

BANK RESTRUCTURING THROUGH THE PROCESS OF BANK INTEGRATION DURING THE GLOBAL FINANCIAL CRISES OF 2007

Irena Lekoska, PhD¹

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Abstract: *The global financial, marked as a systemic crisis of investment banking, was caused by the activities of one of the most exploited financial derivatives - the process of securitization. Considering the fact that the financial sector is one of the most globalized sectors, the financial crisis from the United States immediately struck the European market and has grown into a worldwide financial crisis. In the context of the processes of banks integration in the condition of the financial crisis, the question is whether there is a trend of increase or decrease of these processes? Therefore, the main objective of the paper is an analysis of the activities of banks integration during the financial crises and the adoption of appropriate conclusions.*

Keywords: *banks, restructuring, integration, financial crises, mergers, acquisitions.*

1. INTRODUCTION

The global financial crisis, marked as a systemic crisis of investment banking, was caused by the activities of one of the most exploited financial derivatives - the process of securitization. The main weaknesses of the securitization process, which also represented risks to global financial stability were: credit and liquidity risk management and the risk of the counterparty. Considering the fact that the financial sector is one of the most globalized sectors, the financial crisis from the United States immediately struck the European market and has grown into a worldwide financial crisis.

In the context of the process of mergers and acquisitions in the banking sector in the condition of the financial crisis, the question is whether there is a trend of increase or decrease of these processes? If you look through the prism of history, in turbulent conditions, with particular emphasis on the conditions when financial markets do not offer a continuous flow of capital or they are illiquid, the processes of merger and acquisition are stagnated. In the condition of financial crisis, the strategic objectives of financial institutions are changed in order to achieve national priorities, solvency, liquidity and stability in their operations.

2. ACTIVITIES OF MERGERS AND ACQUISITIONS OF BANKS DURING THE GLOBAL FINANCIAL CRISIS IN THE UNITED STATES

In the United States, during the global financial crisis, a downward trend started in the number and value of transactions of mergers and acquisitions in the banking sector. Figure 1 shows the data for the number and value of transactions of mergers and acquisitions in the banking sector of the United States.

¹ Proleterski brigadi, 43, 6330 Struga, Macedonia

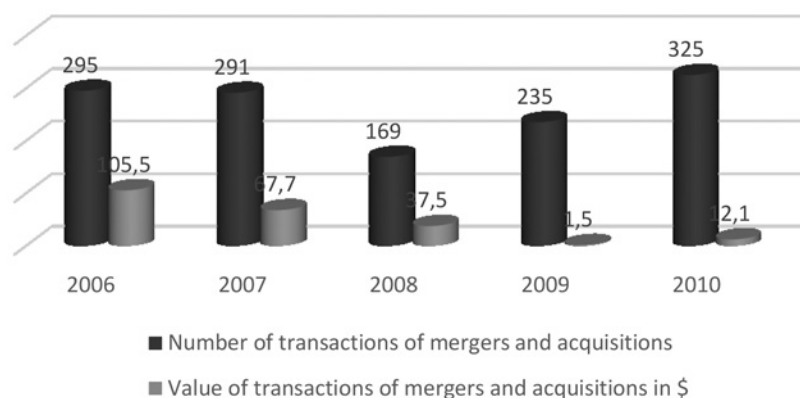


Figure 1: Number and value of transactions of mergers and acquisitions in the US banking sector. [1]

From the data in the Figure 1 can be concluded that on the territory of the United States, during the global economic crisis, there was a downward trend in the number and value of transactions of mergers and acquisitions in the banking sector. In 2008 was recorded the lowest volume of transactions in amount of 169, while the lowest value of the transactions of mergers and acquisitions of banks was realized in 2009, and it amounted to \$1.5 billion.

Bank M&A transactions rebounded in 2010 from depressed levels experienced during the financial crisis. Disclosed deal value increased to \$12.1 billion from \$1.5 billion in 2009, headlined by Bank of Montreal's Q4 acquisition of Marshall & Ilsley Corporation for \$5.8 billion.

