Fewer banks, enough banks

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In Spain, as in the rest of Europe, the number of banks has fallen significantly during the crisis. In general terms, banks have merged to improve their profitability or efficiency, or when a vulnerable bank has had to be absorbed. Is this a matter of concern? From the customer's point of view, it would be if the concentration affected products or services, in other words, competition. It's as if six cafés were operating on one block, half of them closed, and the remainder agreed to serve only one kind of coffee, and at the same high price, of course. There would be no diversity to suit everyone's tastes or pockets. "Coffee for everyone", it turns out, is appetising to no one.

Economic studies indicate that greater concentration does not necessarily lead to less competition, and that other factors such as the institutional environment or freedom of entry and exit are more important. So the fact that there are fewer players does not imply collusion.

In Spain, concentration has increased during the crisis, as is shown by all the indicators. Some measurements take only the major banks into account (such as the market shares of the five biggest), others include information on all of them (such as the Herfindahl index, which adds the squares of all the banks' market shares), but all have increased. Taking this last indicator, we see that the market in Spain continues to be less concentrated than that of other European countries, such as the Netherlands, Belgium and Portugal, and that the level reached (915 following the Banco Popular deal) is still below that considered worrying by economists (fewer than 1,000 is usually considered a very competitive market). So we could say that before the crisis the number of banks was high, and there was room for reducing it while maintaining competition.

Another different problem is if the banks that disappear or those that remain lose branches in thinly populated regions, which could leave part of the population without access. Nationwide, the number of branches per inhabitant has declined, approaching the overall European level, and closures have been fewer in the more thinly populated provinces. According to recent declarations of the chairman of the Spanish Banking Association, 85% of the population lives in municipalities where at least four banks operate. It is no doubt important to seek alternative ways of attending to the other 15% of the population, and some banks are opting for digital solutions, mobile branches or branches that open a certain number of days per week.

One way to assess whether competition is being affected by the reduced number of banks is to study whether it is influencing the product price formation process. A BBVA Research working document, "The impact of European banking consolidation on credit prices" investigated whether various concentration measures had an impact on prices of housing loan portfolios, SMEs and major corporations in Spain, Italy, France and Portugal. The only portfolios in which concentration affected interest rates proved to be those of loans to SMEs and major corporations in Portugal. In Portugal, concentration was high even before the crisis, and this implies higher prices.

In short, it would seem that the increased concentration of banks in Spain is not translating into less benefit for the customer, since competition continues to be high. The opposite could even be the case, since a more efficient banking sector should translate into better treatment of customers and shareholders, with better use of resources.

In the future, the unstoppable arrival of new competitors, both from the digital word and from other banking markets, in an increasingly integrated Europe, will make these levels of concentration less relevant. It is not clear who will serve us our coffee in a few years' time, but it seems we will be able to choose from a variety of flavours and prices.