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THE ALTERATION OF BANK M&A STRATEGIC MOTIVES FROM THE PRE- TO THE COVID-19 PANDEMIC PERIOD, A COMPARATIVE ASSESSMENT

By

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Abstract

Mergers and Acquisitions (M&A) constitute a strategy decision that banks over the past decades have taken in volume, leading to a more and more centralized banking landscape. Behind this decision, there are many and different strategic drivers which are linked not only to the Business Strategy of the banking entity, but also to the external factors that prevail in any given time period. This thesis aims to examine from a Business Strategy point of view the alteration between the pre-Covid-19 motives of Banks for their M&A strategy and the ones applied in the period during Covid-19. For this alteration to be understood, the author presents the most usual M&A drivers before the outbreak of the Covid-19 crisis among with the external factors that shaped the prior Bank M&A landscape, elaborates the Covid-19 effects on the Banking Sector as a whole and on Bank M&As specifically, and displays the strategic motives, as they have evolved in the pandemic period in an attempt to cope with the new financial environment. All of the above lead the author to a comparative assessment between the pre-Covid-19 Strategic Motives and the ones during Covid-19, in which he presents what remains the same and what has changed.

Key words: Mergers and Acquisitions, Banks, Business Strategy, Motives, Drivers, Comparison, Covid-19 pandemic.

CONTENTS

1. Introduction

Over the past decades, the consolidation wave in the Banking Sector was continually growing, leading to more robust and efficient bank entities, which could support the stability and resilience of the Banking System. This Merger and Acquisition (M&A) trend was seen in not only domestic markets but also cross-border. Since the Covid-19 pandemic started, it caused negative implications for the Banking Sector as a whole and especially for Bank M&As. Regarding the former, Banks with a high exposure to industries that have been hit hard by the pandemic, such as travel, hotels and restaurants, saw a growth in their Non-Performing Loans (NPLs), which affected the asset quality for the banks and lowered their valuations, increasing their need for efficiency. Regarding the latter, Bank M&As, the Covid-19 crisis slowed down the prior consolidation wave, as it created not only delays in the M&A process, but also triggered uncertainty. As a disruptive external factor that the pandemic was and still is, it comes as a natural consequence that it can affect the strategies behind the M&A activity during Covid-19 and beyond. This dissertation is going to make a comparative assessment between the pre-Covid-19 strategic motives of Bank M&As and those in the period during the pandemic, so that the alteration process can be seen. This subject is very important for the shape of the future banking landscape, considering that it is believed (Galvele, 2020) that the pandemic will leave many banks weak and they will be forced to consolidate for survival reasons. This is also supported by Luis de Guindos, Vice-President of the ECB who said that "consolidation through mergers and acquisitions could be one potential avenue for helping the sector return to more sustainable levels of profitability". It is mentioned that the thesis does not include information on drivers of Bank nationalizations, since it focuses on the private market and specifically in the U.S.A and Europe.

The purpose of this dissertation to investigate the alteration of strategic drivers for Bank M&As in the Covid-19 period will be satisfied by setting the following three objectives. First, the author will analyze the strategies for Bank M&As that were prevailing in the pre-pandemic era. Second, he will examine the impact of Covid-19 crisis on the Banking Sector and on the volume of Bank M&As. Third, he will review the Bank M&A strategies applied during the pandemic period. Consequently, the methodology the author will use in order to investigate the aforementioned alteration process is the comparative assessment based on two pillars, the pre-pandemic strategic motives and those applied during the pandemic.

The innovation of this thesis lies in the fact that, even though there has been done research into the financial implications of the pandemic for Bank M&A activity, there has not been done yet much research into the effects from a Business Strategy point of view and, one step further, research into the comparison between the prior and the now altered Business Strategy of Banks.

What occurs from the comparative assessment is that some pre-existing M&A strategies continue to apply during the pandemic period, while others have changed or at least have become more focused. Remaining strategies are Economies of Scale, Economies of Scope, Increased Market Power, Strategic Similarity, Risk Diversification and Replacement of Inefficient Management. What has altered is that Bank M&As are shifting towards a defensive mode, in an attempt to survive after the losses that they have undergone during the Covid-19 crisis. Technological advancement and digitalization are promoted to crucial goals for the M&A strategy in the post-Covid-19 era; that is why acquisitions of fintech companies are going to increase. Because of the divestiture wave of non-core businesses of Banks that the pandemic has caused, there is going to be seen an increase in asset deals rather than share deals, and Private Equity firms will be dynamically involved in acquiring certain parts of bank businesses. Finally, Environmental, Social and Governance (ESG) criteria are going to be integrated into the strategies for Bank M&As, as regulation around sustainability expands and becomes stricter and investors seek more ESG-compliant targets.

The remainder of this dissertation is organized in the following way. Section 2 concerns the review of Bank M&As Motives before the outbreak of Covid-19 pandemic. Section 3 sets the necessary frame, in which Covid-19 Bank M&A strategies are formed and includes three component parts: a) impact of Covid-19 pandemic on the Banking Sector, b) impact of Covid-19 pandemic on Bank M&As, and c) asset deals vs share deals. Section 4 reviews Bank M&A Motives during the Covid-19 period. Section 5 explains the methodology. Section 6 gives the comparative assessment. Finally, section 7 concludes and it is divided into five parts: a) key findings, b) contribution to the literature, c) implications for interested parties, d) limitations of the research, and e) suggestions for further research.

