ASSESSMENT OF THE IMPACTS OF AMALGAMATION OF COMMERCIAL BANKS IN NIGERIA

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ABSTRACT

This study sought to assess the impact of amalgamation of commercial banks in Nigeria. It is obvious that commercial banks are the cornerstone of the economy of a country as they play a crucial role in propelling the entire economy. The sector is also seen by its essential role of intermediation, which involves resource mobilisation and allocation in an economy and its position as the most important segment of the financial system in developing economies, accounting for the bulk of the financial transactions and assets. The study concluded that while the amalgamation of commercial banks in Nigeria may be good for the economy and for the growth of the industry, the market gap that is left could cause economic problems. Banks mobilise and assist in the efficient distribution of national savings by mediating between surplus and deficit savings units within an economy, thereby boosting the volume of investments and, thus, national output. Commercial banks are vital agents in the development process and hold a central role in the country's financial structure. However, the study has outlined the merits and demerits of amalgamation in the banking industry with reference to the customer's views in Nigeria. One of the recommendations made was that banks should encourage capital formation (investment) to foster economic growth through financial intermediation.

KEYWORDS: Amalgamation, Commercial Banks and Nigeria

Introduction

Banks' amalgamations are the linchpin of the economy of any country. They are vital agents in the development process and hold a central role in the country's financial structure. Banks mobilise and assist in the efficient distribution of national savings by mediating between surplus and deficit savings units within an economy, thereby boosting the volume of investments and thus national output (Afolabi, 2004). Banks encourage capital formation (investment) and foster economic growth through financial intermediation. The banking sector is considered one of the leading contributors to the growth of the global economy. Amalgamations of commercial banks in Nigeria are the engine of growth in the economy. In the opinion of Owolabi and Ajayi (2013), commercial banks are the cornerstone of the economy of a country as they play a crucial role in

propelling the entire economy. The sector is also seen by its essential role of intermediation, which involves resource mobilisation and allocation in an economy, and its position as the most important segment of the financial system in developing economies, accounting for the bulk of the financial transactions and assets (Ogunbiyi&Ihejirika, 2014).

Generally, mergers and acquisitions are ultimately utilised for economic gains. The very first cases of mergers were recorded between 1897 and 1904 in Europe and America. From time immemorial, mergers and acquisitions have been largely influenced by economic factors. The macroeconomic environment, which includes the growth in GDP, interest rates, and monetary policies, plays a key role in designing the process of mergers or acquisitions between companies or organizations. It is no doubt that in recent times, Nigeria has improved in embracing the viability of mergers and acquisitions in revamping their businesses or optimising the returns on investments. This laudable development is a clear departure from what used to be the convention in the past, in which the major actors in the amphitheatre of mergers and acquisitions were predominantly foreign-owned multinationals. In this case, the study was carried out to shed more light on the merits and demerits of bank amalgamation.

Concept of Merger and Acquisition

From a legal point of view, a merger is the legal consolidation of two entities into one, whereas an acquisition occurs when one entity takes ownership of another entity's share capital, equity interests, or assets. From a commercial and economic point of view, both types of transactions generally result in the consolidation of assets and liabilities under one entity, and the distinction between a "merger" and an "acquisition" is less clear. According to EDUCBA (2022), both mergers and acquisitions are prominent aspects of corporate strategy, corporate finance, and management. The process of M&A deals with the ways of buying, selling, dividing, and combining different companies. The process may help the involved entities grow rapidly in their sector or location, or it may also help them flourish in a new field. Although mergers and acquisitions (M&A) are used interchangeably, they come with different legal meanings. In a merger, two companies of similar size combine to form a new single entity. On the other hand, an acquisition occurs when a larger company acquires a smaller company, thereby absorbing the business of the smaller company. M&A deals can be friendly or hostile, depending on the approval of the target company’s board.

In corporate transactions known as mergers and acquisitions (M & A), the ownership of businesses, other organizations, or their operating units is transferred or combined with that of other entities. Majaski, Anderson, and Jasperson (2021) assert that a merger takes place when two independent organisations join forces to form a brand-new, combined enterprise. An acquisition, on the other hand, denotes the taking over of one entity by another. In an effort to increase shareholder value, mergers and acquisitions may be undertaken to broaden a company's customer base or increase its market share. M&A, a strategic management component, enables businesses to expand or contract, change the nature of their industry or competitive position, and do other things (Wikipedia, 2022). However, Boyce (2022) added that in a merger or acquisition, two businesses are combined to create a single business. Its assets, liabilities, and brand image are all consolidated into a single entity. As a result, it frequently results in financial gains as the combined business becomes more productive.

