Bank Mergers and Acquisitions Trends Under Recent Crises

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Abstract*—Financial crisis changes economists' rules and perspectives each time it hits the global economy. The catastrophic consequences affect all economic sectors and change conventional policy solutions. Mergers and acquisitions as economic activities have regulations and trends in normal economic times. However, in recent crises, mergers and acquisitions transactions indicate various behaviors and trends in banking institutions. By collecting mergers and acquisitions data of banks from authenticated sources and analyzing it based on crisis time. The current study covered the financial crises of black Monday in 1987, the Asian stock market crashes in 1997, the Dotcom bubble in 2002, and mortgage loans in 2009. The significant findings are that approximately 80% of crisis boost mergers and acquisitions transactions, specifically in countries where the crisis originated. On the other hand, the rest where mergers and acquisitions decline under crisis is attributed to going most deteriorating banks into liquidation or nationalization, causing a decline in the number of banks that are candidates to acquire under the effect of the crisis.

***Indexed Terms*—Merger and Acquisition, Financial Crisis, Economic Policy, Banks, Transactions.**

I. INTRODUCTION

An economic crisis has reflected various reflections on the global economy with various impacts on domestic economics because of global integration amongst countries' economies in recent decades. Regardless of the primary reasons that triggered the crisis, the critical phase is how to remedy its effects and recover the entire economy by altering the economic policy to avoid a negative impact on all economic sectors. Because of their economic roles, banks are going under rigorous stress. Unless they might be a direct participant in crisis initiation sometimes, thus they will develop catastrophic consequences like what happened in the mortgage crisis of 2009. Most of the Mergers and Acquisitions (Hereafter M&As) process achieved benefits like cost efficiency, the economics of scale, gaining new experts, and new services. Such M&As transaction focuses on enhancing the strength of new banks after the merger, and this kind mainly spread throughout the US and European banking systems.

In contrast, mergers after the economic crises were to prevent risky bank institutions from failing. Therefore, post-crises M&As transactions have a different aim. Moreover, it would be risky to acquire a run-in-distress bank, possibly leading the acquirer to fail as well. Previous studies are keen on studying a single country or geographically related countries. Therefore, they did not give the main frame of M&As behavior worldwide. The current study's contribution comes to unveiling the M&As transaction behavior under financial crisis, the patterns of that behavior in countries where the crises originated, and the situation of other economies towards M&As transactions.

II. LITERATURE REVIEW

The banking industry has its regulations and requirements. Management always targets to achieve and sustain profitability via various methods. The mission of management is challenging most of the time due to the competitive nature of the financial institution industry. Thus, a larger number of banks rely on the mergers or acquisitions approach to reap their willingness. Recent decades witnessed extraordinary transaction counts of M&As among all industries worldwide. The financial sector exhibits an appreciable activity regarding M&As movements. From 1990 to 2000, over 246 M&As transactions have been done, with market value hitting over 1 billion dollars [1]. Additionally, consensus views documented that M&As in the 1980s and 1990s were different from post-2000. In other words, the style of M&As has different trends over time worldwide. Most of the M&As transactions in the US target to enhance efficiency because most of US banks' structure is for small and medium-size community banks, unlike European banks, where the principal objective behind the M&As transactions is to improve the shareholder value [2].

M&As have sufficient benefits regarding increased profits and cost efficiency; reduce risk of bank portfolio [3]; benefits of economic scale and scope; and enhanced domestic economy [4] [5]. Most M&As gains came from the concept of " Too big to fail." Regarding motivations that drive banks to mergers, the change in technology and policy regulations encourage the management to increase the banks' market share and enhance "know-how" knowledge to deliver new financial services and products [1]. Akhavein et al. stated that cost efficiency was little affected by mergers in real life. However, in contrast, there was a remarkable enhancement in the profitability of the merger transactions, particularly if the bank management suffered from inefficiency regarding the profit-generating process. Akhavein et al. attributed that result to the diversification of loans portfolio and products [6] [7]. Likewise, evidence of economies of scope and scale through M&As was intensively studied, despite the difference in structure and policies, US and European banks share nearly the same properties pertaining to the economics of scale and scope. This appears with small banks that leak high technology and branches in contrast to those with big banks where the economies of scale and scope already exist and disappeared from an early time after the merger[8]. Drake and Hall noted the same behavior in Japanese banks [9]. The difference between US and European banks on one side and Japanese banks on the other side was due to imposed regulations in each economy[10]. Hughes et al. stated that economies of scale could not always be achieved because of the capital content of small and medium-sized banks and stated that economies of scale are associated positively with bank size and diversification, and negatively related to risk [11] [12].

