metrics of retail intensity show similar, but not identical, trends. For instance, during the early 1990s and in the

Chart 4
Bank Branches per Capita



Sources: Federal Deposit Insurance Corporation; U.S. Census Bureau.

[7]These figures reflect loans held on the balance sheet. Because significant portions of some types of retail lending—most notably, credit card loans and one-to-four-family mortgages—are securitized, the figures most likely understate the portion of loans originated to retail customers.

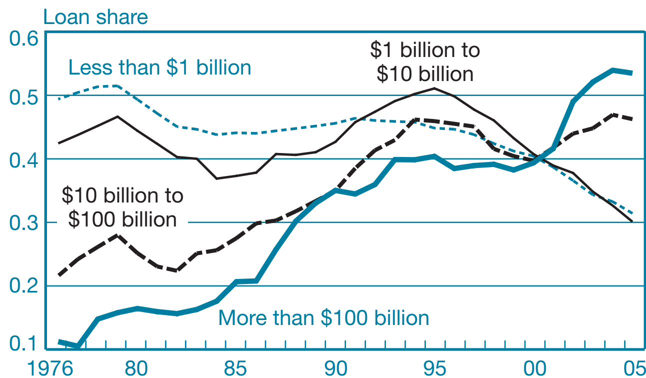
[8]We should note, however, that for the U.S. banking industry, deposits as a share of assets have been declining for several decades. This result reflects rising capital ratios, growing use of other borrowed funds, and increased issuance of subordinated debt.

[9]The ratio reported in Chart 3 is the share of assets of households and nonprofit organizations held in the form of currency, checkable deposits, and time and savings deposits as reported in the Federal Reserve's Flow of Funds Accounts. The deposit figures include deposits held at savings institutions and credit unions as well as at commercial banks.

CHART 5

Retail Loan Share by Bank Holding Company Asset Size

Credit Card, Other Consumer, and One-to-Four-Family Mortgage Loans as a Share of Total Loans

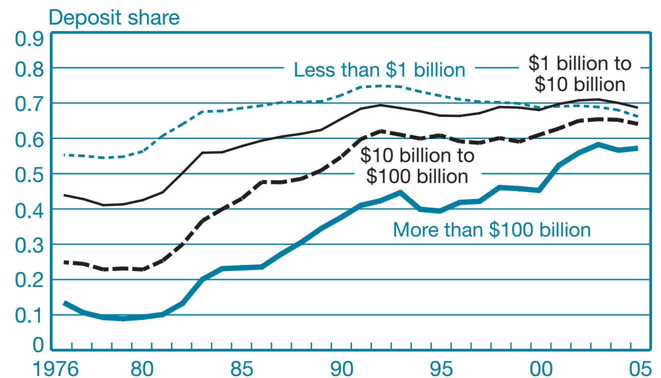


Source: Federal Financial Institutions Examination Council, Reports on Condition and Income.

CHART 6

Retail Deposit Share by Bank Holding Company Asset Size

NOW, Savings, and Small Time Deposits as a Share of Total Deposits



Source: Federal Financial Institutions Examination Council, Reports on Condition and Income.

current retail banking episode, the upswing in bank branches per capita begins well after the surge in retail loans and deposits. While this lag may simply reflect a longer reaction time for physical investments to come on line as compared with financial ones, it also points to the varied nature of retail banking and highlights the difficulty in creating a single measure that captures retail banking for all firms. Hirtle and Stiroh (forthcoming) address this issue by extracting the principal component of various measures of retail activity at the bank level; they show that the common factor declined in the late 1990s and then rose substantially after 1999. This finding supports our claim of an important shift toward retail activities in recent years.

Large banks have played an especially important role in the industry's renewed interest in retail banking. Charts 5 and 6 present the retail-related shares of loans and deposits for banks in different size cohorts based on total assets (deflated using the CPI and measured in 2004 dollars) between 1976 and 2005.[10] Over this long period, growth in retail-related loans was driven primarily by the larger banks, those most in a position to realize the economies of scale inherent in the mortgage and credit card business lines. In contrast, the retail deposit share increased for banks of all sizes, most likely reflecting the industrywide impact from the removal of ceilings on deposit interest rates in the early and mid-1980s.

The more recent growth in retail-related loan positions has been driven entirely by banks with assets exceeding $10 billion, especially the very largest in this group. The retail loan share at banks with assets exceeding $100 billion, for example, increased from 38 percent in 1999 to nearly 55 percent at the end of 2005 (Chart 5). In contrast, the retail loan share at smaller holding companies actually declined over the same period.[11] As a result, large banks now have a higher share of retail loans than do smaller banking firms.

Chart 6 shows a similar pattern for the retail deposit share in recent years. The overall increase has clearly been driven by the very largest banks, whose retail deposit share has grown steadily since the mid-1990s. In contrast, for smaller institutions over this period, the retail deposit share has trended slightly downward. Although these smaller institutions continue to have greater retail "intensity" by this measure, there has been a notable convergence across institutions of different asset sizes.

