MERGERS AND ACQUISITIONS THAT STRENGTHEN THE BANKING SYSTEMS DURING THE CRISIS

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Abstract:
A number of reasons have been advanced in order to explain why banks began to expand worldwide. There were several aspects that were aimed such as the client-bank relationship, the need for people to cooperate with these institutions and financial intermediaries in the host country. Mergers seek to improve the revenue derived from services performed later, but the increase is offset by personnel costs increase, while acquisitions are observed in order to restructure the acquired bank's loan portfolio and on the application of the improved lending policies that lead to higher profits. These things were best observed during the current crisis period. Regardless of the negative effects of the crisis, there were some banks which were not impacted. The large banking groups merged and by this means they managed to gain the power to dominate and control the entire activity of the field.

Key words: mergers and acquisitions, banking systems, Romania, multinational banks, financial crisis.

JEL Classification: *F21, F23, G18, G21, G24, G32, G34.*

1. Introduction

Over time, many countries have opened their banking sectors in order to encourage new foreign banks with the purpose to improve the quantity and quality of the banking services available both to the local companies and households. This situation led to the emergence of several banking groups that are worldwide found, such as Citigroup and HSBC, as well as a large number of multinational banks with a regional focus, such as UniCredit and Standard Chartered. If these multinational banking companies would have a future, then we can state that the future appears to be bright because they are able to perform economic functions in more successful way than other businesses.

Multinational banks do not typically enjoy direct financial support from governments or other organizations that would be in a position to subsidize the activities that consistently destroy the economic value.

There are a number of similarities and differences that relate to multi-national bank companies (MNBs) and to international banks. MNBs are considered banks that establish operations in more than one country. Therefore, MNBs are also sometimes referred to as foreign banks and are included in the general category of foreign direct investment (FDI) in the financial services domain.

International banks are the banks that operate across international borders, but which do not establish a physical presence in other countries. The MNBs operations can come in different forms, namely, subsidiaries, branches, joint ventures or strategic partnerships. The branches, for example, are an integral part of the parent company so they have no equity, but subsidiaries, however, they are separate legal entities that are wholly-owned by the parent company but which are incorporated in the host economy. Similarly, joint ventures are corporate entities different from the jointly entities owned by more than one parent company (Weller, 2001).

Moreover, international banks attract international investors in order to participate in the processes of micro-financing through structured financial instruments and the fourth part aims to ensuring good financial governance which is applied by MFI in its arrangements for financial inclusion.

A number of reasons have been advanced in order to explain why banks began to expand worldwide. There were several aspects that were aimed such as the client-bank relationship, the need for people to cooperate with these institutions and financial intermediaries in the host country. We can take into consideration the following issues: the regulatory framework; technological changes; financial innovation; growing diversity in terms of preferences, opportunities, but also the needs; and not least the important economies, because globally the economy has expanded and has experienced a widespread development (Weller, 2000a).

In their operations, MNBs focus on a select range of activities for a small circle of customers. MNBs tend to provide services that other banks are less familiar with or do not provide various services such as foreign currency loans, acceptances and guarantees related to international trade, or syndicated loans. As a result, MNB clients are usually multinational or large companies engaged in international operations. In addition, MNBs also provide services for those with high incomes, or what is referred to as individuals with incomes just as high.

Retail banking services such as checking small savings accounts, mortgages or small business loans are rarely the main focus of MNBs (Gaftoniuc, 2000).

Even if MNB will serve only a small circle of rich clients, the MNBs logic is that domestic banks will be forced to improve their operations in order to remain competitive. According to this logic, the resulting increase in the efficiency of the domestic banks should increase the amount of available credit and improve the stability of local banks. In practice, however, the research finds that increased competition from MNBs forces locale banks to reduce loan exposure. The bank stability has reduced the capital flow, thus limiting the currency depreciation and crisis. So according to this example, once the crisis occurred in the presence of multinational banking companies, it had a stabilizing impact on the host economy. However, there is some evidence that MNBs occasional promotes speculative bubbles that eventually lead to these crisis (Weller, 2001).