Banking deals saw a significant uptick in volume and average deal value in 2010 compared to 2009, with 325 deals occurring in 2010 compared to 235 in 2009. As positive trends in the economy emerged, investor confidence rose. The increase in aggregate volume and deal size is attributed to the resurgence of traditional (non-FDIC) bank deals in 2010. [1]

3. ACTIVITIES OF MERGERS AND ACQUISITIONS OF BANKS DURING THE GLOBAL FINANCIAL CRISIS IN EUROPE

Table 1 provides an overview of the twenty largest mergers and acquisitions in the financial sector during 2009 in Europe.

Based on twenty major processes of mergers and acquisitions in the financial sector, during the global financial crisis, whose overview is given in Table 1, can be performed generalization of the directions of movement of the crisis: [3]

Nationalization of some major financial companies or taking a majority stake by the state (almost half of the twenty transactions in the period of 2009 belong to this type). Key transactions were the recapitalizations of Commerzbank for €10 bn, Royal Bank of Scotland (RBS) for €5,9bn and Lloyds Banking Group for €4,5bn; the nationalization of Anglo-Irish Bank for €3,8bn; and a €3bn capital injection into HSH Nordbank;

The rescue of the companies with difficulties in its operations. Some western financial institutions took the opportunity to take over the financial exhausted target companies in their „secondary home markets”;

Month	Target company	Target country	Bidder company	Bidder country	Deal value (€m)
January	Commerzbank AG (25.01%)	Germany	Government of Germany	Germany	9,970
January	Barclays Global Investors	United Kingdom	BlackRock Inc	USA	9,678
January	Royal Bank of Scotland (29,79%)	United Kingdom	HM Treasury	United Kingdom	5,884
March	Lloyds Banking Group Plc (21,60 %)	United Kingdom	HM Treasury	United Kingdom	4,455
January	Anglo Irish Bank Corporation Limited	Ireland (Republic)	Irish Ministry of finance	Ireland (Republic)	3,827
April	Hypo Real Estate Holding AG (91,35%)	Germany	Government of Germany	Germany	3,302
February	HSH Nordbank AG (25.99%)	Germany	Government of Germany	Germany	3,000
July	BPCE SA (20%)	France	Government of France	France	3,000
November	West LB AG (49%)	Germany	Government of Germany	Germany	3,000
August	Friends Provident Plc	United Kingdom	Resolution Limited	United Kingdom	2,164
January	KBC Group NV	Belgium	Government of the Flemish Region	Belgium	2,000
February	Alleanza Assicurazioni SpA (49,60%)	Italy	Assicurazioni Generali SpA	Italy	1,805
December	Intesa Sanpaolo Servizi Transazionali SpA Sanpaolo Bank SA	Italy	State Street Corporation	USA	1,750
January	Societe Generale asset management business	France	CAAM	France	1,620
July	Paris RE	Switzerland	PartnerRe Ltd	Bermuda	1,435
May	LeasePlan Corporation NV (50%)	Netherlands	Fleet Investments BV	Netherlands	1,300
November	Delta Lloyd Groep (38.4%)	Netherlands			1,120
November	JPMorgan Cazenove (49,99%)	United Kingdom	JPMorgan Chase & Co USA	USA	1,119
October	Sal. Oppenheim jr & Cie SCA	Luxembourg	Deutsche Bank AG	Germany	1,000
September	Genesis Lease Limited	Bermuda	AerCap Holdings N.V.	Netherland	890
Other			Sub- total		62,320
Grand total			17,761		
			80,081		

Table 1: Top twenty largest mergers and acquisitions during 2009 in Europe.[2]