Consistent with these developments, retail banking is a significant source of revenue and profit for many large banking organizations. Data from a sample of large banks' annual reports and public financial statements suggest that between 50 and 75 percent of net operating revenue (net interest income plus noninterest income) is derived from retail banking activities at most of these institutions (Chart 7).[12] Table 1 presents similar information, obtained from a study by Citigroup Smith Barney, for a larger set of institutions in 2002.

[10]Assets for individual banks are aggregated so that the size cohorts are based on the assets of all banks within a holding company.

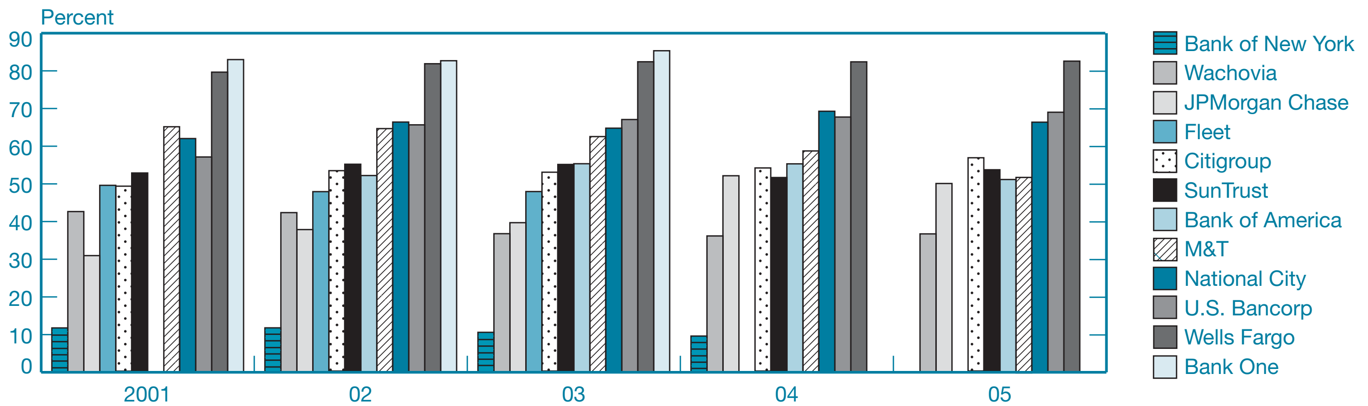
[11]These institutions are now holding higher shares of commercial real estate loans and construction and land development loans.

[12]The sample firms were selected based on asset size, branch network size, and whether they reported business segment financial information that allowed us to identify a retail banking business line consistent with our definition. This group does not necessarily represent an exhaustive list of U.S. banks for which such information may be available, but it is representative of a range of asset sizes and extent of retail focus among large banks.

Chart 7

Retail Revenue as a Share of Overall Revenue

Net Interest Income Plus Noninterest Income



Source: Bank holding company annual reports and quarterly earnings statements.

These data also suggest that retail activities account for 50 to 60 percent of revenue at a typical large bank.

The leading role of large banking organizations in the resurgence of retail banking is also reflected in the growth and redistribution of bank branches. As we observed, the number of bank branches has grown steadily since the early 1990s, and an increasing share is held by banking organizations with large branch networks. The historical consolidation of branches into these large networks has occurred primarily through mergers and branch purchases more than through de novo growth (Hirtle and Metli 2004).[13] This finding is consistent with the pattern in recent merger activity, much of which has focused on the expansion of banks' geographic footprints and reflects the new operating environment in a more deregulated era.

The consolidation of bank branches into very large branch networks can be linked to a combination of deregulation and technological change. A critical structural change in the U.S. banking industry over this period was the Riegle-Neal Act of 1994, which allowed nationwide branching and by 1997 had been adopted by virtually all states. This deregulation spurred a wave of industry consolidation that allowed banks to create the broader branch networks and increased branch penetration rates that are key to attracting new retail customers. In addition, it allowed banks to reap the benefits of technology-driven economies of scale. Dick (2006), for example, finds that deregulation in the 1990s significantly increased the size of branch networks, both in terms of the network's density in a given local market and in terms of the coverage over larger geographic areas.

These large networks, combined with innovations such as new credit-scoring technologies, have allowed large banks to compete more effectively with small community banks in the retail sector. Berger et al. (forthcoming), for example, find that large, multimarket banks were better able to compete against small banks in the 1990s, relative to the 1980s, presumably as a result of technological progress leading to an increase in scale economies in the management of larger organizations relative to smaller ones, and new lending technologies for small businesses that diminished the comparative advantage of small banks in servicing this segment.[14] Akhavein, Frame, and White (2005) find that large banks adopted new technologies for small business lending earlier than smaller banks did, using

The consolidation of bank branches into very large branch networks can be linked to a combination of deregulation and technological change.

