

Consolidation and Cost Effects in Japanese Regional Banks

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[Abstract]

In contrast to the foundations of mega banks, Japanese regional financial institutions are still considered as “over-banked.” This paper investigates the evidence of the cost effects of a simulated merger between pairs of Japanese regional banks located in the same prefecture by measuring the modified measures of scale and product mix economies. The artificial mergers examined in this paper are that all regional banks will be consolidated into one institution in each prefecture (so-called “one bank in one prefecture”). The empirical findings suggest that mergers are of higher benefit to larger banks with scale economies and cost-reducing effects. In addition, the results also indicate that improvement in cost efficiency is larger for the cases of artificial mergers between more than four banks, and branch closings could potentially reduce the predicted costs.

[JEL classification] G21; G34; C21

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