Over time, due to technological change and by default due to globalization, banks which had a major impact on the economy, managed to expand globally through subsidiaries and branches. As these financial institutions are in continuous interaction with the economic environment, by extension, banks have facilitated all operations which people could undertake and being an open system, had the opportunity to a globalize a wide range of services.

On the other hand, financial markets or rather the capital markets are nowadays more complex, and more dynamic in their activity and subject to unpredictable fluctuations. The role of banks has gradually but quickly become rather consultative the banks rather operate current transactions in relation to the customer needs. Everywhere, banks develop, acquire other meanings and seek geographic areas where to have several advantages and benefits or access points.

2. Concentration trends of the banking capital through mergers and acquisitions in Romania and abroad

Regardless of the negative effects of the crisis, there were some banks which were not impacted. These banks managed to be the main winners from the financial crisis such as JPMorgan Chase, Wells Fargo and Bank of America. They have had great success and have managed to buy their rivals, which were already bankrupt, and increased the market share in all areas, thus recording profits. There were also incentives which were generated by the high level of funding and huge bonuses and that led to favorable times for these financial banking corporations (European Commission, 2012).

The large banking groups merged and by this means they managed to gain the power to dominate and control the entire activity of the field. In Europe, USA, Asia, Africa and Australia, banks formed alliances which are globally ever closer to a larger scale and thus this leads to the increase of the profitability. The takeovers gradually multiply and the most complex mergers have mainly aimed the largest domestic markets focusing on a concentration between borders. Of course we can talk about the international mergers and acquisitions, but they are much larger and have both benefits and negative aspects (Weller, 2000b).

The average liquidity and solvency of the domestic banks were slightly higher than that of the multinational bank subsidiaries and their profitability decreased. The latter can rely on the support from the banking group to which they belong and, therefore, they tend to have a slightly lower liquidity given the various minimum levels required by local regulators. The funding received from the parent bank could not fully alleviate the financing constraints on local or external markets (De Haas and Van Lelyveld, 2011).

The most important advantage of the foreign property is the lower sensitivity of the foreign banks to the conditions from the host-country and the much better access on the international markets. At the same time, the activity of the foreign banks can be influenced negatively by the weak results of by the modification of the strategy of the mother-banks. The profitability of the domestic banking sector in the Eastern Europe region is declining, but it continues to exceed the levels of parent banks' countries (Radulescu and Tanascovici, 2012).

We will further analyze the purchases, but also the way they have managed to raise bank capital focused to generate much higher income and profit than the previous banking alliances, both in Romania and abroad.

UniCredit Tiriac Bank / RBS Bank (Romania) SA Purchase

UniCredit Tiriac Bank is part of UniCredit Group, a leading European bank with the most extensive network in Central and Eastern Europe, with over 3,900 branches. In Romania, UniCredit Tiriac Bank is one of the leading financial institution offering high quality products and services for all the customers. Through a network of 208 branches, the bank intends to permanently maintain the customer at the heart of its activities so that it becomes a partner who is easy to work and an active part of the communities in which they operate.

Regarding RBS Bank (Romania) SA, the bank is present on the Romanian market since 1995, being one of the first foreign banks which have operated in Romania. Furthermore, RBS Bank is part of the Royal Bank of Scotland and has a business strategy focused on the services offered to the top international clients and to those large domestic companies by offering competitive banking products and cash services.

In 2013 UniCredit Tiriac Bank S. A. ("UniCredit Bank") and UniCredit Consumer Financing IFN SA ("UniCredit Consumer Financing") bought the retail business and RBS Royal Preferred Banking (Bank) Romania SA. Unicredit Tiriac took over from RBS liabilities representing deposits worth 230 million euros and assets i.e. loans of around 315 million euros. Thus we can talk about the entire portfolio of the client accounts within the UniCredit system, as well as the legal and technical transfer of both clients and employees associated with the retail business.

Thus, the transferred customers will be served exclusively by the UniCredit network and will benefit from the offer of retail products and services of the bank and consumer-finance company UniCredit group. On the other hand, RBS Romania will henceforth focus exclusively on providing financial services to both companies and institutional clients.