[13]This is not to say that large banks did not create de novo branches. For instance, the 80 banking organizations with 100 or more branches in 2001 opened more than 2,100 de novo branches between June 2001 and June 2003. These same institutions, however, acquired 3,700 branches through mergers and purchases over this period, about two-thirds of gross branch expansion for these firms. These institutions closed or sold 3,700 branches, for net branch growth of approximately 2,100 over this period (Hirtle and Metli 2004).

[14]It is the large banks that expand geographically to multiple markets that enjoy these increases in efficiency, as opposed to large banks that only increase the scale of operations but remain in a single local banking market.

Table 1

Sources of Bank Revenue in 2002

Percent

Bank	Retail Activities: Consumer Banking	Retail Activities: Credit Card	Retail Activities: Total	Commercial Banking	Trust/Asset Management	Processing	Trading	Private Equity	Investment Banking
Charter One	87	1	88	12	1	0	0	0	0
TCF Financial	65	13	78	21	2	0	0	0	0
BB&T	76	0	76	19	4	1	0	0	0
National City	72	4	76	15	6	3	0	0	0
Bank One	39	33	72	14	11	0	3	0	0
Wells Fargo	67	3	70	21	10	0	0	0	0
Sovereign	66	1	67	31	2	0	0	0	0
National Commerce	65	2	67	26	1	5	0	0	0
Huntington	56	9	65	23	13	0	0	0	0
Amsouth	60	3	63	27	10	0	0	0	0
SunTrust	53	4	57	30	12	0	0	0	0
PNC	57	0	57	16	21	6	0	0	0
Regions	54	2	56	33	6	0	3	0	2
Union Planters	51	5	56	40	4	0	0	0	0
Bank of America	47	8	55	19	5	4	11	0	5
First Tennessee	50	4	54	22	7	2	16	0	0
SouthTrust	50	4	54	41	4	0	0	0	0
U.S. Bancorp	37	12	49	34	11	6	0	0	0
Fifth Third	46	2	48	37	8	8	0	0	0
FleetBoston	38	10	48	38	9	0	5	0	0
North Fork	47	0	47	52	1	0	0	0	0
Wachovia	47	0	47	29	14	0	1	0	10
Key	43	0	43	40	10	0	3	0	4
M&T Bank	43	0	43	50	7	0	0	0	0
Synovus	38	1	39	31	3	27	0	0	0
JPMorgan Chase	26	12	38	15	7	12	20	0	9
Comerica	34	1	35	65	0	0	0	0	0
Bank of New York	11	0	11	21	7	54	7	0	0
Mellon	0	0	0	30	46	16	8	0	0
State Street	0	0	0	6	9	64	21	0	0
Average	47	4	52	29	8	7	3	0	1
Median	49	2	55	28	7	0	0	0	0

Source: Citigroup Smith Barney (2003).

them especially to expand their lending to relatively opaque small businesses, a segment that had been traditionally dominated by small banks.

Research also suggests that branches held within very large networks—those with 1,000 or more branches—outperform those held in midsize networks (100 to 500 branches) in terms of generating higher deposits per branch (Hirtle forthcoming). These results are certainly consistent with the observed consolidation of branches into the large branch networks of multistate banking organizations. From the bank's perspective, the development of a branch network can be particularly valuable as a barrier to entry for potential competitors, as a form of advertising to attract consumers, and as a funding source to generate stable deposits. For instance, Dick (2007) finds that the leading banks in a market make larger investments in branch networks and that these investments grow with market population. An implication of this finding is that when profit opportunities arise in a market, such as those created by an inflow of new customers, large banks are likely to open new branches as a way to take up the additional demand and prevent further entry.

4. Understanding the "Return to Retail"

Having documented the increased focus on retail activities measured by bank assets, liabilities, and branch infrastructure, we now discuss some of the underlying forces that contributed to this strategic shift. We provide a brief overview of the perspective of industry analysts and summarize the issues most frequently raised. Our study then considers the microeconomic forces reflecting changes in risk and return opportunities as well as several macroeconomic factors associated with deregulation and aggregate conditions. Finally, we offer some discussion and speculation on whether the most recent shift toward retail is likely to be temporary or permanent.

4.1 Perspective from the Banking Industry

A long, consistent industry perspective is provided by *BusinessWeek*, which has produced an annual analysis of banking industry trends since the mid-1980s. We complement this perspective with commentary by industry analysts at investment banks, consulting firms, and rating agencies (Moody's and Standard and Poor's). This information from industry participants provides a useful perspective on the evolving perception of retail banking. It is somewhat "soft" information, however, so we also examine data on acquisitions and mergers by banking organizations, which support the trends identified in the industry reviews.

The mid-1990s . . . marked the emergence of the "new retail" model that emphasized alternative retail delivery channels such as telephone call centers, ATMs, and electronic delivery through the emerging Internet.

