The Southern Indiana Bank Deposit Market

Banking has changed rapidly since the 1980s. Due to a record number of mergers and acquisitions, the average bank grew while the total number of banks declined.

With passage of the 1999 Financial Services Modernization (FSM) Act, also referred to as the Gramm-Leach-Bliley Act, banks can now engage in previously restricted activities, such as underwriting securities and insurance policies.[1] Since the FSM Act could lead to a wave of consolidation across commercial banks, insurance companies and investment banks, market concentration was likely to rise.

In this report, we investigate changes in southern Indiana's bank deposit market between 1998 and 2005 (six years after the FSM Act), and compare it with the Louisville, Indiana and Kentucky markets. For purposes of this article, southern Indiana includes eight Indiana counties, four of which belong to the Louisville Metropolitan Statistical Area (metro) that also includes nine Kentucky counties.[2]

TABLE 1: Banks in the Deposit Market

	1998	2005	Change
Southern Indiana			
Banks in the Market	32	29	-9%
Offices	136	151	11%
Market Deposits (billions)	$3.22	$3.99	24%
Indiana Portion of the Louisville Metro			
Banks in the Market	21	21	0%
Offices	99	112	13%
Market Deposits (billions)	$2.41	$3.02	26%
Kentucky Portion of the Louisville Metro			
Banks in the Market	36	40	11%
Offices	321	357	11%
Market Deposits (billions)	$14.65	$16.27	11%
Louisville Metro			
Banks in the Market	52	53	2%
Offices	420	469	12%
Market Deposits (billions)	$17.06	$19.29	13%
Indiana			
Banks in the Market	269	223	-17%
Offices	2,245	2,345	4%
Market Deposits (billions)	$69.76	$84.54	21%
Kentucky			
Banks in the Market	320	257	-20%
Offices	1,541	1,750	14%
Market Deposits (billions)	$47.72	$57.24	20%
United States			
Banks in the Market	10,738	8,856	-18%
Offices	83,314	92,046	10%
Market Deposits (billions)	$3,657.85	$5,933.76	62%

Source: Federal Deposit Insurance Corporation

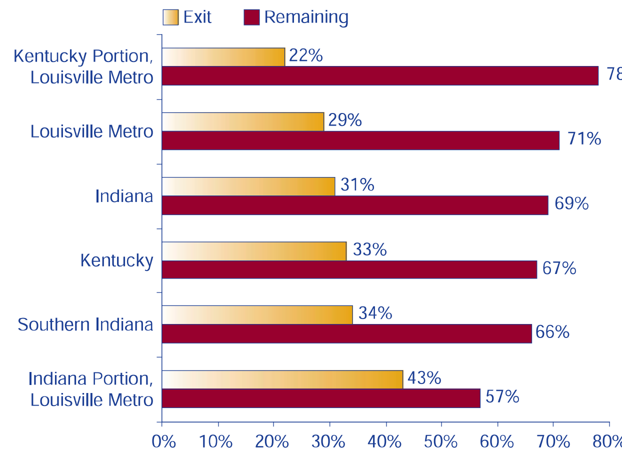
Banks in the Deposit Market

As seen in **Table 1**, the amount of bank deposits in southern Indiana increased from $3.22 billion to $3.99 billion between 1998 and 2005. The number of offices increased from 136 to 151, whereas the number of banks decreased from 32 to 29. These trends are largely shared by Indiana, Kentucky and the United States. Therefore, as the FSM Act led to a wave of mergers and acquisitions, the number of banks declined while the number of retail offices increased.

However, the Louisville metro did not experience a reduction in the number of banks, and this is especially true for the Kentucky side of the metro, which had an 11 percent increase in the number of banks.

Deposits in the United States went up 62 percent from 1998 to 2005. Unfortunately, this boost was shared by neither Indiana (21 percent) nor Kentucky (20 percent). As for the Louisville metro, the Indiana side had a much higher increase (26 percent) in the total amount of deposits than the Kentucky side (11 percent).

FIGURE 1: Percent of Banks Exiting or Remaining in Market



*For each market, the total number of banks in 1998 equals 100%
Source: Federal Deposit Insurance Corporation

Bank Entry and Exit

The banking industry is no stranger to mergers and acquisitions. For example, in 1998, NBD Bank ranked first in regard to southern Indiana's deposit market share at 17 percent. It was acquired by Bank One Indiana in 1999, which was later acquired by Bank One National. Bank One National was then acquired by JPMorgan Chase. By 2005, JPMorgan Chase Bank had become the number one bank, with about 12 percent of the deposit market share.

As seen in **Figure 1**, about 34 percent of banks that existed in 1998 exited the southern Indiana market by 2005, while 66 percent remained. (Remaining banks are defined as those having the same FDIC certificate number in 2005 as in 1998.) As for the Louisville metro, the Indiana counties have a much lower percentage of remaining banks (57 percent) than the Kentucky counties (78 percent),