Piraeus Bank Romania / ATE Bank Romania Purchase

ATE Bank Romania was founded in 1990, as the Bank for Small Industry and Free Enterprise, being the first joint venture bank in Romania, with both Romanian and foreign capital. In June 2006 the Agricultural Bank of Greece (ATE Bank Greece) took a majority stake. With the change of the shareholder majority, the bank changed its name, becoming the ATE Bank Romania. In mid-2012, Piraeus Bank Greece took ATE Bank of Greece, including all the branches of the region and 93.27% of the shares held by ATE Bank Romania.

After these transactions, in 2013 the Greek Piraeus Bank Group has completed the sale of the ATE Bank Romania subsidiary in exchange for 10.3 million euros for 93.27% of the shares of the credit institution and the transfer took place after the completion of the separation of a significant part of the assets and liabilities of ATE Bank Romania and the taken over by Piraeus Bank Romania.

Piraeus Bank Group operates in Romania through Piraeus Bank Romania with a total of 161 branches, 138 branches namely through Piraeus Bank and other 23 branches of ATE Bank Romania, in Bulgaria, Albania, Serbia, Ukraine and Egypt. Furthermore, the group is present with a branch in London and one in Frankfurt under the name of the ATE Bank. Following the purchase of ATEbank and Geniki Bank, the operations in Greece performed by the Bank of Cyprus, the Cyprus Popular Bank and Hellenic Bank and the Bank Millennium Greece acquisition, Piraeus Group's total assets have reached 95 billion euros, net loans reached 63 billion euros and customer deposits represent 55 billion euros in 2013.

Marfin Bank Romania / Bank of Cyprus Purchase

Since May 2008, Egnatia Bank (Romania) SA has changed its name into Marfin Bank (Romania) SA. This shift was due to the expansion process of the Marfin Group which acquired the parent bank, Egnatia Bank SA in Greece, in 2006. The Bank of Cyprus Group was established in 1899 and is the largest financial institution in Cyprus, with a dynamic presence in Greece and Russia, the UK and Australia, Romania and also Ukraine. The Bank offers a variety of financial products and services, including leasing, factoring, brokerage, investment funds, general and life insurance in both Cyprus and Greece.

Marfin Bank Romania and Bank of Cyprus (BOC) have signed an agreement by which Marfin Bank Romania has acquired some of the assets and liabilities BOC, the branch established in Romania in 2013. The agreement states that Marfin Bank took over the assets on a gross value of 82 million euros, deposits amounting to 77 million euro, and employees pertaining to the transaction. Moreover, following this acquisition, it was decided to increase the share capital of Marfin Bank Romania SA by its parent bank in Cyprus, which contributes to further strengthening the Romanian bank with foreign capital.

The Citibank Romania Raiffeisen Bank Romania portfolio takeover

Raiffeisen Bank is a universal top bank on the Romanian market, providing a complete range of high quality services not just to individuals, but to SMEs, and large corporations. Raiffeisen Bank Romania resulted from the merger completed in June 2002, of the two entities owned by Raiffeisen Group in Romania: Raiffeisen Bank (Romania), established in 1998 as a subsidiary of the RZB Group and Raiffeisen Agricultural Bank SA, founded in 2001, after the taking over of the State Bank Agricultural Bank by the Austrian group.

Citibank has been present in Romania since 1996 and provides financial products and services of high quality national and international companies. In the spring of 2013, Raiffeisen Bank Romania and Citibank Romania signed an agreement which states that Raiffeisen Bank takes over the Citibank's retail portfolio in Romania, and the transaction became effective on 1 July 2013 when the individual customers that were transfer, could perform operations in and from their new Raiffeisen Bank accounts, through all the channels that the bank provides to its customers.

The fusion of UniCredit Group in Romania, HVB Tiriac Bank and UniCredit Romania

The first major merger in the EU is the one between UniCredito and HVB in June 2006. Thus, the increase of assets turned the Italian banking group into a market leader in Central and Eastern Europe. The triple merger of the UniCredit Group's banking subsidiaries in Romania, HVB Tiriac Bank and UniCredit Romania, completed in 2007 by creating a new financial institution, UniCredit Tiriac Bank being a major institution on the Romanian market.

