Bank Consolidation and Systemic Risk:
M&As During the 2008 Financial Crisis
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My paper analyzes the relationship between bank consolidation and the stability of the financial system within the United States. Specifically, I compare mergers and acquisitions of banks during the 2008 financial crisis with those that occurred during stable market conditions to determine whether the effects of bank consolidation on the overall economy at all differ depending upon the economic climate. The systemic risk analytics of MES, SRISK, and ΔCoVar are calculated both before and after the merger so as to measure the consequent merger-related change in an acquirer's exposure as well as contribution to systemic risk. A bank's exposure to systemic risk is defined as the likelihood of a bank being in distress conditional on the financial market experiencing downward movements. Meanwhile, a bank's contribution to systemic risk is the extent to which an individual bank adds to the overall risk in the financial system. Moreover, difference-in-differences analysis is subsequently conducted with a non-merging control group to determine whether the change in these risk metrics can accurately be attributed to the merger.

For the NSRISK (the normalized version of the SRISK measure with regard to bank size) and ΔCoVaR measures, the results indicate that mergers that occurred during the crisis contained a distinct diminishing effect on the acquiring bank's risk. The results of NSRISK imply that bank mergers during the crisis actually reduced the risk of the individual acquiring institution by lowering its exposure to systemic risk while the results of the ΔCoVaR measure indicate that bank mergers during the crisis actually decreased the acquirer's contribution to risk in the overall system. In either case, these two risk measures indicate that the mergers of the crisis are different from those that occurred during the stable periods in terms of their impact on an acquirer's risk.

Furthermore, when examining the underlying characteristics driving this observable difference, mergers during the 2008 financial crisis tended to involve acquirers that were larger, more profitable, and held a higher share of tangible assets, while the targets of these transactions often were less profitable and possessed lower levels of tier 1 capital than their stable market counterparts. This finding suggests that during the 2008 financial crisis large healthy banks acquired poorly performing target banks and successfully integrated them into their own operations

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