

Vol. 5 No. 4

April 2001



BANK MERGERS AND CONSOLIDATIONS

JOB UNCERTAINTY IN THE PHILIPPINE BANKING SECTOR



OVERVIEW

Since the onset of the Asian financial crisis, the Philippine banking system has been undergoing rapid transformation in response to the need to weather competition in an increasingly global banking environment. Considered to have one of the highest cost structures in Asia, the challenge faced by Philippine banks is how to lower transaction costs in order to improve their profit margins and provide more funds to fuel economic growth. The drive to bring down cost has spawned a series of bank mergers and acquisitions that seek to improve efficiency by growing bigger and achieving economies of scale. But while the merger/acquisition trend have its many potential benefits, there is potential downside to it in that it might subsequently lead to reduced competition which imply less attractive terms for both depositors and borrowers. Equally important is the employment implication of bank consolidation because almost always the idea of cost savings to bankers is associated with the closing of redundant branches, reduction of personnel and consolidation of backroom functions.

This paper presents 1997-2000 data on bank closures/retrenchments culled from Termination Notices submitted by banks to the DOLE Regional Offices.

JOB INSTABILITY IN THE PHILIPPINE BANKING SECTOR

Over the period 1997-2000, more than 13,000 workers have lost their jobs in the banking sector due mainly to merger/acquisition and downsizing/streamlining of operations. The upsurge in layoff first occurred in 1998 when job losses in the banking sector rose sharply to 3,994, a record increase from barely 207 layoffs

recorded in 1997. The increase went down slightly to 3,890 in 1999 but rose again to 5,174 in 2000. It should be noted that while most (54.3% or 7,206) of the reported layoffs were due to downsizing/streamlining, nearly one-half (41.8% or 5,550) was due to bank merger/acquisition. Only a handful (509 workers) lost their jobs due to the closures of two small banks.

Year	TOTAL WORKERS LAID OFF	CLOSURE		MERGER/ACQUISITION		RETRENCHMENT	
		No. of Banks Involved	No. of Workers Laid off	No. of Banks Involved*	No. of Workers Laid off	No. of Banks Involved*	No. of Workers Laid off
1997	207	-	-	4	0	9	207
1998	3,994	1	502	6	1,167	29	2,325
1999	3,890	-	-	11	1,001	34	2,889
2000	5,174	1	7	2	3,382	30	1,785
TOTAL	13,265	2	509	22	5,550	66	7,206

* May not add up to total due to multiple reporting.
Source: DOLE-NCR.

Bank Mergers/Acquisitions and Retrenchments of Workers

Compared to its neighboring Asian countries, the Philippine banking system managed to survive the regional financial turmoil of 1997 that has caused the collapse of several large banks in South Korea, Thailand and Indonesia. The resilience of local banks can be attributed among others to prudent management of bank funds and tight supervisory and regulatory activities of the Bangko Sentral ng Pilipinas (BSP) over the banking system. Data show that the effect of financial crisis on employment was hardly visible as only 207 workers were retrenched in eight (8) banks that filed notices of termination with DOLE-NCR in 1997. The expected closure of the financially troubled Monte de Piedad Savings and Mortgage Bank was aborted when Keppel Group of Singapore buys into the bank.

The large volume of workers' retrenchments in the banking sector was felt in the middle of 1998 when a number of bank consolidation deals took place. This includes the acquisitions by **Equitable Banking Corp.** of two relatively small banks (**Ecology Savings and Mortgage Bank** and **Mindanao Development Bank**); the merger of **Prudential Bank** and **Pilipinas Bank**; and the conversion of **Capitol Development Bank** branches to **RCBC Savings Bank** branches.

However, only two (2) of these banks filed notices of terminations with DOLE Regional Office displacing some 1,669 workers, namely: **Capitol Development Bank** (1,167 workers) and **Orient Commercial Banking Corp.** (502 workers).

