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Horizontal Bank Mergers in the Face of Financial Crises: An Analytical Study of Commercial Banks in Iraq

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Abstract : Banking merger is one of the outcomes of globalization, and it is one of the new global banking variables whose influence increased, especially during the second half of the nineties, with the increasing trend towards the globalization of banks as part of the system of economic globalization. It has become a global phenomenon at the present time, due to reasons of global competition, and in light of changes In light of globalization, the success of banking operations depends directly on its success in managing banking risks and choosing a business strategy that reduces threats and challenges, whether internal or external, as crisis management means how to deal with and overcome them with various scientific tools, as well as avoiding their negatives. Benefiting from it in the future, given that the crisis is not the result of itself, and the researcher sought through the foregoing to show the importance of managing banking crises in the Iraqi economy by tracking that in some Iraqi commercial banks.

Keywords: banking merger, the economic importance of banks, Iraqi commercial banks.

Introduction: Horizontal mergers are an important strategy used by banks to enhance their competitive position and strengthen their ability to face economic challenges, especially in light of recurring financial crises. In the banking environment, horizontal mergers involve merging banks operating in the same sector or with similar activities. The goal is to achieve greater integration, preserve financial and human resources, reduce operating costs, and increase market share. In the context of commercial banks in Iraq, this concept is particularly important, as banks are exposed to a series of financial crises that impact their performance and economic stability. The current study analyzes the effects of horizontal mergers as a means of adapting to these crises, focusing on the factors influencing their success, the challenges they face, and the benefits that Iraqi banks can achieve under these circumstances. In doing so, the research seeks to shed light on the role of horizontal mergers in enhancing the financial stability of banks and its potential role in supporting economic development in Iraq, particularly in light of the economic and political changes affecting the financial sector.

Research Methodology

First: Research Problem

Is a banking merger feasible and significant in increasing confidence in dealing with Iraqi commercial banks and ensuring they achieve their objectives?

Second: Importance Of Research

The importance of the research can be understood from its general title, as mergers in commercial banks play a prominent role in achieving a set of goals, including ensuring confidence in dealing with these banks and achieving profits for them, in addition to achieving the state’s economic goals by ensuring the management of bank credit granting to individuals and investors.

Third: Research Objectives

The research aims to demonstrate the importance of banking mergers in achieving banking confidence, ensuring the continuity of banking services to individuals, and the extent of its contribution to achieving the general economic goals of the state.

Fourth: Study Hypotheses

It can be assumed that it is possible to achieve banking integration in Iraqi banks, as it is of great importance in increasing confidence in transactions and ensuring the banks' continuous development.

Fifth: Research Structure

To achieve the research objective, the research was divided into three sections. The first section presented the theoretical framework for integration in light of banking crises. The second section addressed the practical aspect, including the experience of the Baghdad Commercial Bank in Iraq. The third section included the conclusions and recommendations reached by the researcher, which can be studied and applied to achieve banking and economic goals.

Section One: Literature Review

First: Concept of Bank Mergers and Crisis Management

A merger is often a major event that can reshape an entity and change its trajectory. Its significance increases when it involves banks. Recently, bank mergers have become increasingly common, transforming the Indian banking landscape. But what exactly are bank mergers and how important are they (Haris, 2012: 1)

Concepts in banking economics regarding bank mergers vary, with one definition being "an agreement that leads to the voluntary union of two or more banks and their integration into a single Egyptian entity, such that the new entity has a greater capacity and effectiveness in achieving goals that could not have been achieved before the completion of the process of forming the new bank" (Anderson, 2006: 1292). Some also view bank mergers as the financial process that leads to the acquisition of one or more banks by another financial and banking institution, whereby the merged bank typically relinquishes its independence and merges with the merging bank, becoming a single bank. The new bank adopts a new name, usually the name of the merging institution or a common name between them. Bank mergers are an institutional restructuring process, whereby two or more banks merge into a single entity. This merger usually results in a larger bank merging with smaller banks. Bank mergers are highly complex processes, involving legal, financial, and operational integration between the merging entities. (Canyon, 2020, 7)

Second: Stages Of The Banking Merger Process

1-Preparing for the merger

2-Announcing readiness for the merger

3-Assessing and identifying the implications of the merger.