Regardless of the benefits of M&As, banks may face a challenge regarding keep controlling weak banks that are already acquired to make them work properly to add desired value and achieve profits [4]. Besides the risk of failing to re-structure the weak acquired bank or miss-integration in the long-run problems. Several studies reveal that the merged services and business model may reduce customers and affecting their loyalty to the bank[13]. Moreover, M&As transactions lead to the concentrate banking services providers geographically, which reduces competition among banks. Consequently, that will affect the price and quality of services from customers' opinions. In addition, that will threaten small financial non-banking institutions by make them lose their customers to the new big banks, which make them lose credit supply and then go into distress [11]. Houston et al. asserted that the banking mergers in the new millennium gained better than in the 1990s but only appeared in big banks mergers, and the benefits could be garnered in the long run. Their work was based on the calculations of the net present value of merged banks after the transaction and the estimated value gained from the mergers itself. Likewise, the main advantages were from the market value of their shares after the merger announcement, which should be equal to or over the estimations of financial analysts [14]. In addition, Knapp and Chaudhry found that most US banks still achieved a high profit only five years post-merger [15]. Likewise, Hannan asserted that the source of profit improvements post-mergers is attributed to an efficient bank's plan to acquire inefficient banks that leverage their profitability, respectively [16].

III. METHODOLOGY

The study methodology is based on collecting and analyzing data of several official reports and academic websites. Merger and acquisitions transactions of the United States were collected from FDIC via the bank strategist group for consultation. At the same time, East-Asian statistics were collected from Thomson Router's reports. Finally, the M&As transactions data was gathered from the Institute for Mergers, Acquisitions, and Alliances (imaa). Then Data and figures are analyzed and interpreted to extract the facts and patterns of M&As transactions changing behavior respecting crises as certain events. The study covers four recent crises, namely (black Monday in 1987, the global crashes in 1997, the Dotcom bubble burst in 2002, and mortgage loans in 2009).

IV. RESULTS AND DISCUSSIONS

- East-Asia countries' merger and acquisitions

To unveil the role of the crisis on M&As transactions in the banking industry, table.1 exhibits the number of M&As transactions that were carried out during the pre and post-financial crisis of 1997 for each country where the crisis was initiated. Table 1. Formatted in two main phases. The first phase reveals pre-crisis M&As transactions for every eight Asian countries and covers the years from 1990 to 1996. The pre-crisis period represents a normal and stable economic condition for under-study economies with no sign of economic downward. Supposedly, the mentioned countries revealed a usual M&As transaction trend throughout the pre-crisis period, with 39 completed transactions. Therefore, this kind of transaction could enhance the performance and efficiency of the acquirer and the acquired bank to achieve economies of scale, reach new technologies, and expand their business. To acquire new customers.

Table.1
Merger & Acquisition transactions pre- and post-Asian crisis

	First Phase (Pre-crisis)	Second Phase (Post-crisis)		
		First stage	Second Stage	
Country	1990-1996	1997-2000	2001-2003	Total
Hong Kong	12	12	7	19
Indonesia	3	7	3	10
Malaysia	8	14	4	18
Philippines	7	24	9	33
Singapore	4	4	9	13
Korea	2	14	6	20
Taiwan	3	5	8	13
Thailand	0	14	0	14
Total	39	94	46	140

Source: Thomson Financial Securities, Mergers and Acquisitions Database.