Concept of Banks

A bank refers to a financial institution licenced to receive deposits and make loans. Banks may also provide financial services such as wealth management, currency exchange, and safe deposit boxes (Barone, Anderson, &Rathburn, 2022). A bank is an institution that deals in money and its substitutes and provides other money-related services. A bank accepts deposits and makes loans in its role as a financial intermediary. It derives a profit from the difference between the costs (including interest payments) of attracting and servicing deposits and the income it receives through interest charged to borrowers or earned through securities (Selgin, 2020). Many banks provide related services such as financial management and products such as mutual funds and credit cards. Some bank liabilities also serve as money, which is a generally accepted means of payment and exchange. According to Turner (2022), the term "bank" can refer to many different types of financial institutions, including banks and trust companies, savings and loan associations, credit unions, or any other type of institution that accepts deposits. Banks provide financial services that help people save, manage, and invest their money.

A bank is a financial institution that accepts deposits from the public and creates demand deposits while simultaneously making loans. Lending activities can be directly performed by the bank or indirectly through capital markets (Wikipedia, 2016). Banks are a very important part of the economy because they provide vital services for both

consumers and businesses. A bank is a financial institution that deals with money and credit. It is an institution that provides a great variety of financial services. It accepts deposits from the public and mobilises the fund for productive sectors. It also provides a remittance facility to transfer money from one place to another (Assignment Point, 2022). Banks perform a myriad of functions, including deposits and withdrawals; currency exchange; forex trading; and wealth management. They also act as a link between depositors and borrowers, and they use the funds deposited by their customers to provide credit facilities to people who want to borrow. According to CFI (2022), a bank is an institution that accepts customer deposits and offers loans to individuals and corporate clients. However, banks make money by charging higher interest on loans than the interest they pay on customer deposits.

Concept of Commercial Banks

A commercial bank is a financial establishment that collects deposits and offers a basic range of financial services to its customers. These services include check account services, business loans, personal loans, and mortgage loans, among others (Gordon, 2022). A commercial bank also offers financial products to its customers; this includes CDs (certificates of deposit). A commercial bank is a financial institution that offers loans to individuals and organizations, accepts deposits that are payable on demand, and also collects and offers documents. According to Grimsley (2015), a commercial bank is a financial institution that is authorised by law to receive money from businesses and individuals and lend money to them. Commercial banks are open to the public and serve individuals, institutions, and businesses. A commercial bank is a financial institution that grants loans, accepts deposits, and offers basic financial products such as savings accounts and certificates of deposit to businesses, as opposed to a retail bank that provides similar financial products to individuals (Corporate Finance Institute 2022). A commercial bank makes money primarily by providing different types of loans to customers and charging interest.

A commercial bank is a financial institution that accepts deposits from the public and gives loans for the purposes of consumption and investment to make a profit. It can also refer to a bank or a division of a large bank that deals with corporations or large/middle-sized businesses to differentiate it from a retail bank and an investment bank. Commercial banks include private-sector banks and public-sector banks (Wikipedia, 2022). The term "commercial bank" refers to a financial institution that accepts

deposits, offers checking account services, makes various loans, and offers basic financial products like certificates of deposit (CDs) and savings accounts to individuals and small businesses (Kagan, Anderson, & Munichiello, 2021). A commercial bank is where most people do their banking. A commercial bank is a kind of financial institution that carries out all the operations related to deposit and withdrawal of money for the general public, provides loans for investment, and other such activities. Singh (2020) noted that a commercial bank is a financial institution that performs the functions of accepting deposits from the general public and giving loans for investment with the aim of earning a profit. However, commercial banks, as their name suggests, are profit-seeking institutions, i.e., they do banking business to earn a profit.

History of Bank Amalgamation

As banks looked towards the future, they anticipated a need for fewer, larger banks. Generally, amalgamation, also known as a merger, is ultimately used for economic gains. Between 1897 and 1904, amalgamation cases were first documented in both Europe and America. From time immemorial, bank amalgamations have been largely influenced by economic factors. The macroeconomic environment, which includes GDP growth, interest rates, and monetary policies, is crucial in determining how bank sector mergers are structured. The earliest mergers and acquisitions in Nigeria occurred in 1912 when the British Bank of West Africa, founded in 1892, acquired the Anglo African Bank, founded in 1899. These organisations evolved into the First Bank of Nigeria Plc., we know today. Since then, many more businesses have blended in (The Legal Nuggets, 2021).