2. Review of Bank M&As Motives before the outbreak of Covid-19 pandemic

Prerequisite for examining the strategic motives behind M&As is to define their actual meaning.The terms mergers and acquisitions, even though they are used indiscriminately in the business world to describe the phenomenon of union between two or more entities, are not identical. According to Hughes, Mueller and Singh (1980) a merger occurs when two or more separate companies consolidate and a new entity emerges with a new management structure and a new ownership. Furthermore, a merger can be distinguished into 3 categories: horizontal, vertical and conglomerate. A horizontal merger is between two or more companies that compete in the same market and with the same products, while in a vertical merger the companies have an upstream-downstream structure, i. e. one is a client to other and the merger services the vertical integration of the latter, and finally a merger is considered a conglomerate when the separate companies compete in different markets and/or they offer different products. Mergers are characterized as friendly to differentiate from acquisitions which are considered hostile. The basis for this consideration is that in an acquisition one firm takes over another, with the last one ceasing to exist, while the acquiring company integrates all the assets of the acquired company and establishes its own management. Apart from that, additional justification for the potential hostile character of acquisitions is that they sometimes are conducted through the Leveraged Buyout (LBO) form. During an LBO, a company acquires another company using a substantial amount of borrowed money to meet the cost of acquisition, while both the assets of the acquiring company and of the acquired company are used as collateral for the borrowing. The ratio is usually 90% debt and 10% equity and the hostile character occurs from that the target company does not want the transaction. Even though the number of such acquisitions has declined after the 2008 financial crisis, LBOs began to increase again during the Covid-19 crisis.

Both mergers and acquisitions are forward-looking strategies that serve the purpose of expansion and growth, giving access to larger markets and customer bases. However, the motives behind those strategies are not the same in every case. In fact there are many different motives. Before the outbreak of the Covid-19 pandemic in 2020, the research of Pasiouras, Zopounidis & Tanna (2005) has shown that there are firm level motives as well as external factors which contribute to the strategic decision of Bank M&As. The firm level motives are divided into 3 categories: economic, managerial and hubris.

The economic motives are otherwise called synergy, which means that two firms join forces and the value of the new entity is greater than the sum of the separate values of the two firms. The first such motive is achieving Economies of Scale. In other words, banks aim to spread their fixed costs across a larger volume of outputs, i.e. products and services they provide, thereby dropping the average cost per unit. This entails fewer branches; hence labour cost is simultaneously reduced. Also, distribution, marketing and, of course, management costs get limited, while diffusion of know-how into the new entity is achieved, which can include human capital, technological advances, organizational structures and patents (Motis, 2007). Different from the motive of Economies of Scale is the motive of Economies of Scope, which appears when the aim is to utilize an existing customer base of a previous separate Bank, in order to sell different products, for instance a security product in the case of the merger between a Bank and an Insurance company, to this market. The variety of products and services will lead to cost efficiency.

Another motive for Bank M&As is Increased Market Power. There are three ways, as explained by Gaughan (1996), to reach Market Power. One is product differentiation which occurs when the combined entity utilizes the joined forces to offer a new product to the market. The other is increasing market share which is the result of two or more banks combining their separate piece of the pie. However, in this case Antimonopoly Legislation protects the market from the potential synthesis of a bank that can apply oligopolistic practices. The final way is to raise barriers for new entries into the market in the sense that the high level of efficiency, the diffusion of information and the large customer base, all of which achieved through an M&A, are difficult for a newly formed bank to compete with. Relative to Market Power is the Preemptive or Defensive motive that Fridolfsson and Stennek (2005) notice. This means banks may proceed with a merger or an acquisition for the defensive purpose of preventing a competitor from joining forces with the target and, as a result, become more difficult to compete with.

Close to the strategic driver for Increased Market Power is the driver for access into a new market. In other words, M&As, according to Berger, Bonime, Goldberg and White (2004), can have an "external effect" in that they function as an entry strategy into new markets. The acquiring bank is benefited from the reputation, the market knowledge and the established operations of the acquired bank and, as a result, the acquiring bank achieves an important lead in comparison to entering the market under its own brand and having to build its reputation from scratch. When acquisitions are used as an entry strategy, this is primarily for international markets.

What can also be a motive for Bank M&As is the Inefficient Management of a Bank. The management is called inefficient when it fails to maximize the market value of the bank, whereas there are opportunities to do so. In this case, another bank may consider it as a target for a takeover, in order to replace the prior inefficient management and exploit opportunities to increase earnings and cut costs.

Different from the above is the motive for Risk Diversification. The most usual forms of diversification regard geographic location and product diversification. The first one, in the form of cross-border consolidation, reduces the exposure of the bank to negative financial conditions of a country, since a correlation between the economies of two or more countries might be weak. In a similar way, the second one enables the bank to spread the risk across different financial services industries within a market. According to Demsetz and Strahan (1997), Risk Diversification functions as a means for banks to be able to undertake more investment risk, since they have previously reduced their risk profile.

The last synergistic motive for Bank M&As, according to Pasiouras et al. (2005), is Capital Strength. Commercial Banks are bound by the Law to sustain a minimum capital adequacy ratio. Therefore, it is of strategic importance for a bank to avoid low asset to capital ratios, since they are an indicator for financial weakness. A solution might be that this bank acquires another bank with relatively high capital to asset ratios, so that the combined entity regains Capital Strength and, as result, have better access to financial markets and raise capital at a lower cost.