In the mid-1980s, the *BusinessWeek* reviews focused on the need for banks to generate new revenue streams and enter new markets (for example, securities, investment banking, and insurance) as a way to counter the negative effect of increased competition and disintermediation within traditional retail banking. This was the period in which households began to turn away from the banking sector and toward mutual funds, which were increasingly competing with banks for household assets (Chart 3). However, in the late 1980s, as the banking industry recovered from significant problems, *BusinessWeek* noted a renewed interest in retail activities and quoted a senior Citibank executive as saying that the view that investment banking would rescue banks is "seriously in question" (*BusinessWeek* 1988).

A focus on alternative sources of revenue returned in the early 1990s, with an emphasis on the need for regulatory changes that would allow banks to diversify further into securities and underwriting. This diversification can be seen in the growth in Section 20 subsidiaries, which allowed banks to underwrite corporate debt and equity issues. By 1994, *BusinessWeek* was reporting that noninterest income represented 40 percent of major banks' revenues, a sharp increase from previous levels, as those institutions attempted to diversify revenue streams. Stiroh (2004) documents a similar trend in noninterest income at large banking companies beginning in the early 1990s.

A shift in the strategic focus can be seen in the acquisition trends of large U.S. banks over the past decade, which echo the ebb and flow of interest in retail banking.

The mid-1990s, however, marked the emergence of the "new retail" model that emphasized alternative retail delivery channels such as telephone call centers, ATMs, and electronic delivery through the emerging Internet. At the time, a Chase Manhattan executive discussed the possibility of branches being supplanted by videoconferencing kiosks (*BusinessWeek* 1994), and the CEO of First Union predicted that customers would move away from branches as technology improved (*BusinessWeek* 1996). Similarly, Orlow, Radecki, and Wenninger (1996) quote executives of two major banks as saying they did not expect their institutions "to ever build another traditional branch." Electronic delivery, in particular, was seen as a low-cost alternative to high-cost branches. For instance, Moody's Investors Service (1996) lauded Bank of America's plan to "creatively destroy" its branch network and replace it with call centers, self-service ATMs, and supermarket locations. This focus on electronic banking continued through the late 1990s with the introduction of Internet-only bank operations, such as Bank One's Wingspanbank.com, a subsidiary that opened in June 1999.

Table 2

Bank Merger Announcements by Target Industry

Year	Depository Institutions	Nondepository Credit Institutions	Security and Commodity Brokers, Dealers, Exchanges, and Services	Insurance Carriers, Agents, Brokers, and Service	Holding and Other Investment Offices	Services and Other	Total
1994	188	14	3	4	5	1	215
1995	214	7	6	1	5	5	238
1996	158	5	3	3	7	3	179
1997	141	9	9	1	5	5	170
1998	151	14	11	3	12	1	192
1999	112	17	8	8	8	12	165
2000	95	12	8	13	17	19	164
2001	102	8	8	14	22	14	168
2002	62	6	25	21	14	11	139
2003	92	5	12	13	1	7	130
2004	92	13	13	9	7	11	145
Total	1,407	110	106	90	103	89	1,905

Source: Securities Data Corporation Mergers & Acquisitions Database.

Notes: The year is the date that the deal was announced. Depository Institutions are SIC 60; Nondepository Credit Institutions are SIC 61; Security and Commodity Brokers, Dealers, Exchanges, and Services are SIC 62; Insurance Carriers, Agents, Brokers, and Service are SIC 63 or 64; Holding and Other Investment Offices are SIC 67; Other includes SIC 20, 30, 40, 50, 65, 70, and 80.

By 2001, however, a pure-play Internet bank was viewed as a failed business model, and only a few experienced even modest success (Moody's Investors Service 2001). Interest in fee income and capital-market-related revenue sources surged in the late 1990s and early 2000s, while *BusinessWeek* (2001) quoted industry analysts who argued that traditional consumer deposit products were "dinosaurs."

The focus on capital market activities was short-lived, however. By 2002, the U.S. economy had experienced the bursting of the NASDAQ bubble, the events of September 11, and a massive decline in investment banking activities. Given a growing realization of the risks associated with capital market activities (volatility in trading revenue, the reputational effects of the corporate governance scandals, and the resultant compliance costs associated with regulatory reform such as the Sarbanes-Oxley Act of 2002) along with awareness of the operational difficulties associated with the diversified model (such as culture clashes between commercial and investment banking), interest in retail banking once again emerged, this time with a renewed emphasis on branches. Moody's Investors Service (2004), for instance, highlights the shift toward de novo branching and emphasizes the sharp reversal in strategy from the earlier period when banks were embracing alternative distribution channels.

The renewed interest in retail is also apparent in the mergers of First Union/Wachovia, Citigroup/Golden State, Bank of America/FleetBoston Financial, and JPMorgan Chase/Bank One, which were all motivated in large part by retail concerns. The Bank of America deal, for example, was driven by the potential growth and geographic expansion of the branch network (*Wall Street Journal* 2003), while the JPMorgan deal highlighted the stability of retail activities (Deutsche Bank Securities 2004). Similarly, Citigroup's sale of its Travelers Life and Annuity business to MetLife was viewed as part of a larger strategy to renew focus on consumer banking and abandon the financial supermarket model (*American Banker* 2005; *BusinessWeek* 2005). In general, the discussion of the motivations behind the recent mergers of large banks is very different from the discussion around the large deals, many involving nonbanks, in the 1990s.