This was seen also in the figures, and at the end of the first quarter of 2007, the banks that merged recorded a combined gross profit of £ 83 million euros, up 51% more compared to the results of the two banks during 2006. Moreover, the assets of the two banks that have just merged, totaled 12 billion lei (3.7 billion euros).

Intesa Sanpaolo / CR Firenze merger

Intesa Sanpaolo Bank is the entity that will continue to act on the market following the takeover by absorbing the CR Firenze Romania assets at the beginning of 2011. Following the merger, the first in the local market in the past five years, Intesa Sanpaolo Bank will operate through a national network of 90 units, with approximately 1,000 employees and total assets exceeding 5 billion euros. On 1 October 2012, Intesa Sanpaolo Group has completed the merger of banking subsidiaries in Romania - Intesa Sanpaolo Bank and CR Firenze.

Following the capital increase, with 323 million lei (nearly 75 million euros, the shares of beneficial interest in the share capital of the two shareholders will remain unchanged, so that Intesa Sanpaolo SA holds 99.61% of shares and Intesa Sanpaolo Holding International the remaining 0.39%. Due to this merger, the capital increase will support the strengthening of the position and operations with positive effects on the local market.

These processes of mergers and acquisitions have taken place recently at some of the largest international banks such as Wells Fargo & Company (USA), Capital One, PNC Financial Services and FirstMerit Bank.

Wells Fargo / Merlin and Rock Creek Group Purchase

In 2012, Wells Fargo Securities purchased Merlin and Rock Creek Group LP. Merlin offers a large class of integrated solutions with its products and Merlin Prime SHARP in industry and provide custody and clearing services, operational support and securities transactions for the clients operating in the asset management industry. Moreover, with the acquisition of Merlin, a neutral broker with multi-asset capabilities, the open architecture platform of the Merlin Bank enables its customers to choose the trading platform that is right for their business.

Also, in 2012 Wells Fargo Asset Management acquired a 35% of the Rock Creek Group funds, with the option to purchase a majority pack over time. Fargo has $ 450 billion, of which approximately 70% is for institutional investors and Rock Creek Group manages $ 7 billion in separate accounts and hedge mixed funds. The wholesale banking unit of Wells Fargo, which includes capital markets and investment banking firms, reported in the first quarter of 2013 a profit of $ 1.9 billion, an increase of 14% compared to the previous year when the acquisition was on going. The unit accounted for 41% of the net income of the bank.

Capital One/ ING Direct USA Purchase

Capital One Financial Corporation is a financial holding company whose subsidiaries, which include Capital One, NA and Capital One Bank NA, had $ 128.2 billion in deposits and 206 billion dollars in assets in December 2011. Capital One pays 9 billion dollars for ING Direct USA, namely $ 6.2 billion in cash and $ 2.8 billion in stock.

The transaction that took place offered ING Direct USA a stake of nearly 10% in McLean and Virginia banks. Moreover, Capital One has raised $ 2 billion in capital and $ 3.7 billion in debt before the ING Direct business closed. Capital One is currently the ninth largest U.S. bank on deposits and has about 1,000 branches primarily in New York, New Jersey, Texas, Louisiana, Maryland, Virginia and the District of Columbia.

PNC Financial Services/RBC Bank Purchase

PNC is the fifth largest bank in the United States, the sixth largest bank by deposits in the United States and the sixth largest based on assets. RBC Bank, now part of PNC Bank, was the retail banking division of the Royal Bank of Canada, the United States. The headquarters of the bank was in Raleigh, North Carolina. In June 2011, PNC Financial Services agreed to buy RBC Bank in the United States at Royal Bank of Canada for $ 3.45 billion. The sale of RBC Bank was completed in March 2012.

After the acquisition, all the branches were renamed PNC branches and the RBC bank mark became inactive for U.S. customers. Subsequently, RBC has created a new unit based in Georgia to serve customers in Canada. The transaction that took place helped PNC to expand its operations in Atlanta with an increased bank capital and had a beneficial impact on the competitive environment.