As far as the managerial motives for Bank M&As are concerned, even though managers' role is to serve shareholders' interest by maximizing their profits, they can sometimes prioritize theirs above shareholders'. Managers may proceed with a merger or an acquisition for the sole purpose of increasing the size of the corporate entity they have under control, since their salaries and prestige are a function of the above, regardless if the merger or acquisition is strategically justifiable and for the benefit of shareholders. This motive, therefore, is managerial.

Similar to the aforementioned is the hubris motive which, according to Roll (1986), is related to managers' overconfidence in evaluating a bank as a potential target. Despite the fact that objective information might be against a potential merger, it is not uncommon that the management proceeds because of the faith in its own abilities to evaluate or to correct things if it turns out that there was a misjudgement in the first place.

To be fully understood, the motives for Bank M&As before the outbreak of the Covid-19 pandemic, have to be seen in correlation to the external factors that formed the economic environment in which the above strategies for Bank M&As made sense. According to the European Central Bank report (2000) and the Group of Ten report (2001), deregulation played a crucial role for the increase of Bank M&As. For example, in Europe, as the European integration was progressing, entry barriers into domestic markets were removed, then the internal market was created, followed by the economic and monetary union which led to the introduction of the euro and eventually the financial services action plan in 2000- 2005. Also, technological advances shaped the future for Bank M&As in the sense that they were applied in the financial services industry and restructured it. For instance, as it is pointed out in the Group of Ten report (2001), by utilizing technological advances combined entities could produce more efficiently certain products and services, such as derivative contracts, to sell to the market and increase their market share. What is more, globalization paved the way for cross-border Bank M&As which were extremely affected, according to Mueller (1989), by macroeconomic conditions. Mueller (1989) noticed that merger waves coincide in terms of time with economic booms, when a steep growth rate is seen in the economy and the stock market prices rise sharply. He concluded that even growth of GDP is a function of a potential merger or an acquisition.

What is also important for Bank M&As is, according to the ECB Working Paper (2004), the Strategic Similarity between financial institutions involved in mergers and acquisitions, because the strategic fit plays a crucial role in improving the post-merger or acquisition financial performance of the combined entity. Some banks have adopted cost efficiency strategies, while others have adopted product innovation strategies. The former present low operational expenditures, whereas the latter high research and development expenditures. However, in the ECB Working Paper (2004) strategic similarities needed for the success of a merger or an acquisition are distinguished based on whether the deal is domestic or cross-border. For the domestic deals, strategic similarities have to relate with cost, loan, earnings, deposits and size strategies. For the cross-border deals, differences of the involved banks in their loan and credit risk strategies contribute to a higher post-consolidation performance, while differences regarding the capital, cost, technology and innovation strategies have a negative effect on the performance.

All of the analysis above has presented the variety of different strategic drivers for M&A activity in the Banking Sector as well as the external factors that favoured their implementation. However, this analysis refers to the pre-Covid-19 era, so it has not included the potential effects of the pandemic crisis on Bank M&As. These effects will be reviewed below, after the author explains the necessary frame in which certain conditions were set, that paved the way for the new Bank M&A strategic motives which Banks apply in their M&A policy during the ongoing Covid-19 pandemic.

3. Frame

In this section, the author will present some essential external factors that have influenced Bank M&As in the period of coronavirus and have created an environment, a frame, to which future M&A activity has to adjust. Understanding these conditions is a prerequisite to understand the alteration of the strategic drivers for Bank M&As during the Covid-19 crisis and beyond.

3.1 The impact of the Covid-19 pandemic on the Banking Sector

The pandemic of Covid-19 played a disruptive role in approximately all industries; among them the financial services industry. Before we can understand the impact on Bank M&As, we need to take into consideration the impact on the Banking Sector as a whole. In the ECB Annual Report (2020) it is mentioned that, although the complete consequences of the Covid-19 crisis cannot be measured certainly unless the pandemic ends, the capital resources and the liquidity ratios for European Banks were significantly increased at the pandemic outbreak in comparison to 2008 financial crisis outbreak, which makes the Banking Sector more resilient and, according to the ECB's Covid-19 Vulnerability Analysis, "sufficiently capitalised to withstand the pandemic-induced stress". The same is supported by Galvele (2020) which points out that the average capital adequacy was 20% in 2019, NPL metrics were relatively low with an average ROE of 12.7%.

Bipasha and Suborna Barua (2020) present in a comprehensive manner the implications of the Covid-19 crisis for the Banking Sector. Due to exposure of individuals and firms to a higher risk of default during the pandemic, banks and especially those with a significant lending exposure to most hard hit industries, such as tourism, are likely to face a steep rise in default rates. On the other hand, withdrawals are going to increase which leads to liquidity shortage, thereby limiting the lending capacity of the banks. But before that happens, the danger of non-performing loans (NPLs), if realized, will mean a reduction in asset quality for banks, while a lower value of assets means a lower capital adequacy of banks and the latter threatens their stability. In addition, Johnson (2020) points out banking stocks have been negatively impacted during the pandemic and, as a result, bank valuations have decreased globally. Worth mentioning is also that ECB recommended at the end of March 2020 that banks should restrict their dividend payouts so that earnings can be retained and banks' ability to lend can be protected.

In an attempt to reverse the aforementioned negative course of the economy, ECB announced in March 2020 the Pandemic Emergency Purchase Programme (PEPP), which is a temporary asset purchase programme of private and public sector securities. The initial envelope for the PEPP was 750 billion euro, but it was finally increased to 1.850 billion. The purpose of PEPP is to lower borrowing cost and increase lending capacity for banks in the euro area, which will happen by buying different kinds of bank assets, such as bonds, so that banks have the necessary liquidity to lend to individuals and businesses. On the other hand, to this direction, borrowing options at low rates are offered to solvent banks so that they can mitigate temporary funding issues, while ECB is going to be "temporarily less strict about the amount of funds which banks are required to hold as a buffer for difficult times".