Finally, a shift in the strategic focus can be seen in the acquisition trends of large U.S. banks over the past decade, which echo the ebb and flow of interest in retail banking. Table 2 summarizes acquisition trends by large U.S. banking organizations from 1994 to 2004 as reported by Securities Data Corporation.[15] The data show trends in bank merger and acquisition activity that correspond to the forces described

[15]Bank acquisitions are broken down into acquisitions of other depository institutions; nondepository credit institutions; security and commodity brokers, dealers, exchanges, and services; insurance carriers, agents, brokers, and service; holding and other investment offices; and all other. While one would also be interested in the size of deals over time, the values of all deals were not available, so Table 2 focuses on the number of announced deals.

earlier. For example, banks' acquisitions of other banks peaked in the mid-1990s after the Riegle-Neal Act of 1994 removed restrictions on interstate banking and branching. Bank acquisitions of nonbank subsidiaries surged after the Gramm-Leach-Bliley Act of 1999 liberalized activity restrictions in 1999 and interest in retail waned. Acquisitions of securities and brokerage firms and of insurance firms, for example, peaked in 2002, while acquisitions of holding and other investment offices peaked in 2001. The belief in the benefits of diversified financial firms and nontraditional activities during the late 1990s and early 2000s is manifest in the rise of nonbank acquisitions, while the return to a focus on core banking operations is seen in the mergers of large banks in recent years.

4.2 Microeconomic Factors

Banking industry analysts and the banks themselves consistently point to the stability of revenue and profit as the most important feature of retail banking and a key motivation for the recent interest. In particular, retail stability is seen as valuable for large banks seeking to offset the volatility of riskier business lines, such as trading and other capital-market-related activities. Recent discussions of retail activities in large banks' annual reports, analyst presentations, and press releases highlight retail as a core source of stable, predictable earnings

[The] stability of retail-related activities is typically attributed to several factors. The most important one is that retail banking is fundamentally a consumer-based business.

in times when other sources of revenue have been comparatively weak. For example, Standard and Poor's (2004) identifies retail banking as "an island of stability in the last cycle," while Moody's (2003) highlights the "low correlation to the lending business, creating earnings diversity" as a key benefit from retail activities. Standard and Poor's (2004) also points to the relative volatility associated with nonretail activities such as large corporate lending, investment banking, and emerging-market activities.

This stability of retail-related activities is typically attributed to several factors. The most important one is that retail banking is fundamentally a consumer-based business. The resilience of the consumer sector in recent years has almost certainly contributed to the stability of retail banking. An important corollary of this observation is that retail banking will likely be a stable and growing business only as long as the consumer sector remains strong and stable.

A second important factor in the stability of retail banking is that it serves a large number of small customers. The granular nature of the retail lending portfolio—which contains a large number of small, often collateralized loans—means that the lending income may be less volatile over time because of diversification across customers. In essence, the retail lending

A second important factor in the stability of retail banking is that it serves a large number of small customers.

portfolio is exposed primarily to cyclical or macroeconomic risk, rather than to borrower-specific exposures (concentration risk). This is one specific example of how retail banking stability relies on the continued strength of the consumer sector.

Finally, some part of the stability in retail banking revenues may reflect natural hedges within retail banking—in other words, products or services within the business that respond differently as market conditions change. One example cited by bankers is the low or negative correlation between mortgage originations and deposit margins. Deposit margins—the difference between rates paid on retail deposits and alternative market funding rates such as the federal funds rate—are an important source of income in retail banking. In periods of low interest rates, deposit margins tend to be low, reducing the implicit income earned on deposit balances. Low rates, however, spur mortgage refinancing, which boosts fee income.[16] Changes in income flows from the two activities thus tend to offset one another over the interest rate cycle, giving greater stability to overall retail banking revenues.

This view on the relatively stable nature of retail banking is consistent with the academic literature and analysts' reports. Stiroh (2004), for example, shows that in the period from 1984 to 2001, noninterest income, particularly trading, fees, and other noninterest income, was more volatile than deposit service charges or net interest income. DeYoung and Rice (2004) show that "traditional" and "community" banks (defined as those with relatively high core deposit ratios) have a relatively low volatility of revenue, as do "nontraditional" banks (which include a wide range of large banks).[17]

Despite considerable evidence supporting the stability of retail, the evidence on the returns from retail banking activities is more mixed. A recent study by Morgan Stanley and Mercer

[16]See Dick et al. (2006) for a discussion of the views of retail bankers.