Third: Advantages of Bank Mergers

1- Achieving economies of scale

2-Increasing the bank's ability to grow, expand, and open new branches

3-Diversifying deposit sources

4-Increasing competitiveness

5-Improving the regulatory environment and developing administrative systems

6- Improving profitability, increasing net profits, and raising the value of new shares

7-Increasing the bank's ability to export banking services abroad

8-Increasing the bank's ability to build reserves to strengthen the financial position and capital adequacy ratio

9-Increasing the bank's ability to finance various projects and diversify banking activities

10-Increasing the bank's ability to spend on research and studies to improve capital adequacy

11-Reducing risks to a minimum, as small banks are exposed to multiple risks, unlike large banks.

12-The ability to invest in.

Fourth: Crisis Management Objectives

The overall objective of crisis management is to achieve a rapid and effective response to the rapidly changing circumstances of a crisis, with the goal of preventing or mitigating its threat through the necessary preparations for anticipated crises and their occurrence, and providing the necessary support to restore normalcy. The objectives of crisis management can be summarized in the following points: (Al-Sahli, 2020: 587(

•Providing the scientific capacity to anticipate and predict actual and potential sources of threat and the optimal use of available resources and capabilities to mitigate the effects of the crisis.

•Defining the role of each of the relevant parties in organizing and managing the crisis and establishing an operations command center.

•Providing scientific and material capabilities for preparedness and response.

•Working to minimize the negative and harmful effects of crises on individuals and groups.

•Protecting neighborhoods and property at the site of the crisis and alleviating suffering during the crisis.

•Working to return to normal life through a set of steps and procedures.

•Develop emergency plans, early warning systems, and necessary preventive measures to prevent crises, define a communication plan with relevant authorities, and determine methods for restoring activity and returning to normal conditions. These include learning methods, analyzing the country's strengths and weaknesses, and the prevention and response process to evaluate the performance of various agencies.

•Keep the organization away from the crisis through activities that aim to support the organization's reputation and credibility, which are among the most important influential elements. (Al-Hajri, 2020: 226)

•Avoid the surprise that accompanies the occurrence of risks or crises by continuously and closely monitoring the sources of threats and potential risks, detecting early warning signs, and ensuring that these are communicated to the decision-maker in a timely manner to take countermeasures. (Al-Sahli, 2020: 587)

• Special task forces must be formed for rapid intervention when needed, provided that these teams receive specialized and high-level training according to the type and size of the mission. The expertise of other countries with precedence in this field should be leveraged.

Among the most important objectives of crisis management are: (Al-Shoubaki et al., 2016: 19)

-Working to prevent crises by eliminating their causes.

-Designing an effective organizational model to confront crises when they occur and mitigate their effects.

The researcher believes that defining the role of each of the relevant agencies in organizing and managing crises during times of safety and crisis, working to prevent their recurrence, and establishing an emergency operations command center are important.

Fifth: Obstacles to Crisis Management

Crisis management faces many difficulties and obstacles that prevent it from achieving its desired objectives. These obstacles can be classified as follows: (Sharfa, Bokgan, 2018: 27)

1- Human obstacles: These obstacles relate to the human nature of individuals and the prevailing organizational culture within the organization. These obstacles include:

-Believing that this cannot happen to us. People often avoid considering crisis planning because they discount the possibility of its occurrence.

-Individuals' failure to recognize and understand risks.

-Excessive reliance on group opinion.

-Some people's belief that the crisis management process is unimportant and not an essential part of it.

-Believing in the phrase, "We cannot save money".

2- Organizational obstacles: These obstacles relate to organizational aspects, including:

-The lack of a clear threat to authority and responsibility within the organization.

-Differences in culture and social backgrounds among individuals.

-Weak support and endorsement from senior management, and limited understanding and comprehension by leaders of crisis management methods.

-Weak qualification and training policies in the field of crisis management.

-Failure to ensure the powers granted to the relevant authorities to deal with crises.