Economic recovery is the ultimate goal after the Covid-19 pandemic. According to Deloitte's survey in September 2020 with 69 chief risk officers from 12 countries in the Central and Eastern Europe on their views about the impact of the Covid-19 crisis on the Banking Sector, it is expected a prolonged economic recovery for banks that will be of an U-shape or an L-shape. After all, banks are an important pillar of the economy; therefore, their recovery is a key contributing factor to the renewal of national economies.

3.2 The impact of the Covid-19 pandemic on Bank M&As

Since the Banking Sector as a whole is facing repercussions of the Covid-19 crisis, it is a natural consequence that Bank M&As could not remain intact and would be affected both in their strategic motives and in their volume. In this chapter, we are going to focus on the implications regarding the volume of Bank M&As, whereas the effects of the pandemic on reshaping the strategies behind M&As will be presented in the next chapters.

According to Dobbs and Davis (2020), most of Bank Mergers during Covid-19 have been terminated, while those that persisted and got eventually completed were those that were very close to completion before the Covid-19 outbreak. For the first ones, Dobbs and Davis point out a big example: the estimated 3.1 billion US dollars merger between the $35.9 billion-asset Texas Capital Bancshares in Dallas and the $15.6 billion-asset Independent Bank Group in Texas was called off in May 2020. The fact that Bank M&As are called off must not come as a surprise, as Harroch, Lipkin and Smith (2021) claim, because buyers have been forced to shift their focus from longer term goals, such as a merger or an acquisition, to the current necessity of ensuring the health and survival of their own entities. Additionally, due to the hit of the pandemic on bank valuations, prices have fallen, therefore sellers might need to compromise to be paid less from the acquisition. For instance, United Community Banks was going to pay 152% of Three Shores Bancorporation' tangible book value for the acquisition, until this percentage fell to 111%. Relative to falling prices is, according to Kooli and Lock Son (2021), that banks add the Covid-19 pandemic as a contributing factor to risk disclosures. First Horizon National bank in Memphis and Pacific Premier Bancorporation in California acknowledged coronavirus as a risk factor to mergers which will make mergers a more expensive procedure. Harroch et al. (2021) explain that: due diligence will take longer, obtaining the necessary antitrust and other regulatory approvals from national and European/federal committees is very likely to also take long, negotiations will be more time consuming as on the one hand buyers will be more cautious and concerned if their evaluation on the target is actually true in this economic environment of the pandemic, so buyers are going to shift more closing risk to sellers; on the other hand sellers are going to ensure prices as high as possible. Overall, closing timelines are going to be substantially extended and an example to that is Flushing Financial Corporation in New York which was among the first banks in the United Stated that announced a delayed closing date to the acquisition of Empire Bancorporation because of the Covid-19 pandemic. Another effect of the Covid-19 pandemic on Bank M&As, according to Dobbs and Davis (2020), is that banks were forced to make the voting processes virtual so as to comply with social distancing measures and avoid decision delays. We have to take into consideration that in order for voting to go virtual, many banks must previously change their bylaws to make that legally allowable. All in all, Dobbs and Davis (2020) conclude that Bank M&As will be few during the Covid-19 crisis, but this is going to be temporary. When the pandemic is over, Bank M&As will accelerate their pace and catch up to their pre-Covid-19 rates. In support of this, Bercum, Langan and Hutton (2021) report that the capital and profitability challenges the pandemic has posed, attributed to compressed net interest margins from lower rates and lower demand for loans, will force less robust banks to consolidate, since they will not be able to overcome the pandemic shock alone. Hence, Covid-19 crisis will actually accelerate Bank M&As at a faster pace compared to pre-Covid-19 period.

3.3 Asset deals vs Share deals

Both asset and share deals are types of M&A transactions. Each of them carries different characteristics. According to Meynerts-Stiller and Rohloff (2019), in an asset deal the acquiring company buys certain parts from the target company. This is called "cherry picking", because the buyer has the advantage of choosing exactly which parts of a company, tangible or intangible, is going to purchase. On the other hand, the seller has the opportunity to divest only those parts of their business that are non-core or unprofitable. Both assets and liabilities of the purchased parts are transferred directly to the legal entity of the acquirer. In contrast, in a share deal the buyer acquires shares of the entire target company, thereby having ownership of all the parts of the business to the extent of the percentage of total shares the buyer has purchased. In the share deal, the acquirer buys a separate legal entity. There are many reasons that lead the buyer to an asset or a share deal, among them taxes.

As it was pointed out in sections 3.1 and 3.2, the Covid-19 crisis has caused for banks with high exposure to seriously hit industries, such as tourism and restaurants, rapid growth in their NPLs, which, as a result, has affected their asset quality and lowered their valuations. In addition, the pandemic has brought to the surface efficiency problems for many banks, leading them to consider divesting non-core parts of their businesses in an attempt to improve their balance sheet and increase their profitability. Those two reasons, low bank valuations and divestiture trend, lay the foundations for the involvement of Private Equity firms, as it will be pointed out below, who will use the asset deal as the type of transaction in order to acquire certain businesses that banks will divest. Therefore, more and more asset deals are going to be seen during the pandemic and beyond, accompanied by all of the aforementioned characteristics that asset deals carry.