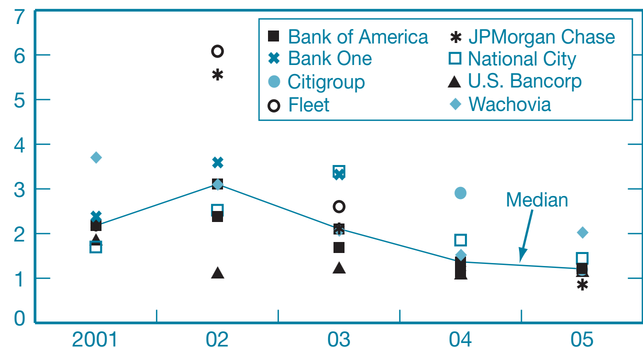
Oliver Wyman (2004), for instance, describes retail banking as the "Cinderella" of U.S. financial services, offering "high margins, stable income, and modest capital consumption." An important conclusion of the study is that retail-focused banks have offered higher risk-adjusted returns, particularly in recent years when wholesale portfolios were negatively affected by the recession and other macroeconomic developments.

Recent data from a set of large bank holding companies suggest that retail activities have offered high risk-adjusted returns relative to other business lines. Chart 8 reports the ratio of return on risk-adjusted equity (ROE) in retail business lines to ROE on nonretail activities for a small set of banks that report business-line-level returns in public financial statements.[18] Returns on retail activities consistently exceed those on nonretail activities, often by a margin of two-to-one or three-to-one, a finding consistent with claims that retail banking offers high returns relative to risk. Significantly, however, there also appears to be a cyclical element at play. The retail-to-nonretail ratio has declined since 2002 as returns in nonretail business lines recovered from relatively low levels during and just following the 2001 recession and subsequent capital market slowdown. This result suggests that it is important to use a relatively long-run perspective when considering how risk and return are affected by broad shifts in business strategy.

Chart 8

Ratio of ROE on Retail Business Lines to ROE on Nonretail Business Lines

For Large Bank Holding Companies Reporting ROE by Business Line



Source: Bank holding company annual reports and quarterly earnings statements.

Note: ROE is return on risk-adjusted equity.

A broader analysis by Hirtle and Stiroh (forthcoming) is consistent with the banks' perception that retail activities are generally stable, but it is less consistent with the notion that they are also high-return activities. That study compares both equity market returns and equity market volatility, a standard measure of risk, to various measures of retail intensity (the retail loan share, the deposit retail share, and branches per dollar of assets) for a sample of more than 700 bank holding companies from 1997 to 2004.

The results indicate that greater retail banking intensity is associated with lower equity market volatility for the very largest banks (those with assets greater than $10 billion). For small and midsize banks, the relationship between retail banking intensity and market volatility is weak. A key factor in this result is the role of branches: Greater branching intensity leads to lower volatility for large organizations, but to higher volatility for smaller ones. Regardless of organization size, however, higher retail banking intensity is associated with lower average returns based on both market and accounting data. Hirtle and Stiroh conclude that while retail banking may be a relatively stable activity, it is also a relatively low-return one.

Taken together, these findings offer mixed views on whether retail banking offers unusually attractive risk and return opportunities. Among industry observers, there seems to be a consensus, supported by the academic evidence, that retail activities tend to be more stable than other banking activities. In terms of returns, however, the evidence is much less

Some part of the stability in retail banking revenues may reflect natural hedges within retail banking—in other words, products or services within the business that respond differently as market conditions change.

[17]Although the consumer loan portfolio as a whole may be granular and well collateralized, there are significant differences across different loan types in loss volatility over the business cycle (credit card loans, for instance, are uncollateralized and thus potential losses are higher). Thus, depending on a given bank's business mix, the stability of retail revenues will also vary.

[18]The ROE figures are not calculated consistently across bank holding companies. Most reflect returns on some form of risk-adjusted capital allocated to business lines, but both the risk capital calculations and the methods for allocating capital across business lines differ significantly across holding companies and sometimes over time for the same firm. That said, to the extent that ROE is calculated consistently across business lines within a holding company for a given year, the *ratios* of ROEs in different business lines should be reasonably comparable across institutions. Nonretail business lines exclude any returns or capital allocated to "corporate groups" or "parent" segments, since these tend to be cost centers rather than operational areas.

compelling for the notion that retail banking offers relatively high returns along with increased stability. To the extent that this belief motivated strategic shifts toward retail, one might conclude that these moves were less than fully justified.

4.3 Macroeconomic Factors

The earlier review suggests that interest in retail banking does cycle in relatively predictable ways with the performance of nonretail banking and financial market activities. Another perspective on this cyclicality comes from comparing the intensity of retail activities with cyclical movements in interest rates. Although not a rigorous analysis, it is useful to examine how broad measures of retail activity move with the interest rate environment.

