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# The Impact of Mergers on Bank Competitiveness in Nigerian Banking Industry

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## Abstract

An inclusive merger mechanism became one option for the Nigerian banking industry in response to a Central Bank of Nigeria's policy to increase the minimum paid-up share capital requirement of Nigerian banks from N2 billion to N25 billion in July 2004, with December 31, 2005 as deadline. More than half of the 89 banks in Nigeria as at July 2004 were engaged in one form of merger. The study objective gives insight into the effectiveness of economic policy reforms in the Nigerian banking industry. This study examines the merger's impact on bank competitiveness between 2000 and 2009. The period was characterized by financial deregulation, the Global economic crisis, and bank restructuring programs. The panel data ordinary least squares approach is the methodology employed to investigate if there is any significant effect of merger on the bank competitiveness from the pre to the post merger periods, in order to detect whether bank mergers produce any performance gains as well as factors contributing to the competitiveness in the Nigerian banking industry.

Article Preview

## 1. Background To The Study

The recapitalization of the capital base of banks constituted the first phase of the reform policy in the entire banking sector of the Nigerian economy. The key elements in the agenda included minimum capital base of ₦25 billion with a deadline of 31<sup>st</sup> December, 2005, consolidation of banking institutions through mergers and acquisitions and eight other items. Of all the reform agenda, the issue of increasing shareholder's fund to ₦25 billion generated so much controversy especially among the stakeholders and the need to conform before 31<sup>st</sup> December, 2005.

Following this announcement, an unprecedented process of mergers has taken place in the Nigerian banking sector shrinking the number of banks to 24 banks or banking groups involving 76 banks which altogether account for 93.5% of the deposit share of the market. Thirteen, accounting for the remaining 6.5% of the deposit share of the industry were not able to make it (CBN, 2006). The main thrust of the agenda was to strengthen the banking system, embrace globalization, improve healthy competition, exploit economies of scale adopt advanced technologies, improve transparency and accountability so as to become integrated into the global financial structural design and evolve a banking sector that is conversant with regional integration requirements and international best practices.

Apart from the pronouncement by the CBN Governor, the recent change in banking has necessitated the need for different banks to engage in corporate consolidation because it is a major policy instrument for correcting banking deficiencies. An early view of consolidation is that it makes banking more cost efficient because larger banks can eliminate excess capacity in areas like data processing, personal marketing or overlapping branch networks. Studies on efficiency in banking raised doubts about the extent of overcapacity, they did point to considerable potential for improvement through mergers. Consolidation refers to mergers and acquisition of banks by banks (Furlong, 1994). The impact of consolidation on bank structure has been obvious but its impact on bank performance in terms of asset size, deposit base, capital adequacy and profit efficiency has been harder to discern. Mergers are not just about adjusting inputs to affect cost, they also involve adjusting output to enhance revenue because banks achieve higher valued output mixes by shifting towards higher yielding loans and away from securities.

Mergers are not all rosy affair as we think, there are problems of outrageous dimensions if not properly articulated and implemented. The main danger in business combinations if not properly checked is that mergers may produce unwholesome monopolies which may push up prices of consumer goods arbitrarily. The recent outbreak of bank mergers in Nigeria is attracting much attention, partly because of the heightened interest in what motivates firms to merge. However, there are often two distinct views to the rationale behind mergers. The first is that firms merge just to get bigger and not to get more efficient and the second is that firms merge not to just get bigger but also to be more efficient. The efforts of the CBN have often been focused on how to improve the banking industry by controlling the key variables such as assets, deposits, capital adequacy, loans and advances, shareholder's funds etc, in the banks.

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