Chapter 13
Evaluating Mergers as a Tool to Strengthen and Modernize the Palestinian Banking System:
An Analytical Study of Palestinian Local Banks 2010–2017

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ABSTRACT

The study aims at evaluating the banking mergers as a tool to strengthen and modernize the Palestinian banking system by focusing on the national banks listed on the Palestine Stock Exchange using the descriptive-analytical approach as well as the inductive and deductive approaches. The study concludes that the circulars issued by the Palestine Monetary Authority mainly those which relate to the raising of the minimum capital of local banks, have a positive role, and were the main motivation towards these mergers. The mergers that took place in the Palestinian banking sector have resulted in a significant improvement in data and financial indicators as well as the competitiveness of domestic merged banks and reflected positively on the national economy. The study recommends the need to redouble the efforts of the Palestine Monetary Authority by using literary persuasion at certain times, and through the development of laws and regulations that encourage and stimulate mergers to create stronger banking entities that are capable of facing the challenges of competition and financial crises, and other banking risks, at other times. Moreover, national banks and large-scale expatriates must play a more active role in the process of economic development and work to maximize their economic role and expand the value of productive projects that require large funding through granting syndicated loans and establishing joint ventures.

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INTRODUCTION

The safety of the banking system, in general, and the avoidance of any banking shocks, in particular, may weaken trust and confidence if some institutions are left alone to meet and confront bankruptcy or liquidation. These strong motives urge the monetary authorities to persuade and, sometimes, force such institutions to merge because the safety of banking is a vital guarantee to support the national economy. Therefore, the main task of monetary authorities is to ensure and continuously validate the banking structure. Moreover, monetary authorities have to assess the banks in a way that gives the correct answer to whether there is a need to move toward merger as an important tool to strengthen the banking system or use other means of integration that may be more useful and more convenient in terms of application[1] (Abdelfattah, 1992).

There is no doubt that some of the banks operating in Palestine suffer mainly from weakness in their financial indicators and from the small size of their capital especially those which do not meet the requirements of the Palestine Monetary Authority regarding raising their capital to reach the minimum required capital. In 2003, the Palestine Monitory Authority planned carefully to promote the idea of a merger to build strong Palestinian banking entities capable of coping with the challenges facing the Palestinian economy. Consequently, mergers and/or acquisitions between banks operating in Palestine became necessary. This allows for the formation of large banking entities that are capable of absorbing and confronting the expected and unexpected risks, as well as, to meeting the requirements of the Palestinian economy. Before 2004, there were no mergers in the Palestinian banking sector. In 2005, the Palestine Monetary Authority (PMA) announced the signing of an agreement between the Islamic Bank of Palestine and branches of Cairo-Amman Islamic Bank to sell the net assets of all transactions to Palestine Islamic Bank in a process known as banking consolidation in the form of acquisition.

The demand for mergers has increased, especially for small banks, which have taken this approach as a necessity to increase their competitiveness and to establish the principle of presence and continuity in the banking sector due to two main variables[2] (Yasin and Matay, 2008):

1. The Agreement on Liberalization of Banking Services that comes within the framework of the World Trade Organization Agreement which would increase the competition in the global banking market.
2. The capital adequacy standard should be at least 12% of the value of the banking obligations towards any bank in addition to other variables such as technological progress, the development of informatics and the consolidation of the phenomenon of giant economic blocs.

Statement of the Problem and Study Questions

The current study aims to highlight mergers as a way to strengthen and modernize the Palestinian banking system. This will be done by analyzing and evaluating the indicators for the local Palestinian banks which were merged during the period 2010-2017. The main problem of the study can be formulated in the following question: What is the importance of mergers as a tool to strengthen and modernize the banking system in Palestine? The researchers' aim to answer the following set of questions:

1. Have the instructions issued by the Palestine Monetary Authority after 2010 regarding the raising of paid-up capital led to further mergers with local banks in Palestine?