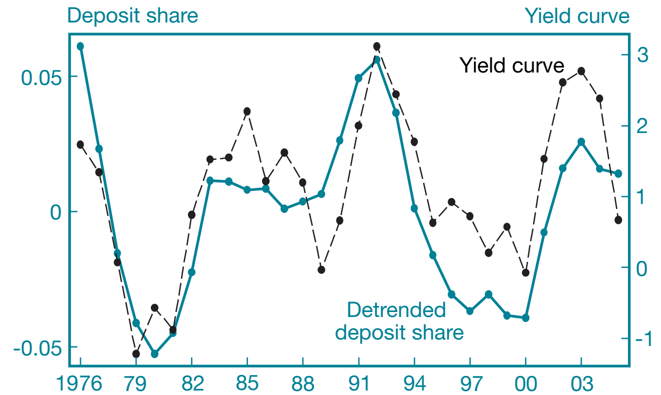
Charts 9 and 10 illustrate the relationship between the retail shares of loans and deposits and changes in the slope of the yield curve. To highlight this relationship, we present the retail loan and deposit shares after removing trends.[19] The yield curve is measured as the difference between the annual average ten-year and one-year Treasury rates. The detrended retail loan share and retail deposit share both tend to increase as the yield curve steepens and to decline as the yield curve flattens. In the case of the retail deposit share, this movement is synchronous, with peaks in the yield curve corresponding to peaks in retail deposit share throughout the thirty-year sample period.[20] The retail loan share, in contrast, continues to rise for two to three years after the yield curve peaks, and then it trends down. We see the positive link between retail loans and the yield curve for three of the four yield curve peaks during our thirty-year sample period (mid-1970s, mid-1990s, and early 2000s). The link did not hold during the mid-1980s yield curve cycle, which may reflect the deep recession that preceded it.[21] Given this historical context, the run-up in the retail-related positions since 2000 does not seem out of proportion to earlier episodes, given comparable changes in the slope of the yield curve.

There are several possible explanations for the apparent positive link between retail loan and deposit shares and the yield curve. One explanation has to do with the attractiveness of the "carry trade" when the yield curve is steep. When longer term rates are significantly higher than shorter term ones, banks may actively increase relatively low-cost retail deposits to fund longer term retail loans such as mortgages. Alternatively, to the extent that interest rate and yield curve movements affect profitability in nonretail banking and financial market activities, the relationship between retail banking and the yield curve may simply be another manifestation of the retail/

Chart 9

Retail Deposit Share and the Yield Curve

NOW, Savings, and Small Time Deposits as a Share of Total Deposits



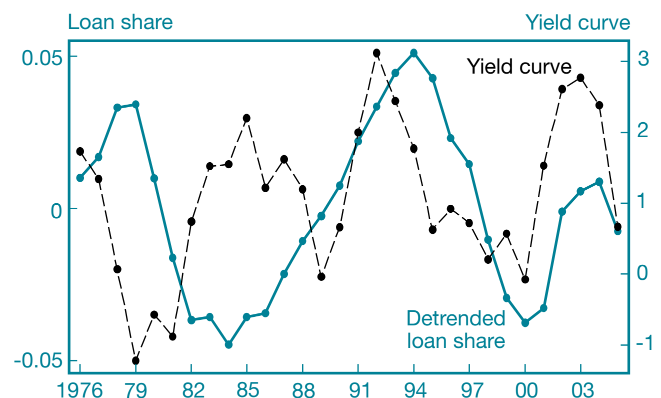
Sources: Federal Financial Institutions Examination Council, Reports on Condition and Income; Federal Reserve Statistical Release H.15; authors' calculations.

Note: Retail deposit share is detrended using a quadratic time trend.

Chart 10

Retail Loan Share and the Yield Curve

Credit Card, Other Consumer, and One-to-Four-Family Mortgage Loans as a Share of Total Loans



Sources: Federal Financial Institutions Examination Council, Reports on Condition and Income; Federal Reserve Statistical Release H.15; authors' calculations.

Note: Retail loan share is detrended using a quadratic time trend.

[19]The trend is removed by regressing the retail ratio on a quadratic time trend (time and time-squared) and using the residuals as the detrended series. The results are similar if a simple linear trend is used.

[20]The positive relationship between the retail deposit share and the slope of the yield curve holds when the sample is split by bank holding company asset size. The retail deposit share moves in sync with the yield curve for all four size cohorts examined (under $1 billion, $1 billion to $10 billion, $10 billion to $100 billion, and more than $100 billion in assets).

[21]In contrast to the results for the retail deposit share, the positive correlation between retail loans and the yield curve is significant only for the large banking companies.

nonretail cycle discussed above. Whatever the explanation, the key point is that the recent emphasis on retail banking seems consistent with historical experience, both in terms of the last significant steepening of the yield curve in the early 1990s and in terms of a broader pattern relating to profitability in other banking sectors.

4.4 Implications for the Future

The recent surge of interest in retail banking raises a number of questions for the future structure and performance of the U.S. banking industry. Perhaps the most significant is whether the widespread focus on retail banking and the related investment in infrastructure—principally, branches—is justified and sustainable. Is there anything to suggest that this upswing in retail banking focus will be more permanent than those in the recent past? If so, what do these developments imply for the risks and future performance of the U.S. banking system?