Divestment of non-core banking subsidiaries. European banking saw several divestments outside the wealth management arena. The largest was Deutsche Bank acquisition of ABN AMROs former commercial banking businesses for €700m, after a protracted sale process that began when RBS and Fortis received government support in 2008. This trend could have a significant impact on the activities of Western European banks in the regions of Central and Eastern Europe. This situation opens the possibility of divesting subsidiaries in markets where banks failed to realize planned projects;

Acquisitions in asset management and private banking. Mergers and acquisitions activities in asset management increased during the second half of 2009. Notable deals included the acquisitions of Sal.Oppenheim by Deutsche Bank for €1bn, Julius Baers purchase of ING Bank Switzerland for €344m, and BNY Mellons acquisitions of Insight Investment Management from Lloyds Banking Group for €273m;

Significant focus on achieving the economy of scale and increase market shares at national level and fragmented domestic markets. This trend signifies further consolidation of small and medium-sized banks in fragmented markets of Italy, Spain and Germany;

Reducing cross-border transactions, especially to financial markets of Central and Eastern Europe. This trend started in 2007, primarily as a result of the reduction in the number of attractive target banks and the impact of the global financial crisis. During 2009, the process of reducing cross-border mergers and acquisitions continued because of lack of liquidity, declining economic growth in the region, as well as the inability of acquisition banks to find affordable sources of funds to finance new transactions; and use of joint ventures and other alliances. Joint ventures flourished during the 2009, particularly in France.

The global financial crisis has had major impact on the financial sector in terms of reducing the value of total transactions. In total, financial services deals for which values were disclosed amounted to €80bn in 2009, compared to €17,8bn in 2008 and €208bn in 2007. [3]

Also, the global financial crisis had a major impact on reducing cross-border transactions and focusing on national transactions. In this period, were characteristic transactions of mergers and acquisitions in the financial sector as an activity of governments.

4. TRENDS IN DEAL VALUE ADDED DURING THE GLOBAL FINANCIAL CRISES

Typical of the period of global financial crises is that strategic buyers, showing discipline, didn't lose sight of value. In mergers and acquisitions booms, acquirers are often tempted to overpay, but not in this boom cycle: the value created by M&A increased consistently. The data about trends in deal value added are presented in Figure 2.

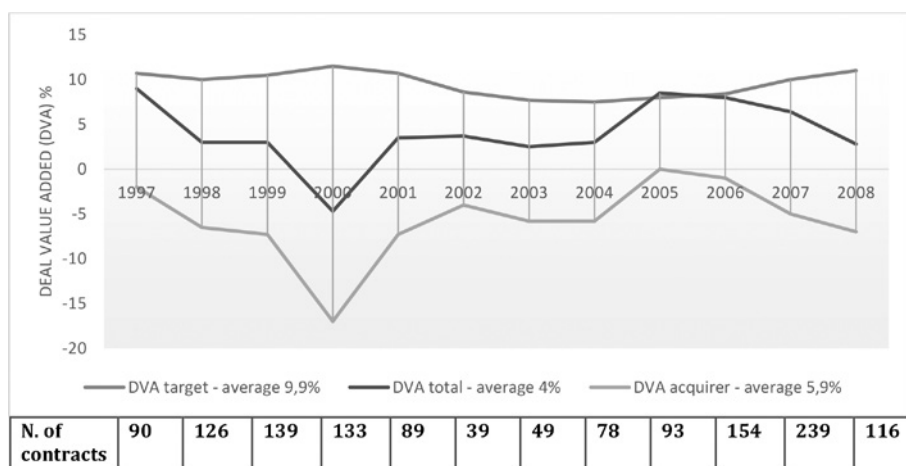


Figure 2: Trends in deal value added. [4]

From the data can be concluded that some worrisome signs did emerge in 2008, however. In 2008, the average deal value added (DVA)—our proxy measure of the total value created for buyer and seller—had decreased from the 2007 level (6.4 percent), to 2.8 percent, which is below the long-term average of 4.0 percent. This decline resulted entirely from a sharp fall in the creation of value for acquirers; for targets, it even slightly increased in 2008 compared to previous years. To understand what has happened, you must look at the reaction of the market to deals—in particular, the proportion of them in which it thinks the acquirer overpaid. [4] The data about overpaid of a target company are presented in Figure 3.