It was in 1999 that the merger/acquisition frenzy reached its peak. In their bid to strengthen their positions in an increasingly competitive banking environment, three of the country's largest commercial and savings banks embarked on a series of mergers and acquisitions. Again, **Equitable Banking Corp.** took the lead when it bought the majority stake in **Phil. Commercial and International Bank (PCI**

Bank) in May 1999. This was followed by the merger of **Bank of Phil. Islands** and **Far East Bank and Trust Co. (FEBTC)** in October 1999. In July and December 1999, **Metropolitan Bank and Trust Co. (Metrobank)** acquired **Phil. Banking Corp., Solid Bank** and **Asian Bank Corp.** Other bank consolidations that happened during the year were the merger of **Bank of Commerce** and **Traders Royal Bank**; the **United Overseas Bank** acquisition of 60 percent share of **Westmont Bank**; and the **ABN-AMRO Savings Bank** buyout of **Great Pacific Bank**.

Bank Closure and Merger/Acquisition Philippines: 1997-2000

A. Bank Closure	
1. Orient Commercial Banking Corp.	1998
2. HSBC Bank Asia, Inc. (Investment Division)	2000
B. Merger/Acquisition	
1. Keppel Group of Singapore buys into Monte De Piedad Savings and Mortgage Bank	1997
2. Development Bank of Singapore buys into Bank of Southeast Asia	1997
3. Rizal Commercial Banking Corp. acquired Capitol Development Bank	1998
4. Merger of Prudential Bank and Pilipinas Bank	1998
5. Equitable Banking Corp. buys into Ecology Savings and Mortgage Bank & Mindanao Development Bank	1998
6. Merger of Bank of Commerce and Traders Royal Bank	1999
7. Merger of Equitable Banking Corp. and PCI Bank	1999
8. ABN-AMRO Savings Bank acquires Great Pacific Bank	1999
9. United Overseas Bank acquires 60 % of Westmont Bank	1999
10. Metrobank acquires Phil. Banking Corp.	1999
11. Merger of Bank of Phil. Islands and Far East Bank and Trust Co.	1999
12. Metrobank acquires Asian Banking Corp. and 51 percent of Solid Bank	1999
13. Merger of Bank of Commerce and PANASIA Banking, Inc.	2000

Source: Thomson Financial Bank Watch Research.

As expected, the biggest casualties in the rush of local banks to consolidate their operations were their workers. However, retrenchments did not occur immediately for most banks. Records from the DOLE Regional Offices indicate that only six (6) banks filed for retrenchments in 1999 that caused the terminations of 1,001 workers. These banks were **FEBTC** (512), **Equitable-PCI Bank** (292), **Great Pacific Bank** (76), **Ecology Savings and Mortgage Bank** (70), **Mindanao Development Bank** (41) and **Phil. Banking Corp.** (10).

The biggest wave of retrenchment took place in 2000 when 3,389 laid off workers were reported to DOLE due to bank mergers/acquisitions. Three (3) of the largest were filed by **Solid Bank** (1,924 workers), **FEBTC** (823 workers) and **Equitable-PCI Bank** (415 workers).

It is worthy to note that the merger/acquisition of some banks did not result in layoff. This is true in the case of the merger of **Bank of Commerce** and **Traders Royal Bank** and the takeover of **Westmont Bank** by **United Overseas Bank** for which the DOLE did not receive report on retrenchment. The latest bank merger was the acquisition of **PANASIA Banking, Inc.** by **Bank of Commerce** in October 2000 that caused the loss of 136 jobs.

Bank Downsizing and Retrenchment of Workers: The Drive for Operational Efficiencies and their Effect on Employment

Apart from getting bigger and achieving economies of scales through mergers and acquisitions, the challenge faced by local banks is to lower operational cost by improving efficiencies and thereby boosts profits. Among the cost cutting measures pursued by most banks were the phasing out of less profitable branches and streamlining of

operations that often resulted in retrenchment of workers.