The recent surge of interest in retail banking raises a number of questions for the future structure and performance of the U.S. banking industry. Perhaps the most significant is whether the widespread focus on retail banking and the related investment in infrastructure—principally, branches—is justified and sustainable.

Our analysis of industry trends, business commentaries, and studies of the effect of deregulation suggest that the rising focus on retail activities is not unprecedented and can be more accurately characterized as a "return to retail." As in past episodes, this "return to retail" undoubtedly reflects a number of transitory forces, including the evolving relative performance of different banking industry activities. Some part of the recent surge in interest has almost certainly been driven by volatility in capital markets and wholesale banking activities, raising the possibility that interest in retail banking will abate when these activities perform more strongly.

At the same time, more permanent factors such as deregulation and technology have clearly played an important role, suggesting that this latest episode may be more persistent than in the past. Deregulation has allowed large banks, for example, to lead the current focus on retail banking. Partly facilitated by branching deregulation in the 1990s, these banks have been accumulating retail-related assets and liabilities and have constructed large, geographically diverse branch networks—a development that seems unlikely to unwind quickly. As the very largest banks continue to expand and consolidate in a deregulated banking environment, retail banking has become more concentrated among the largest banks, which, in turn, are relying to a greater extent on retail banking as a source of both revenue and stability. This represents an important shift in the strategic focus of many of the largest U.S. banking institutions.

The key role of the very largest banks in the "return to retail" . . . suggests that the current episode may be more persistent, or have a longer lasting effect, than recent previous waves of interest in retail banking.

The key role of the very largest banks in the "return to retail" gives extra weight to these developments and suggests that the current episode may be more persistent, or have a longer lasting effect, than recent previous waves of interest in retail banking. Furthermore, given the systemic importance of these institutions in the financial system, it is useful to think about the possible vulnerabilities that this shift may introduce.

The most obvious exposure is the implicit reliance on the growth and stability of the consumer sector. As noted above, retail banking will likely be a stable and growing business only as long as the consumer sector remains strong and stable. At a macroeconomic level, the consumer sector has indeed been quite resilient in recent years, but the focus on retail activities exposes banks to a slowdown in consumer spending brought on, for example, by a recession related to higher oil prices, falling real estate prices, or other adverse developments. Indeed, greater retail banking competition may itself have increased the likely severity of a consumer sector downturn if this competition has resulted in increased consumer debt levels.

A consumer sector shock could hurt the retail franchise on both the asset side (if defaults increase) and on the liability side (if retail deposits stop growing). To a large extent, consumer sector risk is inherent to any consumer-based business, and there are few steps banks might take to mitigate this exposure. The particular concern around retail banking, however, is that the very largest, systemically important banking institutions have been leading the surge in retail banking activity and thus may have taken on consumer sector "tail risk" to a much greater extent than in the past. Furthermore, because the emphasis on retail activities is fairly widespread among the largest firms, this "tail risk" exposure is a common risk to which they are simultaneously exposed. The banking system itself may thus be more exposed to a downturn in the consumer sector.

From a macroeconomic view, a deep and sustained downturn in the consumer sector would obviously have larger implications for the state of the U.S. economy, which would affect monetary and fiscal policy. To the extent that banks play a special role in the economy—given their ability to provide credit to informationally opaque small businesses—and that retail banking is particularly affected, a downturn in the consumer sector could impact the extent of a monetary policy response.[22]

[22]Bernanke (1983) highlights the role banks play in amplifying shocks, and Ashcraft (2005) documents banking's importance to local economic activity, particularly in terms of commercial and industrial lending and commitments.

5. Conclusion

Since around 2000, the U.S. banking industry has experienced a renewed interest in retail banking. Although there have been other periods in the past few decades when retail banking has been an important area of strategic focus, the recent cycle is particularly significant because of the role of the very largest banks. Many of these banks have been building large branch networks and increasing the share of retail-related positions on their balance sheets. As this article observes, retail banking is clearly an important source of revenue and profit for these firms and, given their systemic importance, it is important to understand the effect of this strategic focus not only for individual firms but for the banking system as a whole.

An interesting area for future research would be a deeper analysis of the macroeconomic factors driving the retail cycle. We present some suggestive evidence—for example, that U.S. banks' retail exposure varies with the interest rate cycle—and it would be useful to analyze this evidence more formally. A second area of potentially interesting work surrounds the question of cross-selling and relationship banking at the microeconomic level. Many industry observers have raised the possibility that retail banking offers important lock-in effects and motivates increased revenue from other business lines. This article does not address that issue empirically, and it remains an interesting item on the research agenda. A final theme for future analysis is to examine how the "return to retail" ultimately plays out. We have observed a range of expansion strategies: Some banks are growing their retail activities through mergers and acquisitions while others are focusing on de novo expansion. At this point, it is not clear which strategy, if any, dominates, and we will have to wait for new research over the next retail cycle.

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