It is undeniable that Nigeria has progressed in recent years in terms of adopting mergers and acquisitions for the goals of the restructuring firms or improving investment returns. It's a welcome change from previous years, when foreign-owned corporations accounted for the majority of M&As. Following the Nigerian merger wave of 2005, another wave of mergers emerged in the banking sector in 2011, with the purpose of addressing operational issues such as inadequate governance, poor financial planning, operational inefficiencies, and financial deepening (Ajayi, 2005).

The Merits of Bank Amalgamation

Nearly every middle-market bank in the industry is looking to either acquire another bank or be acquired. Many banks see an acquisition or merger as a chance to expand their

reach or scale up operations more quickly. A bank acquisition, however, is not without its drawbacks, particularly for the unprepared banking executive. Some of the merits of bank amalgamation are listed and well explained below.

Prevents financial distress of weak banks: Most often, this is the primary motive behind the mergers in the Indian banking industry, and it actually shields the weak banks from getting liquidated, in turn, becoming insolvent, for in a populous nation like India, a majority of people are still not connected with the financial sector, and any setback to depositors in these weak banks, which are mostly regional in nature, would deter the people from further shying away from the banks.

Rationalization of Branches: With bank mergers, comes the advantage of more branches in more areas. It also leads to the reduction of branches in those areas where it might see multiple branches, and thus it helps in better planning and management of resources, deployment of humans at workplaces etc.

Increased customer base and resources: The primary resource for any bank is the deposit that it gets, and thus, with mergers, the customer base and the market share automatically increase. In addition, the merged entity also acquires the client portfolio of the amalgamated unit.

Improved financial Inclusion: As we have seen, the amalgamating banks are usually the regional banks, which have greater rural and suburban outreach in comparison to the anchor bank, which is usually stationed in metropolitan areas. Thus, these banks help in including a large number of people who would have otherwise stayed away from availing the banking benefits of these large banks, thus improving the overall coverage of the Indian populace.

Minimization of scale of efficiency: The weaker banks also have a problem of inefficiency, which becomes a paralysing one in the long run, leading to their systematic failure. With merger comes standardised management practises for the anchor bank's base, and it is the dissemination of these practises that leads to the weaker banks' current efficiency being minimized.

Diversification of products: With an improved capital base and geographical outreach, the banks are in a better position to identify customer needs in different areas and thus offer customised products suitable to the requirements of a particular customer base. It

also helps in improving the competitive edge, as with larger units, it becomes easy to monitor the progress of a product from multiple levels.

The Demerits of Bank Amalgamation

Bank mergers and acquisitions are complex procedures with the possibility of extraordinary payoff – or extraordinary peril – so it's important to handle your upcoming M&A event with care. Keep these benefits and dangers in mind as you combine the processes of each different bank, and you'll be on your way to a successful merger or acquisition. Below are some of the demerits of bank amalgamation.

Poor Culture Fit: Plenty of prospective bank mergers and acquisitions only look at the two banks on paper—without taking their people or culture into account. Failure to assess cultural fit (not just financial fit) is one reason why many bank mergers ultimately fail. Throughout the merger and acquisition process, be sure to thoroughly communicate and double-check that employees are adapting to the change (Bigskyassociates.com).

Not Enough Commitment: Execution risk is another major danger in bank mergers. In some cases, banking executives don't commit enough time and resources to bringing the two banking platforms together—and the resulting impact on their customers causes the newly merged bank to fail completely. Avoid this mistake by dedicating enough resources for a full integration of the two financial institutions.

Customer Impact and Perception: While undergoing an M&A event at your bank, it's critical that you pay attention to the impact it has on your customers. Especially with smaller community banks, customers often respond very emotionally to a bank acquisition – so it's essential that you manage customer perception with regular, careful communication. And once the merger or acquisition is fully underway, remember to consider the impact on your customers at every stage. Anything from changing technology platforms to financial products could impact your customers negatively if you don't pay attention.

Compliance and Risk Consistency: A final danger to consider during your next merger or acquisition is the risk and compliance culture of each bank involved. Every financial institution handles banking compliance and federal banking regulations differently, but it's important that the two merging banks agree on their approach moving forward. When two mismatched risk cultures clash during a bank merger, it negatively affects the

profitability of the business down the road if they have not come to a working solution (Bigskyassociates.com).