The employment implication to achieve operational efficiencies by banks can be gleaned in terms of high volume of retrenchment notices received by DOLE due to branch closures, downsizing and redundancy in the past three years. Statistics

Banks Reporting Notices of Termination by Reason and Number of Workers Displaced, Philippines 1998-2000		
Name of Bank	Reason Code	Number of Workers Displaced
1998		
1. Orient Commercial Banking Corp.	FL	502
2. Capitol Development Bank	RDS/R	1,167
1999		
1. Far East Bank and Trust Co.	CMM	512
2. Equitable-PCI Bank	CMM	292
3. Great Pacific Bank	RDS/R	76
4. Ecology Savings & Mortgage Bank	RDS/R	70
5. Mindanao Development Bank	RDS/R	41
6. Phil. Banking Corp.	RDS/R	10
2000		
1. Solid Bank	CMM	1,924
2. Far East Bank and Trust Co.	CMM	823
3. Equitable-PCI Bank	CMM	415
4. PANASIA Banking, Inc.	CMM	136
5. Pilipinas Bank	R	77
6. Asian Banking Corp.	RDS/R	7
7. HSBC Investment Bank Asia, Ltd.	RDS/R	7
TOTAL		6,059

Reason Code:
FL - Financial Losses
R - Redundancy
RDS - Reorganization/Downsizing
CMM - Change in Management/Merger
Source: DOLE-NCR.

show that a total of 29 banks filed for reduction of workforce in 1998 involving 2,325 workers, upped from 207 workers in 1997. This figure rose in 1999 when 34 banks terminated the services of 2,889 workers. In 2000, 30 more banks served notices of permanent separations to 1,785 bank employees.

Among the major banks, the biggest layoff was reported by **Metrobank** which shed off around 1,428 of its workforce. **PCI Bank**

ranked a close second with 1,139 workers terminated in October 1998, a few months prior to its merger with **Equitable Banking Corp.** Notable numbers of permanent layoff were also reported by **Phil. National Bank** (593 workers), **Rizal Commercial Banking Corp.** (471 workers), **Private Development Corp. of the Phils. (PDCP) Bank** (422

workers), **Bank of Phil. Islands** (693 workers), **United Coconut Planters Bank** (313 workers) and **Solid Bank** (217 workers). **Urban Bank**, which suffered a bank run in 2000, has not reported any retrenchment to DOLE, except in 1998 when the bank terminated 56 workers.

**List of Banks Reporting Notices of Retrenchments/Reduction of Workers Due to
Downsizing/Redundancy/Branch Closure
Philippines: 1997-2000**

Name of Bank	Number of Workers Displaced				
	Total	1997	1998	1999	2000
TOTAL	7,206	207	2,325	2,889	1,785
1. Metropolitan Bank and Trust Co.	1,428	22	67	1,250	89
2. Phil. Commercial and International Bank	1,139	-	1,139	-	-
3. Phil. National Bank	593	-	119	396	78
4. Rizal Commercial Banking Corp.	471	-	208	73	190
5. Private Dev. Corp. of the Phils. (PDCP) Bank	422	57	283	9	73
6. Bank of Phil. Islands	451	18	17	24	392
7. Bank of Phil. Islands - Family Bank	242	-	-	87	155
8. United Coconut Planters Bank	313	-	-	158	155
9. Solid Bank	217	64	14	139	-
10. Armed Forces & Police Savings & Loans Association	126	-	-	-	126
11. Great Pacific Savings Bank	421	-	319	102	-
12. Planters Development Bank	101	-	-	101	-
13. China Banking Corp.	99	-	-	99	-
14. ABN-AMRO Savings Bank	136	-	-	-	136
15. Union Bank of the Phils.	80	-	-	-	80
16. PHI LAM Savings Bank	69	-	-	69	-
17. Urban Bank	56	-	-	56	-
18. Asiatruster Development Bank	57	-	-	57	-
19. Credit Agricole Indosuez	41	-	41	-	-
20. Security Bank	71	-	-	-	71
21. Unitrust Development Bank	40	-	-	40	-
22. Phil. Savings Bank	40	-	-	-	40
23. Phil. Postal Savings Bank, Inc.	39	-	-	39	-
24. AMA Bank	38	-	-	38	-
25. Global Bank	23	-	-	-	23
26. Other Banks	493	46	118	152	177
		(5 banks)	(20 banks)	(17 banks)	(17 banks)

Source: DOLE-NCR.

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