4. Review of Bank M&A Motives during the Covid-19 pandemic

As certain conditions for the Banking Sector and the Bank M&A activity were set, caused by the coronavirus crisis, Banks had to readjust their M&A strategies to this new environment. This section is dedicated to the new strategic motives that Banks have adopted for their M&A policy during the Covid-19 pandemic and is divided into two parts.

The first part of this section presents the results from a Bank M&A Survey that Bank Director, a "leading information resource for senior officers and directors of financial institutions in the United States of America", conducted in September 2020, by interviewing 241 independent directors, chief executive officers, chief financial officers and other senior executives of U.S. banks. Among the questions that were asked, seven of them are crucial to the subject of this thesis and are going to be analysed.

The second part of this section discusses some of the latest publications that the four biggest auditing firms (Big 4), Deloitte, PricewaterhouseCoopers (PwC), Ernst & Young (EY) and Klynveld Peat Marwick Goerdeler (KPMG) have made about the shape of the future Bank M&A activity, based on the needs the Covid-19 crisis has created for banks, as well as Bain and Company's, a leading management consulting firm, and Nasdaq's, a multinational financial services company, publications.

4.1 Interviews of U.S. Bank Executives

The 241 interviewees were asked to give their perspective to a set of questions, all of which are meant to create a picture about the post-Covid-19 Bank M&A landscape. The first (of the seven crucial to this dissertation questions) was about banks' growth strategy over the next five years. 58% of the interviewees answered that, even though they consider a merger or an acquisition as a growth strategy, they will concentrate on organic growth. In contrast, 28% claimed that they are going to be active acquirers, and a smaller portion, 14%, said that mergers and acquisitions are an unlikely growth path for them. All things considered, it appears that after the Covid-19 crisis there is going to be a conflict between organic growth and M&A for the prevailing strategy for banks' repositioning in the new era.

The second question was related to the banks' acquisition strategy, if applied, in terms of target price. 44% of the U.S. Bank Executives answered that they look for strategic acquisitions regardless of the price. 27% replied that they are comfortable paying a premium price for well-managed institutions, while 25% that they are looking for low-priced acquisitions of historically well-run institutions that are having temporarily bad performance. It becomes clear that in order to ensure a successful acquisition, banks are willing to pay a premium price.

The third question was about how possible it would be that banks would acquire by the end of 2021 one of the following acquisition targets: 1) banks, 2) non-depository lines of business, 3) branches, 4) loan portfolios, 5) fintech firms, 6) credit unions and 7) lending team lift outs. The great percentage of the answers for each of those targets was between somewhat likely, somewhat unlikely and very unlikely. For banks, 28% chose somewhat likely, 26% somewhat unlikely and 34% very unlikely. For non-depository lines of business, 16% answered somewhat likely, 25% somewhat unlikely and 50% very unlikely. For branches, 17% responded somewhat likely, 29% somewhat unlikely and 46% very unlikely. For loan portfolios, 13% replied somewhat likely, 27% somewhat unlikely and 53% very unlikely. For fintech firms, 7% answered somewhat likely, 19% somewhat unlikely and 67% very unlikely. For credit unions, 2% responded somewhat likely, 7% somewhat unlikely and 88% very unlikely. Finally, for lending team lift outs, 24% chose somewhat likely, 23% somewhat unlikely and 40% very unlikely. Taking all the answers into consideration, it is safe to say that the interviewees expressed hesitation for the aforementioned acquisition targets, since the vast majority chose somewhat unlikely and very unlikely for all of the targets. Hence, it appears that most banks by the end of 2021 are not planning to apply an M&A strategy, which aligns with the finding of the first question that banks for now are focusing on organic growth.

The fourth question was about what the top 5 attributes of a target would be in today's environment for an acquiring bank. The attributes are: 1) complementary culture (62%), 2) attractive deposit base (60%), 3) efficiency gains (58%), 4) disciplined credit culture (44%) and 5) talented lenders (44%). Therefore, these are the top five attributes with the complementary culture being the most important one for the M&A strategy, which agrees with the finding of the ECB Working Paper (2004), according to which the strategic and organizational fit plays a decisive role in a successful Bank M&A.

The fifth question was about what the top 5 barriers would be for banks to make an acquisition in today's environment. The answers were: 1) concerns about asset quality of potential targets (63%), 2) pricing expectations of potential targets (60%), 3) lack of suitable targets in the desired market/areas (56%), 4) cultural integration of personnel (39%) and 5) demands on acquiring bank's capital (38%). The concerns about asset quality of potential targets are aligned with the conclusion to which Bipasha and Suborna Barua (2020) have come, that, if NPLs go beyond a certain level, they are going to affect the asset quality of target banks.

The sixth question regarded the reasons why banks consider it difficult to find a buyer in today's economy. The top 3 reasons were: 1) banks have valuation expectations that are higher than most acquirers may be willing to pay (78%), 2) buyers are putting acquisitions on hold (39%) and 3) target banks' location in markets that perhaps are not considered attractive enough (17%). The first reason is correlated to what KPMG (2020) points out, that banking stocks have undergone a negative impact amid the pandemic and, as a result, bank valuations have decreased globally. Additionally, as Harroch et al. (2020) report, acquiring banks are concerned if the evaluation on a target bank in the current economic environment is actually reflecting the true value of the target; that is why buyers are going to shift more closing risk to sellers and, as a result, sellers consider these evaluations low for their values. Furthermore, there is a direct correlation to the finding of the fifth question, i. e. concerns about banks' asset quality are considered the top barrier for an M&A. Regarding the second reason, as Dobbs and Davis (2020) and Harroch et al. (2020) report, banks shift their focus from longer term goals to the short term goal of ensuring the health and survival of their own. It comes, therefore, as no surprise that banks may put acquisitions on hold right now.