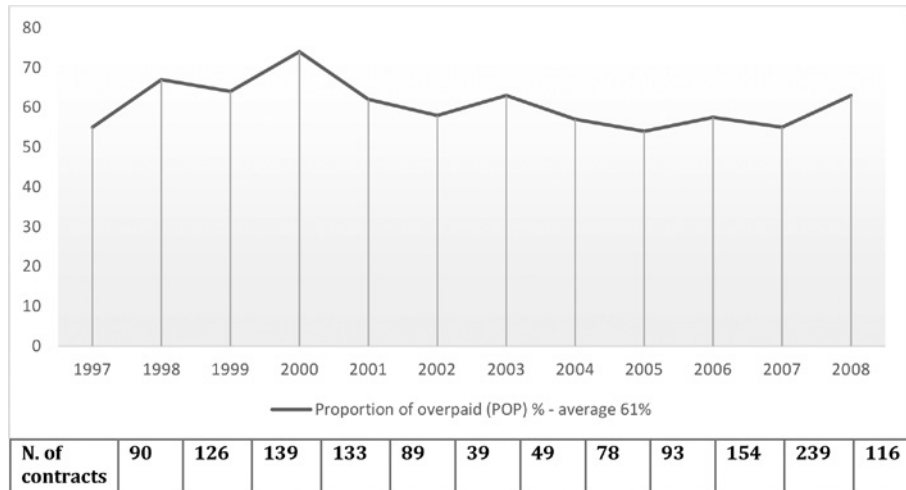


Figure 3: Proportion of overpaid (POP) %, 1997 – 2008. [4]

The data shows that from 2004 to 2007, this figure hovered around 55 to 57 percent, below the long-term average of 61 percent. In 2008, however, it rose to 63 percent.

5. CONCLUSION

From the analysis of the processes of mergers and acquisitions of banks in conditions of financial crisis, it can be concluded that the uncertainty resulting from the financial crisis has not made a dramatic impact on decisions on mergers and acquisitions in the banking sector.

However, in turbulent conditions, when there is reduced efficiency of financial markets, which is manifested by lack of capital, it is normal that the priorities of the banks will be forwarded to achieving greater stability of their activities, providing business continuity and greater operational efficiency. Post-crisis period is a challenge for banks, because they have to contend with strict supervision of their activities, while building strategies for restoring the lost reputation and trust of customers.

For global financial institutions, a challenge will be to transform into simpler and more specialized institutions. If these institutions have deep roots in specialized businesses, they may choose to concentrate on certain activities. This process is already happening with Citibank, which is in the process of diverting their traditional activities to the activities of offering services to global corporations and transaction banking.

In the short term, is expected many banks to be transformed into small commercial banks that operate locally and regionally. Some large banks with extensive branch network through the

process of divestment will have the opportunity to remove the unsuccessful banking activities and will focus on parts of the market where they have profit. However, there are global banks such as, Barclays and BNP Paribas, which exploit the financial crisis as an advantage in pursuing its cross-border transactions of mergers and acquisitions.

The success of each financial institution is directly dependent on its long-term strategy. Determining the direction of future banking activities, long-term goals, focusing on specific market segments, form of organization and so on, are key determinants of the effectiveness and profitability of banking institutions.

Financial crises have a destructive character. They shake stability of financial systems and imbalance activities of financial markets. But there is always the other side of the coin that is the possibility of changing financial institutions. Namely, the financial crisis offers good lessons and experiences, and their corresponding application will open wider horizons of success of financial institutions. In the future, the strategic objectives of banks must follow the adequate vision of their work. The processes of mergers and acquisitions will represent the driving force that visions of the banks will turn into reality and will trace the path towards to their long-term goal (more effective, more flexible and more efficient banking operations).

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