FirstMerit Bank/Citizens Republic Bancorp Purchase

FirstMerit Corporation is a diversified financial services company headquartered in Akron, Ohio, with assets of approximately $ 24.5 billion in April 2013, with 415 branches and 452 ATM locations in Ohio, Michigan, Wisconsin, Illinois and Pennsylvania. FirstMerit provides a complete range of banking and other financial services to consumers and businesses through its core operations and its major affiliates include: FirstMerit Bank, NA, FirstMerit Mortgage Corporation as well FirstMerit Title Agency.

The 37 branches of Citizens Bank of Southeastern Michigan and the 156 branches statewide were recognized as FirstMerit Bank branches, reflecting the new property concerning the acquisition of Citizens Republic Bancorp by FirstMerit Bank. Citizens Bank was the eighth largest in Michigan, with approximately $ 5.9 billion in assets in the state, and the 10th largest bank in southeastern Michigan, where it owned $ 1.4 billion in assets. When FirstMerit paid $ 912 million to buy Citizens Bank, FirstMerit became the 26th largest bank in the country. In conclusion, FirstMerit has paid a total of $ 1.3 billion for the bank, an amount that includes $ 355.4 million paid by the federal government - a debt repayment related to citizen involvement in TARP bailout.

Following the acquisition, loan losses decreased by 44% compared to the last quarter. Commercial loans continued to rise, albeit by a margin of thinning this quarter compared to previous quarters of 2012.

Because most purchases have had a strong impact on international banks, ransacking even the charts made above, mergers have created a link between various financial institutions as it follows.

State Bank of Indore/India Bank Merger

In India, for example, State Bank of Indore, Indore Bank was a bank owned by the Government of India and the largest in the State Bank of India (SBI) with six associated bank branches. In October 2009, the Government of India has given approval in principle to the merger of State Bank of India (Indian Bank) with the State Bank of Indore and on 15 July 2010, the Government approved the merger. On August 26, 2010 State Bank of Indore officially merged into the State Bank of India. In the moment of the merger, the bank had over 470 branches in over 300 towns and cities, and because of these permissions, the bank turnover increased substantially in 2011.

The Bank of America Corp/Merrill Lynch & Co Merger

The Bank of America Corp., the second-largest U.S. lender by assets, has completed the merger of its subsidiary Merrill Lynch & Co. in the parent company simplifying the corporate structure in 2013. Bank assumes duties and responsibilities of the unit, while retaining the brand Merrill Lynch. Since 2012, Merrill Lynch had about $ 62 billion in long-term debt, but the Bank of America took all commitments of Merrill Lynch including overdue loans in the U.S. and its debt securities, obligations on securities the movement and its guarantees both for outstanding credit debt issued by non-US subsidiaries and its affiliates of commercial contracts. As seen from the statistics made since the transaction, the Bank of America increased by 19 percent in 2013.

3. Conclusions

Since in the banking system the term global bank was introduced, and, therefore we are not surprised by the existence of these international agreements that develop gradually. There are a number of costs that are based on proper training of a global infrastructure, but through mergers or acquisitions, electronic money and virtual banks emerged. The technical progress has left a clear, visible and lasting footprint. It forms a control unit and a major power and the entire banking sector consolidates at an accelerated pace.

Mergers seek to improve the revenue derived from services performed later, but the increase is offset by personnel costs increase, while acquisitions are observed in order to restructure the acquired bank's loan portfolio and on the application of the improved lending policies that lead to higher profits. These things were best observed during the current crisis period (Focarelli et al., 2002).

U.S. banks were the ones who profited the most from the benefits of banking acquisitions, and the crisis was a factor that facilitated this process. Whether it is deposit banks, commercial banks, regional banks or clearing banks which have appeared in major U.S. financial centers, they had the expertise to conduct various activities. However, the desire to expand and to gain international recognition, the specific organization of the banking system of these banks allowed capital mobilization and collection of capital in a both national and international support.

As a conclusion, globalization and internationalization of the entire banking and financial system brought new elements, binding rules, different actors of foreign trade, foreign investment and foreign direct investment, and not least to a greater extent the increasing demand for various products that have made it through customs barriers.

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