The seventh question was what the primary strategic drivers might be for a bank to be acquired in today's environment. According to interviewees' answers, the primary drivers are: 1) bank's inability to provide competitive returns to its shareholders (55%), 2) CEO succession (28%), 3) inability to operate efficiently (28%), 4) inability to keep pace with digital evolution (26%), 5) regulatory compliance burden (25%) and 6) too many competitors in the market (13%). Regarding the third driver, as it has already been pointed out, Bercum et al. (2021) report that the compressed net interest margins for less efficient banks will force them to consolidate, since they will not be able to overcome the pandemic shock alone. Besides, inability to operate efficiently has been found in a positive form, i. e. efficiency gains, in the results of the fourth question as an important attribute for Bank M&As.

4.2 Bain & Company's, Big 4's and Nasdaq's publications

Bain & Company conducted a survey in 2020 asking practitioners from the Banking Sector in the U. S. and in Europe about the future landscape for M&A deals in the post-Covid-19 pandemic period. From this survey, it occurred that there is going to be a rise in domestic consolidation. The reason behind this is that banks amid the Covid-19 crisis experienced deficits in their operational efficiency, so the objective is to achieve efficiency gains by consolidating at the national level, laying simultaneously the foundations for the long term goal of competing worldwide. In addition, banks are found that they are going to divest at a faster pace in the future some of their non-core businesses, such as asset management, payments and fund administration, and it is estimated that private equity firms are going to be an important buyer of those non-core businesses. Also, the survey found that economies of scope is going to be an important driver for M&A activity, since banks through the variety of products and services will shield themselves and take part in the oncoming technological advances which, if not adopted, are going to leave some banks behind, especially in the global competition. Another finding of the survey is that cross-border Bank M&As will increase. The grounds are that, especially in Europe, after ECB's recently published guidelines about easing capital and accounting frameworks for Bank M&As, there have been set favorable conditions to boost cross-border activity. What was also found was that banks are going to re-evaluate M&As link to their strategy. This means banks will take into consideration the strategic fit of the target to their business model, which comes to an agreement with ECB' s Working Paper (2004) that has pointed out the importance of strategic similarities between the merged entities as a contributing factor to the high performance of the new entity. What is more, Bain & Company's survey found that banks are considering non-traditional M&As options. In particular, Partnerships, Joint Ventures and Corporate Venture Capitals will progressively be the vehicle for M&A activity, because they can deliver value in a way which is easier on the balance sheet. Finally, the survey found that due diligence during the Covid-19 pandemic was very challenging and it came to the surface that banks which have digitized their M&A process, using virtual diligence, were better able to close deals. Thus, digital modernization is considered to be another driver for Bank M&As, by choosing technologically advanced targets.

KPMG, in an analysis for banking M&A trends for 2020, came to the following results. First, domestic consolidation is going to accelerate and the key drivers to that are: a) ECB guidelines with the prudential supervisory approach for analyzing the business combinations, b) recognition of the accounting value of Badwill, c) improvement of operational efficiency, d) NPLs de risking and capital adequacy, e) low interest rates and f) investments in technology. Second, governments may proceed with nationalization for banks that have been irreparably hit by the Covid-19 crisis. Third, Private Equity firms, benefited by distressed valuations for many banks due to their growth in NLPs, are likely to acquire certain parts of banks. Fourth, banks are going to acquire fintech companies, since technological upgrades will be a win-or-lose factor in the banking sector for the upcoming years. Fifth, challenger banks may be involved in M&A transactions.

PwC, in a survey for global M&A trends in the financial services sector in 2021, found the following. First, banks will have to enhance their technological capabilities by acquiring fintech companies, since thanks to embedded finance different businesses can integrate the provision of financial services into their business model; this opportunity has been utilized by tech giants like Google, Apple and Amazon, which creates intensity for traditional financial institutions. Second, ESG is going to be a decisive criterion in Bank M&As, since regulation around sustainability becomes stricter and there is a strong shift wave to ESG-compliant investments. Third, banks are going to divest non-core parts of their businesses, in order to concentrate on core ones and have better capital returns. Divestitures will also accelerate because of the increased levels of NPLs for many banks.

Deloitte, in its 2021 banking and capital markets M&A outlook, finds the following trends. First, banks in order to boost their resilience are going to rationalize their portfolio by divesting some of their non-core businesses, such as recordkeeping, investment services and brokerage. The potential results of the divestitures are: a) enhanced balance sheets, b) improved liquidity, c) more resources to invest in core businesses and d) overall, better capital ratios. Second, banks will pursue technological modernization, and acquiring fintech companies or other banks with high technological capabilities is considered the way to do so. Third, regulatory, accounting and tax settings that Europe has decided in favour of consolidation are going to lay the grounds for cross-border M&As.

EY, in its 2020 Global Banking outlook, found that economies of scale is going to be the top driver for in-market consolidations, so as the combined entity can achieve cost efficiency. In addition, divestitures of non-core businesses are going to fund investments in the digital transformation, which will be accomplished by acquiring fintech companies or merging with technologically sophisticated banks. Last but not least, EY points out that cross-border M&A activity is going to remain low unless structural changes, such as progress on Banking Union for the European Union, including the European Deposit Insurance Scheme, take place.