3-Obstacles related to information and communication: These are obstacles related to the provision of information and the speed of its transmission and delivery between the various administrative levels within the organization's administrative structure. The role of communication in a crisis is evident through the adoption of a flexible and effective communication system throughout all stages of the crisis. This is achieved by determining the quality of communication used, identifying ambiguities in the communication channels used, and using appropriate communication methods that help management overcome complex events that may arise during the various stages of the crisis. Obstacles related to information and communication can be summarized in the following points (Al-Tayrawi, 2008, 60).

-Lack of a sophisticated communication system to provide customers with information.

-Lack of training for the crisis management team in communication skills.

-Weak ability to identify the accuracy and source of information in crisis-related circumstances.

-Exaggeration or scarcity of information, especially during times of crisis.

-The monopoly of information for predicting crises in specific centers and destinations.

-The limited use of modern communication systems in crisis management.

4-Obstacles related to the crisis management planning process: The obstacles that increase the efficiency of the planning process can be summarized as follows: (Abu Uzair, 2010, 52).

-The lack of data and information for predicting potential crises, and the lack of experts and specialists to analyze data using scientific and modern methods, may produce false indicators.

-The inability to detect early warning signals, whether due to negligence, ambiguity, or lack of oversight, may lead to unexpected crises.

-The wrong choice in forming the crisis team, which does not reflect the necessary details in the planning process, thus resulting in shortcomings in aspects of the plan.
-Modern technology is complex and rapidly evolving, and in order to keep pace with it, there must be continuous changes in the foundations and assumptions upon which planning is based.
-The lack of technical and technological capabilities to distinguish between alternatives and wired and wireless communication methods that facilitate communication and coordination, which affects the planning process.
-The lack of clarity in the plan and its inclusion of numerous complexities threatens individuals' ability to implement it, as effective planning is costly and time-consuming.
-The existence of an environment characterized by complexity and constant change, which may render planning inflexible and obsolete before it is completed.
5- Obstacles Related to the Function of Guidance (Al-Mushaiqah, 2020: 69)
-Declining interest in developing and strengthening good relationships between superiors and subordinates.
-Inefficiency and ineffectiveness in exercising authority and failure to follow correct methods in issuing relevant orders and instructions.
-Lack of interest in building a strong organizational culture while instilling values consistent with management requirements and dealing with crises efficiently and effectively.
-Ignoring the development and consolidation of positive leadership styles among leaders and their subordinates, which constitutes an obstacle to guidance. (Al-Tayrawi, 2008: 61)
6- Obstacles Related to Oversight
-The nature of effective crisis management requires an early warning mechanism. This is an important aspect of saving time to deal with and manage the crisis. Neglecting this has undoubtedly negative consequences. - Failure to use appropriate, modern devices and equipment that help detect deviations or errors and identify potential future limitations.
-Lack of an updated computer-based database that provides information that enables effective crisis management.
- Lack of extensive expertise in the field of supervision and follow-up.

Sixth: Crisis Handling Patterns and Crisis Management Requirements

1-Crisis Handling Patterns

Crisis handling is one of the key options that demonstrates management efficiency and identifies difficult situations in a remarkable way, reflecting the extent of managers' knowledge and experience and determining their ability to confront difficult events. Organizations differ in their crisis handling methods based on four factors: (the organization's strategy and objectives - the organizational structure - the organizational culture - the psychological system). These patterns are explained as follows (Al-Zaki, 2012: 49).

•Crisis-Ready Pattern: The organization, with its four factors (strategy, organizational structure, prevailing culture, and psychological system), is capable of handling crises and therefore falls into crisis management.

•Crisis-Targeted Pattern: This pattern is completely inconsistent with the previous four-factor pattern, which is inappropriate for crisis handling. There are no plans or strategies for crisis management, and the organizational structure and cultural and psychological system are unsuitable. Consequently, the organization falls into the danger zone.

•The ignorant style: In this type of organization, the organizational culture and psychological system are suitable for crisis management, but the organization is unaware of the need to manage crises in the future, and there are no formal crisis management efforts.