On the other hand, the second phase contains the post-crisis period. It involves two stages as well. The first stage is the period directly after the crisis, which extends from 1997 to 2000. Where M&A transactions have been boosted relative to the pre-crisis phase for most of the countries (6 of 8). In total, the number of M&As transactions was raised to (94) transactions versus (39) transactions for the previous phase before the crisis. Post-crisis phase reveals that the economy downward has boosted M&As transactions. That action evidently appears in all economics of understudy countries. For countries namely (Indonesia, Malaysia, Philippines, Korea, Taiwan, and Thailand) M&As transactions increased. Despite the post-crisis period being shorter in terms of years (three years). Likewise, countries (Hong Kong, and Singapore) showed the same numbers in M&As transactions but for only three years, which means they achieved the same numbers in a shorter time. That asserts M&As transaction acceleration is attributed to authorities' directions. Authorities promote mergers and acquisitions as an urgent remedy to prevent the devastating consequences of the economic crisis in banking institutions. Meanwhile, banks with stable and strong positions may acquire struggling banks as a possible target due to the facilities for prevailing economic policies to prevent the spillover of the financial crisis. That keeps banking institutions fewer with stronger positions to encounter the crisis repercussions.

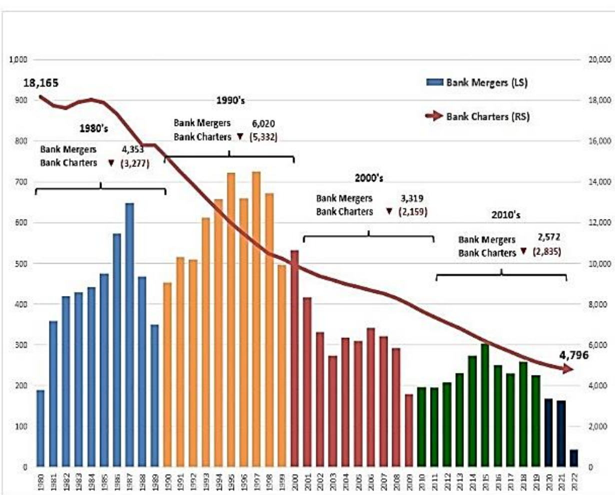
Therefore, three years was enough to treat the economy to save deteriorating banks. That result could be noticed when turning to the second stage of phase two, where the number of M&As transactions declined to reach about 46 transactions between 2001 and 2003, less than the previous stage. Also, that confirms the impact of a crisis to rapidly develop an acceleration in M&As transactions because the failure of several banking institutions under severe economic downward required urgent actions.

- United States Mergers and acquisitions

Mergers and Acquisitions in the US have more awareness among academicians because of the strong economy with various banking conglomerates [17]. The M&As transactions grew annually by (4.5%) on average since 1990, with about 12000 banks merged since that date. Besides that, the economy of the US has suffered from several domestic financial crises, and it was the source of global financial crises in recent decades. To uncover the M&A transactions behavior in the US economy, figure.1 Show the trend and the style of this country's M&As transactions number. The effect of the black Monday crisis of 1987 was apparent, the response was an increase in M&As transactions in 1987. Even though the crash in 1997 was not started in the US, M&As transactions responded and hit records in their rising numbers.

On the other hand, the crisis of dotcom 2002 shows a different response by a notable decrease in Transactions of M&A. In line with it, the recent mortgage loan crisis followed the same pattern, where the number of M&A decreased rapidly as the prevailing policy was to nationalize the deteriorated banks. Therefore, that shrinks the opportunities for merging or acquiring other banks. Even the recent pandemic did not cause a severe financial crisis. However, the economic consequences reach all economic sectors. Hence, we usually notice a collapse in M&A transaction growth compared to pre-pandemic years.