Nasdaq, in a survey for trends behind bank consolidation in 2021 and beyond in the U.S., has come to the following conclusions. Domestic consolidation is going to increase in order that banks can achieve deposit growth. In particular, Nasdaq points out that when banks need to increase their customer deposits, there are two ways to do so. The first is when local economic growth occurs; as a result, deposits grow. The second is when a bank consolidates with another bank in the same market, so the deposits of the separate entities are put under the roof of the combined entity. Another reason for the acceleration of domestic and cross-border M&A activity is the tax reform and public policy that have created favourable conditions. In addition, Nasdaq found out that U.S. banks are going to invest in fintech acquisitions, so that cyber security can be ensured and no bank will "act as a backdoor vulnerability to the Federal Reserve's systems".

5. Methodology

After taking into consideration the Bank M&A strategic drivers of the pre-Covid-19 era as well as the strategic drivers as they have been evolved during the Covid-19 period, it becomes clear that the pandemic has affected the Business Strategy that Banks apply for their M&A activity. Comparing the pre-pandemic period with the current pandemic period, someone can tell that external factors, contributing to forming the strategic decision for a merger or an acquisition, have changed, therefore, it comes as a natural consequence that motives will change too.

The purpose of this dissertation is to investigate the alteration process of Bank M&A strategies from the pre- to the Covid-19 pandemic period. To serve this purpose, the author will apply a comparative assessment which will be based on the review of the Bank M&A Motives before the outbreak of the Covid-19 pandemic and the review of Bank M&A Motives during the Covid-19 pandemic. By understanding this transitioning process, we can lay the foundations for decoding the post-Covid-19 pandemic Bank M&A strategic motives, which is something in the future, since the pandemic, at the time of writing this thesis, is still ongoing.

6. Comparative Assessment-Results

Taking all the above into consideration, it comes as a conclusion that the Covid-19 pandemic has indeed caused altering implications for the strategies Banks apply for conducting a merger or an acquisition. This alteration is not absolute, since some of the applied strategies in the pre-Covid-19 era persist in the current pandemic period and probably will persist in the post-Covid-19 era, whereas some others of the pre-existing strategies are replaced with new ones which are more compatible with the banking environment that the pandemic crisis has created so far. Therefore, it becomes a matter of what persists and what will change.

What persists is a set of motives. First motive is Strategic Similarity between the acquiring bank and the target, which was emphasized by the ECB Working Paper (2004). Based on the interviews of 241 U.S. Bank Executives that the Bank Director conducted in September 2020, complementary culture is the most important quality of a target in order that the integration can be smooth and, hence, the acquisition can succeed. In a negative form, among the top barriers that the U.S. Bank Executives find in making an acquisition during the Covid-19 period is the cultural integration of personnel. Consequently, because Strategic Similarity is missing, in the form of the personnel culture, Banks are not moving forward with M&As. Besides, Bain & Company also has pointed out that in the period of the pandemic Banks are re-evaluating M&As linkage to their strategy. Therefore, Strategic Similarity remains as a motive. Second motive is Economies of Scale, which is called otherwise synergy. According to the interviewees, efficiency gains are considered in the Covid-19 period both from the acquiring banks and the target banks as a strong driver for acquisition, which is supported by all of the above reviewed publications, in accordance to which there is a rise in domestic consolidation, aiming for operational efficiency. Third motive is Increased Market Power and in this particular case it will be examined in combination with the fourth motive of Risk Diversification. As it was explained in the section 2, among the ways that Banks can increase their power in a certain market is when they join forces with other banks of this geographical market and combine their separate pieces of the pie, making a larger piece. On the other hand, Risk Diversification as a motive for Bank M&As can refer to making an M&A in another geographical market, so that the bank reduces its dependency on the economy of one country. In both motives, the point of interest here is the geographical. Having established that, we notice that the interviewees considered as a top barrier for acquiring banks the lack of suitable targets in a market and as an important difficulty for banks to be acquired their location in markets not attractive enough. The former indicates that there are not such candidates in the geographical market to join forces and increase Market Power. The latter indicates that the criterion of geographical Risk Diversification has been applied and it occurs that the location of some banks does not pass this criterion. Therefore, even in an underlying form, the motives of Increased Market Power and Risk Diversification continue to exist, according to the interviewees, during the period of the pandemic. The motive of Increased Market Power alone can be also found in the interviewees' answers on the primary strategic drivers for a bank to be acquired, among which the interviewees include the existence of too many competitors in the market. In other words, banks decide to be bought, because they have decreased Market Power. Fifth persisting motive is Inefficient Management. According to the interviewees', the most important of the primary strategic drivers for a bank to be sold is the Inefficient Management, which fails to provide competitive returns to its shareholders, while another bank is aware of this and seizes the opportunity to establish its Efficient Management. Sixth is Economies of Scope. As Bain & Company points out, Banks through their M&A strategy are trying to build a variety of products and services that they offer.