• The tragic bureaucratic style: This style represents organizations that lack plans, structures, or an organizational culture for dealing with crises, but senior management in these organizations is psychologically suited to dealing with crises. Consequently, these organizations remain immersed in their concerns and problems despite management's attempts to change their direction.

Seventh: Crisis Management Requirements

There are numerous requirements for crisis management, the most important of which are:

1-**Leadership Skills**: The organization's leader must possess skills that distinguish him from others, such as the ability to devise ways to confront unexpected crises, demonstrate self-control and emotional stability, utilize the necessary material, human, and technical capabilities when needed, guide, motivate, and raise the morale of subordinates, listen to them, prioritize, utilize available time to make decisions, and follow up on crisis response procedures from the moment they occur. Effective leadership is required, capable of conducting work according to plan and achieving set objectives with minimal time and cost (Al-Essa et al., 2019: 454).

2-**Precise Objectives**: Precisely defining objectives helps chart the course of a plan to successfully address the crisis. This includes defining the objective, identifying the elements that caused the crisis, dividing them into primary and secondary elements according to their degree of impact, identifying the forces supporting these elements, determining appropriate strategies and the appropriate timing for attack or response, and predicting the expected reactions to threats and their resulting effects. (Borzan, 2021: 36).

3-**Information system**: A set of interconnected elements that collect, sort, classify, process, analyze, store, and retrieve data, indicators, and information extracted from them when needed. This information is then provided to the decision-maker at the appropriate time, in the correct form, and in the appropriate quantity and type, enabling the decision-maker to make decisions with an appropriate degree of certainty. At the same time, this ensures the flow of the required amount of information about the trends and developments of the crisis to rationalize and direct decisions, making them more effective. (Al-Ajami, 2011: 11).

4-**Capitalization of Banks**: Knowledge, as an intellectual asset, is a fundamental pillar for the continuity of an institution's activity and an important source for crisis management in a competitive environment based on information and knowledge. Therefore, institutions must optimize the use of this element and preserve it through knowledge capitalization projects related to previous experiences and crises experienced by this institution or other institutions. This means creating a comprehensive and accurate information and data base on all of the institution's activities, all crises and risks it may face, and the impact and repercussions of these on the institution's overall activities and positions, and on the various parties involved in each crisis or potential risk. Information is the natural entry point for the decision-making process at various stages of a crisis. (Al-Rifai, Oulmi, 2016: 48)

5-**Delegation of Authority**: This is of paramount importance when dealing with crises. Events may force the responsible person to make the appropriate decision quickly, without waiting for the decision-maker, and this decision falls within their jurisdiction. Delegation of authority in this area is inevitable and necessary, especially if the crisis occurred in several separate and distant locations. (Al-Kaabi, 2014: 12)

Section Two: Reality And Possibility Of Merging Into Some Iraqi Commercial banks

First Requirement: An introductory overview of Babylon Bank

Babylon Bank (a private joint-stock company) was established with a capital of (500) million dinars pursuant to Certificate of Incorporation No. 6769. It obtained a banking license from the Central Bank of Iraq under No. S.A./9/3/461/11 on June 8, 1999.

During 2015, the bank's capital increased to (250) billion dinars. Thus, the bank's nominal and paid-up capital reached (250) billion dinars after depositing the capital supplementary funds amounting to (13,141) million dinars in the Central Bank on June 5, 2019.

Second Requirement: Objectives of the Babylon Bank

The bank's objectives, as stated in its articles of association, are to contribute to the development activities of the Iraqi economy within the framework of the state's general policy. This is achieved by conducting investment banking activities and various local and international commercial banking activities, for its own account or for the account of third parties, in accordance with applicable laws and in cooperation with the banking system and other investment entities concerned with the country's economic development, in accordance with the state's economic and financial policies.

Third Requirement: Strict Compliance in the Bank

The Compliance Unit monitors the bank's compliance with its daily banking operations and ensures the integrity of banking activities with regard to combating money laundering and terrorist financing, as well as credit, both cash and contractual. It also ensures that loans are granted in accordance with applicable regulations, based on the approvals of the Central Bank of Iraq regarding guarantees and interest. The validity of commissions and insurances for letters of guarantee issued by the bank is also verified (incoming), (execution), and (operational). The Compliance Controller monitors outgoing remittances, preparing statements for them and sending them to the Central Bank. The Compliance Unit also monitors overdue amounts and coordinates with the Legal and Credit Department to follow up on the aforementioned debts, particularly non-performing ones.

