

Bank Mergers and Acquisitions: The Lessons of Global Experience



By Steven I. Davis

This report includes:

- 10 case studies of M&A success selected by peer banks and independent experts.
- 30 in-depth, off-the-record interviews with leading analysts, consultants and financial service providers.
- Comprehensive survey of third-party research on merger outcomes.
- The impact of the 'new players': hedge funds, private equity and sovereign wealth funds.
- Data and surveys from the US, European Union, Asia and Eastern Europe.

Assesses:

- The trends in emerging and developed markets and from cross-border initiatives.
- The effect of subprime on acquisition activity.
- The full range of operational and strategic issues: branding, branches, due diligence, HR, 'management testosterone', post-merger planning, regulation and the complications of merging IT systems.
- The demands on the CEO and top-level talent.

Answers:

- Is M&A activity a zero sum game?
- Have banks been successful in extracting projected synergies?
- Has the merger evaluation model changed significantly or does most, if not all, of the value added accrue to the selling shareholders?
- Where next for bank M&A?

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Background

The bank M&A valuation model and investor demands continue to pose a real dilemma for bank management. Investors (at least until the 2007-08 crisis) continue to demand double-digit earnings growth, which can only be resolved for most banks in developed markets by M&A.

Yet the M&A valuation model in normal times demands that buyers give away most, if not all, of the likely synergies to finance the premium paid to the seller's shareholders. This equation may not hold true in a crisis environment such as the 2007-08 period (few analysts did the numbers on JPMorgan Chase's acquisition of Bear Stearns in March 2008), but when normality returns to the markets, in all likelihood, so will the valuation model.

Although bank merger processes have become much more professional in recent years, and the forecast synergies are much more predictable, the risks of failure have increased considerably with the size and complexity of many transactions, and the pressure on bank CEOs from investors have skyrocketed.

Recent events have highlighted the shortage of CEO talent in managing large and complex organisations.

The competitive landscape has altered dramatically since Steve Davis first profiled this market at the start of the decade. The merger of equals has declined in importance as has the 'national champion'.

New players have emerged (hedge funds, private equity and sovereign wealth funds) although they have yet to radically impact upon the nature of the challenge where timing remains key and today's success story can quickly become tomorrow's tragic mistake.

The Scope of this Report

This report updates the groundbreaking 2000 survey of Mergers research. An extensive series of 30 in-depth interviews provides the unique value-added content. Not only have the senior management of a wide range of banks around the world been interviewed, but rating agencies, management consultants, fund managers, financial advisers, investment banks and regulators have also provided their views.

In addition data has been collected from independent providers: academics, management consultants, buy and sell financial analysts, rating agencies and independent data providers.

Case Studies include:

- The break-up of ABN AMRO: a case study with massive implications for bank M&A.
- BAWAG PSK: A case study in private equity.
- DnB NOR: The creation of a national champion.
- Erste bank: acquisition in Central and Eastern Europe.
- GE money: the largest non-US consumer finance company targets annual growth and ROE over 20%.
- HSBC: the largest financial institution focuses on growth markets with interconnectivity to developed markets.
- JPMorgan Chase: A formidable franchise with broad diversification.
- The Santander Group: an ambitious and successful cross-border acquirer.
- Standard Chartered Bank: M&A works alongside a timely shift back to its emerging market roots.
- UniCredit: The creation of a successful multi-national group by a targeted approach to acquisitions.

List of Interviews

Banks

- BAWAG PSK
- Bank of New York Mellon
- Deutsche Bank
- DnB NOR
- European Bank for Reconstruction and Development (EBRD)
- Erste Bank
- HSBC
- Santander
- UniCredit
- Wachovia

Analysts, regulators and consultants

- Black Rock Investment Management
- Boston Consulting Group
- Cass Business School
- Citigroup
- Deloitte
- Ernst & Young

Financial institutions

- Financial Services Authority (UK)
- Freeman & Co
- Fitch Ratings
- Goldman Sachs
- HSBC
- Millennium Associates
- Morgan Stanley
- Pricewaterhouse Coopers (PwC)
- RAB Capital
- Sandler, O'Neill & Partners
- Stern Business School
- University of North Wales
- US Comptroller of the Currency

Who should read this report?

Industry

Banking

Management consultants and advisers to the banking industry, including law and tax specialists

Academics

Investors/analysts, including hedge funds, private equity and sovereign wealth funds

Job Title

CEO, head of strategy/corporate development, director of HR, director of operations, director of IT, head of marketing communication

Head of banking practice

Professors of banking and strategy

Specialists in financial stocks

What are they looking for?

