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The Effects of Consolidation on Bank Cost Savings: Evidence from Japanese Regional Banks

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Highlights:

- Japanese regional banks remain overbanked.
- Consolidating banks can have cost-saving effects.
- The potential cost-savings from bank mergers is greater for larger Japanese banks.

Abstract

The number of Japanese regional banks is too much, otherwise referring to as being “overbanked.” Therefore, to determine the practicality of merging Japanese regional financial institutions, this paper investigates the cost effects of mergers between Japanese regional banks located in the same area by using a simulated technique. Specifically, this paper calculates the modified measures of scale and product mix economies to examine the ratio of cost savings through mergers. In the simulated mergers, the regional banks in each area were consolidated into one institution to obtain one bank per prefecture (administrative jurisdiction). The empirical findings suggest that the potential for cost-savings is greater for larger banks. These results are robust even when considering simulated mergers in much broader areas.

Keywords: Japanese Regional Banks; Merger; Efficiency; Scale and Scope Economies

JEL classifications: G21; G34; L11

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