1- Anti-Money Laundering and Terrorist Financing Unit

The Anti-Money Laundering and Terrorist Financing Unit was established pursuant to Law No. (93) of 2004, the Anti-Money Laundering Law, and complies with the new Anti-Money Laundering and Terrorist Financing Law No. 39 of 2015. The bank relies on Anti-Money Laundering (AML) regulations to implement the Know Your Customer (KYC) and Know Your Customer (KYB) principles. The unit enjoys financial and administrative independence and is reporting to the bank's Board of Directors. The Unit is responsible for receiving, following up and auditing matters related to any operation suspected of being linked to money laundering or terrorist financing, requesting information related to it, investigating and analyzing it, and providing the competent authorities with this information when necessary for the purposes of combating money laundering and terrorist financing. The Unit may request any additional information it deems necessary to carry out its duties if it is related to any information previously received from all departments and branches during the exercise of its duties. In the event that information is available regarding the existence of an operation suspected of being linked to money laundering or terrorist financing, the Unit prepares a report attaching the information, data, documents and papers. The Unit submits a report on the Unit's work and activities to the Money Laundering and Terrorist Financing Reporting Office every six months. In order to exercise its duties, the Unit conducts studies and research and prepares awareness and training programs in the field of combating money laundering and terrorist financing.

2- Risk Management

The Bank's risk management policy, in an effort to keep pace with the best administrative and banking practices applied in financial institutions, and fully aware of the need to establish an integrated risk management department supported by individuals with expertise in this field, has therefore developed a civil policy and manual that will serve as a reference for this department. This policy will be reviewed after re-evaluating its suitability and compliance with applicable Iraqi laws and the instructions of the Central Bank of Iraq, and comparing it with what is practiced in local, regional, and international banks. The most important objectives of risk management are to help achieve the objectives for which the Bank was established, to preserve existing assets to protect the interests of investors, depositors, and creditors, to determine specific solutions for each type of risk at all levels, to work to limit losses and fluctuations, and to prepare studies as early warning before or after losses by offering to prevent or reduce potential losses. This includes maintaining the risk limits and standards set by senior management, and assisting senior management in selecting the banking activities and businesses it intends to undertake.

Conclusions and Recommendations

First: Conclusions

Through the research presented, the researchers concluded the following:

1- Mergers are very important for some banks in order to confront crises, as they are an unnatural, unstable, and complex situation that poses a threat to the strategic objectives, reputation, or existence of the banking institution.

2-Undertaking a merger during a time of risk and crisis management is of great importance in enhancing banking confidence and expanding commercial banking activity with customers, which serves as proof of the research hypothesis from which it was based.

3-Risk and crisis management is the best technical means to avoid emergencies and plan for unexpected situations, as well as a method for dealing with them when they occur to mitigate their consequences.

4-With the aim of preventing or mitigating anticipated risks, crisis management aims to achieve a rapid and effective response to the rapidly changing circumstances of a crisis.

5. There are numerous human, organizational, information, and communication obstacles that crisis management faces, creating numerous difficulties and other obstacles that prevent it from achieving its objectives as desired.

Second: Recommendations

The researchers present a set of recommendations for managing risks and crises in banks, including:

1- It is necessary to strengthen the role of bank management, such as the ability to devise ways to confront unexpected crises, maintain self-control and emotional stability, and employ the necessary financial, human, and technical capabilities when needed.

2-It is necessary to capitalize banks as a fundamental pillar for the continuity of the institution's operations and an important source of crisis management in a competitive environment based on information and knowledge.

3-The necessity of delegating authority: This is of paramount importance when dealing with crises, as events may force appropriate decisions to be made quickly and without waiting for the individual.

4- Activating the information system, which collects, sorts, classifies, operates, analyzes, stores, and retrieves data, indicators, and extracted information when needed.

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