

PDF - EFFECT OF MERGERS AND ACQUISITIONS ON PERFORMANCE OF THE NIGERIAN BANKING INDUSTRY - researchcub.info

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The Nigerian banking sector has undergone remarkable changes over the years, in terms of the number of institutions, ownership structure, as well as the depth of operations. These changes have been influenced largely by challenges posed by deregulation of the financial sector, globalization of operations, technological innovations and adoption of supervisory and prudential requirements that conform to international standards. The Nigerian banking industry witnessed dramatic transformation during the recapitalization exercise which deadline was December 31st, 2005. Overall, the banking sector experienced steady consolidation through recapitalization and mergers and acquisitions that have resulted in fewer banks holding a greater value of the total assets in the sector (Okpanachi, 2011). Spearheaded by the announcement of the Central Bank of Nigeria on July 6, 2004 about a major reform program that would transform the banking landscape of the country, an unprecedented process of merger and acquisition took place in the Nigerian banking sector, shrinking the number of banks.

Immediately after the recapitalization deadline ended on December 31st, 2005, the number of operating banks in the country reduced from 89 banks to 25 banks but later reduced further to 23 with the merger of some banks like First Atlantic Bank Plc and Inland Bank to form Fin Bank Plc. Stanbic Bank Plc and IBTC to form Stanbic-IBTC Bank. The number of operating bank later increased to 24 banks with the entry of Citibank Nigeria Limited. The merger and acquisition of the nine rescued banks i.e. the merger of Access Bank Plc with Intercontinental Bank Plc: Merger of Ecobank Transnational Incorporation with Oceanic Bank Plc: merger of First City Monumental Bank with Fin Bank Plc further reduced the number of banks operating in Nigeria to 21.

The wave of mergers and acquisitions that had taken place in the Nigerian banking industry raises an important question of whether bank consolidation enhances the financial performance of Nigeria banks. Hosono et al (2007) argued that consolidation may increase or decrease the performance of a bank. Mergers and Acquisitions are common place in developing countries of the world but are just becoming prominent in Nigeria especially in the banking industry. Umoren (2007) says that merger and acquisition is simply another way of saying survival of the fittest that is to say a bigger, more efficient, better-capitalized, more skilled industry.

As the banks are devising ways of improving efficiency and ensuring the optimization of the available resources, policy makers and regulatory authorities are moving towards openness, competitiveness, and at the same time ensuring market discipline. This is in tandem with the trend in the banking sector globally. Ahmed (2000:33) described this development as a magic one which caused quite a substantial number of Nigerian banks to besick while some became healthier. In his view, he contended that growth in the banking sector should be transmitted easily into growth of the real sector. But as banks continued to record impressive growth in all economics, indices show a declining margin of economic growth. This makes one wonder where the impacts of the impressive performance of the banks as reported in the financial reports are being felt. Even the NDIC (Nigerian Deposit Insurance Corporation) which is established to insure the deposit liabilities of licensed banks has liquidated some distressed banks. The action, Ezeikpe (1993: 36-38) commended while arguing that some distressed banks should be liquidated as a way of survival for the

banking system.

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