Best practice, the views of peers and independent experts. To understand the skill base required from top-level talent to execute successful mergers.

Best practice, case studies of success, issues to be addressed in executing successful mergers.

Case studies, own research, analysis of best practice.

Best practice, examples of success in M&A, views of independent experts.

Summary of Contents

Bank Mergers and Acquisitions: The Lessons of Global Experience

Chapter 1. The drivers of bank mergers and acquisitions

Chapter 2. Historical profile of bank mergers and acquisitions

Chapter 3. The merger valuation model

- The evolution of the model: from 'strategic positioning' to shareholder value
- Applying the valuation model
- Cost and revenue synergies
- Value transfer
- The Sal. Oppenheim study
- Tracking actual merger and acquisition results
- The Deutsche Bank outcome study
- Academic studies of bank mergers

Chapter 4. Planning and executing the merger/acquisition

- Planning the M&A
- The M&A planning structure
- Refining and strengthening the selection process
- Efficiency versus culture: the demise of the merger of equals (MOE) and the federal structure
- The impact of merger experience on the due diligence process
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- Coordination and ownership of the merger synergies
- The role of private equity in the merger process
- Sustaining the merger momentum
- The issue of unfriendly takeovers

Chapter 5. Leadership, people selection and culture

- Leadership: still central to M&A success
- The issue of collective leadership
- Unresolved issues
- Typical views of interviewees on today's leadership challenges
- Selecting and motivating the right people
- Culture: the battle for hearts and minds
- The generic solutions to cultural change
- Summing it up: strong leadership but also the 'soft stuff'

Chapter 6. Managing IT systems integration in a merger

- The views of IT specialists, consultants and senior bankers in the 2000 interview series
- The new challenges in IT systems M&A
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- IT issues in cross-border mergers
- IT systems integration for risk management

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- United States of America
 - Unique role of community and de novo banks
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 - The central role of regulation
 - The US as a source of global banking innovation
 - Limited penetration by foreign banks
- Asia-Pacific region
 - The attractiveness of the local market
 - The imbalance between foreign and domestic interest in cross-border M&A
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 - Price competition for attractive M&A candidates
 - M&A in Japan
 - The case study of Mitsubishi UFJ Banking Group (MUFG)
- European Union
 - The role of regulation
 - The birth of bancassurance
 - The death of strategic alliances
 - Limited M&A penetration by non-EU banks in the traditional banking sector
 - Relative M&A success of EU banks in selected overseas markets
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Chapter 8. Case studies of M&A success and innovation

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- Business profile and background
- Events in 2007
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- BAWAG PSK: a major bank acquisition by private equity
- DnB NOR: a successful domestic roll-out strategy creates a dominant national champion

- Erste bank: a successful acquirer in Central and Eastern Europe pauses to integrate its operating model
- GE money: the largest non-US consumer finance company targets annual growth and ROE exceeding 20%
- HSBC: the world's largest financial institution focuses on growth markets with interconnectivity to developed markets
- JPMorgan Chase: 2004 merger creates formidable franchise with broad diversification and disciplined management
- The Santander Group: an aggressive, opportunistic and successful cross-border acquirer
- Standard Chartered Bank: M&A supports a timely shift back to its emerging market roots
- UniCredit: Italy's second largest bank creates a successful multi-national group by a disciplined approach to domestic and cross-border acquisitions

Chapter 9. Merger outcomes: what has been the track record?

- Overall the record of bank M&A is mixed, both in aggregate and for individual banks
- Banks have become more adept at estimating and achieving cost savings as well as managing the due diligence process
- Yet uncertainties and risks in bank M&A are still present
- Some strategic lessons have at least been learnt in retrospect!
- 'No surprises' for investors is a key lesson
- There is little evidence of real progress by global banks in achieving the nirvana of a single IT system which can efficiently be installed in new markets
- The losses from delaying or extending the merger process continue to be substantial
- The example of the CEE is a rare instance of foreign banks effectively taking over the banking system of a developing region

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- The forecasts of the interviewees
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- The author's own views
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About the Author

Steven I. Davis has spent his career in the banking and financial services sector as a senior executive, strategy consultant, author, analyst and teacher. His 20-year career in international banking commenced at JPMorgan, where he managed a Paris-based research and M&A unit. For Bankers Trust Company, he ran a venture capital subsidiary in New York and later the bank's European businesses.

Davis is the author of eight books on the banking sector. For VRL Knowledgebank, his reports have included: *Cross-Selling in Retail Banking: Meeting the Revenue Growth Challenge*; *Bancassurance: The Lessons of Global Experience* and *Best Practice in Banking the Affluent Client*.

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