Having assessed which Bank M&A motives of the pre-Covid-19 era persist in the pandemic period, we move forward with the alterations that the Covid-19 crisis has caused. Based on the latest publications of Bain & Company, Big 4 and Nasdaq, what has changed is, first of all, the strategic character of Bank M&As, from either defensive or offensive in the pre-Covid-19 period to mostly defensive during the pandemic period. The reason is that several banks have been hit so hard from the pandemic, that in order to survive in the post-Covid-19 period they will need to merge, so as to streamline their business and regain Capital Strength. Consequently, the applied M&A strategy will be defence. Second, due to the rise in NPLs and their negative impact on asset quality, especially for banks with high exposure to stressed industries, such as hotels, travel and restaurants, bank evaluations have dropped and banks are considering divesting non-core businesses, which are likely to be bought by Private Equity firms. The vehicle for these divestitures will be asset deal, instead of share deal which in the pre- Covid-19 period was more common in Bank M&A activity, since in an asset deal the buyer has the ability to buy selected parts of a business, while in a share deal the buyer buys a piece of all the businesses a corporate entity runs. Therefore, we are going to see more and more asset deals because of the divestiture wave. Third, technological advancement becomes a priority for banks and a key driver for choosing potential targets for acquisition, either more technologically sophisticated banks or fintech companies, since financial technology will be a crucial differentiator between prosperous and not so prosperous banks in the post-Covid-19 period. Besides, the pandemic emphasized the need for digitalization of the M&A process itself, especially of due diligence. Fourth, ESG will be an important criterion in Bank M&As, since regulation around sustainability tightens also in the financial services industry and investors show preference for ESG-compliant targets. Fifth, cross-border M&A activity is going to increase, as regulators remove the relevant barriers, in an attempt to boost the Banking Sector. Last but not least, banks in the post-Covid-19 period are going to embrace also non-traditional M&As through partnerships, Join Ventures and corporate venture capitals, as they can deliver value in a way that is easier on the balance sheet.

7. Conclusion and Discussion

7.1 Key findings

The purpose of this dissertation is to make a comparative assessment between the Bank M&A Strategic Motives of the pre-Covid-19 period and those during the pandemic period. To do so, the author first presented the Strategic Motives of Bank M&As before the outbreak of the Covid-19 pandemic, as well as the external factors that boosted the increase of Bank M&A activity in the pre-pandemic period. Second, the author pointed out some of the effects of the Covid-19 crisis on the Banking Sector as a whole and on Bank M&As specifically. Third, he reviewed data from interviews of 241 executives of U.S. banks, conducted by Bank Director, regarding the future of Bank M&As and their strategic drivers, as well as data from publications of the Big 4 auditing firms, KPMC, PwC, Deloitte and EY, Bain & Company and Nasdaq.

Following this reasoning process, he conducted a comparative assessment between the Bank M&A Strategic Drivers of the pre-Covid-19 era and those during the pandemic. From the comparative assessment, it occurred that there are certain pre-Covid-19 drivers which continue to play a decisive role in the Bank M&A activity. This can be interpreted that, although external factors may change from time to time in the Banking Sector, some of the Bank strategies have a classic character and preserve their value overtime. However, as Banks have been under pressure in the pandemic period, new needs have been formed, some of which are operational efficiency, technological advancement, divesting, and Banks have to revise their M&A strategies to survive into the post-Covid-19 period.

7.2 Contribution to the literature

As the Covid-19 pandemic is still going on, there has not been much research done on Covid-19 implications for Bank M&A activity. The literature so far has examined the drivers for Mergers and Acquisitions in the Banking Sector, but for the pre-pandemic period, while recent research papers, written on the effects of Covid-19 on Bank M&As, examine mostly the financial aspect. The innovation of this thesis is that it examines the Covid-19 effects on Business Strategy behind M&A decisions in the

Banking Sector for the period during the pandemic and through the comparative assessment it makes clear the alteration process of Bank M&A Strategic Motives.

7.3 Implications for interested parties

The findings of this dissertation have important implications for bank managers, investors and policy makers. For bank managers, the dissertation provides insight about the alteration process of strategic drivers for Mergers and Acquisitions, so that they can holistically understand the renewed industry from a Business Strategy perspective and choose the proper reposition strategy for the banks they have under management. For investors, the criteria that banks are currently and possibly in the future applying for their M&A strategy can function as a forecasting indicator for potential future M&As, so that they can invest more insightfully. For policy makers, the dissertation notices that a rise in domestic consolidation is coming along with an increase in cross-border M&A activity, both of which need to be supported by regulation that takes into consideration the strategic drivers of bank activity and the transition from offensive to defensive M&As for survival reasons.

7.4 Limitations of the comparative assessment

For the comparative assessment, this thesis has reviewed, regarding the period during the pandemic, information focusing on the U.S. and the European market. Therefore, it does not include data for the Asian and the Australian market, because at the time of writing this thesis, the author could not find significant information on these markets. As a result, the conclusions may not have global application. In addition, due to the fact that in the almost two-year pandemic period few Bank M&As were made, the literature about the Covid-19 effects on Bank M&A Motives is not extended, hence, the results of the comparative assessment might be limited.

7.5 Suggestions for further research

This thesis examined the alteration of Bank M&A strategic drivers from the pre- to the Covid-19 period. Further research could be done specifically on the strategic drivers for cross-border Bank M&A activity, since, in the European Union, ECB's recent guides and relevant regulation for cross-border M&As set the necessary grounds for boosting this activity in the upcoming years. In addition, further research could be conducted for the Asian and Australian markets, for which there were not included data in this treatise, so that a global overview of the changing strategy environment in Bank M&As occurs. Finally, research could be done on the disruption of traditional M&A models and the embracement of JVs, Partnerships and Corporate Venture Capitals for the future Bank M&A activity, since it provides balance sheet-related benefits to the parties and it might become potentially the common form of M&As.

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