Impact of Bank Amalgamation on Customers

In Nigeria, the banking consolidation exercise produced 19 mergers involving 60 banks. This trend is driven by the various benefits of mergers and acquisition (M&A), which have been proven to outweigh the risks or disadvantages (Babajide, 2019). This is especially evident in the global banking industry, where banks have used M&As to broaden their reach and upgrade their capacities in order to provide best-in-class products and services to millions of customers worldwide. Highlighting the benefits of M&As to the banking industry and bank customers, Joseph Afolabi, former Director, Research Department, Nigeria Deposit Insurance Corporation (NDIC), said: "since M & A is expected to lead to the creation of large and strong banks, confidence in the nation’s banking system is likely to be enhanced and this, in turn, may lead to an improvement in the banking habits of the populace, thereby enhancing the efficacy of monetary policy."

Furthermore, economies of scale are fairly likely to improve after a successful M & A. Larger transaction volumes and larger asset positions can be achieved through a rationalised delivery system, meaning that unit costs can be reduced. According to Babajide (2019), when such cost reductions are passed on to the consumers, this may be regarded as a public interest benefit. The proposed merger of Access Bank and Diamond Bank is also aimed at delivering these values to millions of customers across the world and the Nigerian banking industry. The deal, according to the banks, is driven by two critical factors: the need to combine the unique strengths of the two institutions to produce a financial powerhouse and the need to guarantee customers’ satisfaction. This is expected to produce a cost synergy conservatively estimated at N30 billion per annum, pre-tax, to be fully realised within three years post-completion.

In addition to these, any Diamond Bank or Access Bank cards that get trapped in either bank’s ATMs will not be destroyed. Instead, such cards will be released to cardholders upon validation of ownership. In the same vein, customers of both Diamond Bank and Access Bank will have access to over six hundred branches, where they can enjoy Same-Day Clearing of cheques in either bank, just as they will be rewarded for using either Diamond Bank or Access Bank POS terminals.

Impact of Bank Amalgamation on the Economy

Mergers produce synergies and economies of scale, increasing operations and cutting prices. Other benefits include increased capacity, cost efficiency, and product range expansion, leading to increased product choice for customers. One of the most striking mergers and acquisitions that occurred in Nigeria's private sector remains that of the banking sector in 2005. The Central Bank of Nigeria (CBN) in 2004 embarked on a policy-induced consolidation exercise to strengthen the banks and position them to play integral roles in economic development. The Central Bank had ordered banks to increase their shareholders' funds, raising their capital base from two billion naira (₦2,000,000,000) to a minimum of twenty-five billion naira (₦25,000,000,000). This policy prompted a significant reduction in the number of banks in Nigeria from eighty-nine in 2005 to twenty-five and later to twenty-four in 2004.

The decline was borne out of the inability of existing banks to meet up financially with the terms of the new policy. The apex bank's policy triggered a massive fusion of banks, i.e., mergers in the banking industry. Also, the aggregate capital base of the sector rose from about US$3 billion to US$5.9 billion. This unprecedented feat is a testimony to the success being recorded by the global concept of mergers and acquisition. The end product in the banking sector that year produced today's United Bank for Africa, which was formerly Standard Trust Bank and United Bank for Africa, and the then Bank PHB, which formerly was Platinum Bank and Habib Bank. The ability of the new entity to leverage economies of scale and scope will stem from the successful alignment of strategies and subsequent communication to stakeholders (Babajide, 2019). This alignment will shape the organization's culture, which is a critical success factor to thrive in a highly competitive banking environment.

Conclusion

The study concluded that while the amalgamation of commercial banks in Nigeria may be good for the economy and for the growth of the industry, the market gap that is left can cause economic problems. Banks mobilise and assist in the efficient distribution of national savings by mediating between surplus and deficit savings units within an economy, thereby boosting the volume of investments and, thus, national output. Commercial banks are vital agents in the development process and hold a central role in the country's financial structure. However, the study has outlined the merits and

demerits of amalgamation in the banking industry with reference to the customer's views in Nigeria.

Recommendations

1. Bank management should embrace broad product strategy, which could help in generating more income for the banks. They should also embrace diversification and financial innovation from producing new products and services.
2. Management should take cognizance of retaining cost controlling strategies on the long run. By implementing these individual low cost strategies, the merged banks can achieve synergistic advantages.
3. Banks should encourage capital formation (investment) to foster economic growth through financial intermediation.

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