Figure .1
Merger and Acquisitions of Banks in the US



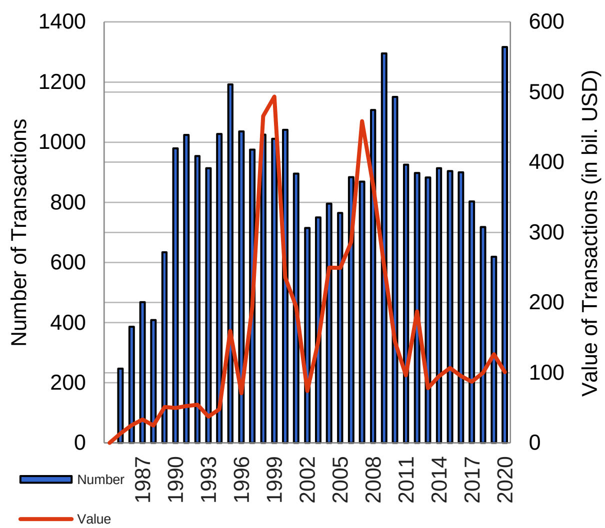
Source: FDIC, by bankingstrategist.com

- Worldwide M&As transactions in times of crisis

This section unveils the general trend of M&A transaction counts in the banking industry around the global economy in times of global economic crises. Figure.2 exhibits the M&A transaction counts globally from 1985 to 2020, which demonstrates different behavior for banking M&A under the recent four financial crises. Those crises were the black Monday crisis in1987 (Crashes of US stock markets); the crisis of 1997 in Asian markets, the Dotcom crisis in 2002 (The technology stocks bubble); and the recent crisis of US mortgage loans in 2009.

Seemingly, M&As transactions count indicates a dominant behavior under crisis stress and sequences, from the black Monday crisis in 1987 when 23 international stock markets crashed. The number of M&As transactions declined from (468) transactions in 1987 with 34 million dollars in value to (406) transactions in 1988 with 25 million dollars in total value. Likewise, the Asian financial crisis in 1997 manifests similar behavior. In comparison, the M&As transactions achieved (1036) transactions with a total value of 71 million dollars in 1996. Unlike that, the following year, 1997 had a decline in M&As transactions to (975) with 194 million dollars as value.

Figure .2
Merger and Acquisitions of Banks Worldwide



Source: imaa, Institute for Mergers, Acquisitions, and Alliances

In the same way, the first financial crisis in the 21st century, the Dot-com bubble burst, shows a similar style to the previous crisis. Whereas M&A transactions count reaches the lowest number of transactions by (715) transactions in the last 22 years in estimated value about (74) million dollars in comparison with the previous year 2001 when achieved (895) transactions count with (194) million dollars in term of value. As previously mentioned, crises revealed a unified style regarding bank M&As transactions count behavior under the crisis. Such behavior could be interpreted as shrinking the economic activities and becoming less attractive for banks to expand their business and alliances. Add to that the fear of strong banks from acquiring weak or failed banks due to it becoming risky transactions. Also, several governments and territories went to nationalize or liquidate the deteriorated banks that lost their ability to recover by normal procedures. Based on the aforementioned conditions, it caused a noteworthy reduction in outstanding bank numbers, reflected in the M&As transactions directly by reducing it significantly at that time.

Meanwhile, the situation was different in the mortgage loan crisis in 2009. Unlike previously mentioned crises, the recent crisis in 2009 indicates distinguished behavior regarding M&As transaction numbers. Whereas M&As transactions number hit a peak in the 21-century beginning by reaching (1295) completed transactions around the world with an assets value of about (252) million dollars. That number of transactions was larger than previous and next year alike. This behavior could be attributed to the fact that most economies around the world motivate their domestic bank to merge to enhance their efficiency and build strong banks to encounter the incoming infection of crisis after beating the economies of developed countries.

CONCLUSION

Bank's management adopted various plans to enhance their efficiency in the business environment. Merger and acquisition among well-known plans to gain efficiency by acquiring new banks to achieve several benefits. That looks sound under normal economic conditions. Meanwhile, when the economic conditions become unstable, the objective behind mergers and acquisitions will be on a different side. Crises are demonstrated that bank mergers consider an economical procedure to save banks under distress because of crisis consequences. Thus, merger and acquisition transaction behavior will take a decrease pattern as authorities promote mergers as a temporary solution to extraordinary situations. That is what was revealed in recent crises. Only when merger and acquisitions transaction shrink because of a decrease in active banks as a consequence of fail, liquidation, or nationalize banks, which reduce merger-ready banks, will make a drop in merger and acquisition transaction numbers.

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