

Kenyan bank merger raises questions

The proposed merging of Stanbic Bank and CFC in the East African country has generated a lot of interest, and raised a number of questions.

By [Carole Kimutai](#) 5 Jul 2007

Is this a Merger or an Acquisition?

It is most certainly a merger! Stanbic Bank is being sold to CFC and the shareholders of Stanbic are acquiring shares in CFC group. It may sound complex, but effectively that means that the same people who previously owned the two institutions now all own shares in the new bigger institution. An acquisition would have seen the exit of the current owners of one of the groups i.e. a one-way transfer of ownership, which is not the case. There will be complete integration of the businesses and in time, everyone will see that product, system and process-wise, we are taking the best from both groups. More importantly, one will see that the management and staff structures will reflect an integrated team of both Stanbic and CFC.

At what stage have the negotiations reached?

We have completed the agreement on organizational structure, key terms etc. and we are now finalising the supporting documentation for the various regulatory applications. We expect to submit these in the next 10 days.

In the interim, we are involved in very detailed integration planning so that the process can be as seamless as possible. This is a very complex task as, unlike in a take-over where one party determines that their systems, processes and people dominate, we are not following that route at all.

Does this apply to only CFC Bank, or does it apply to CFC Group as a whole? And why CFC?

The key institutions affected at this stage by the merger and integration are the two commercial banks, the investment banking arms, the asset management businesses and CFC Financial Services.

In the insurance businesses, the Standard Bank Group company, Liberty Life, is working with the senior management of Heritage and CFC Life to look at product and distribution best practices. But at this stage, we don't see any need to make any material changes to the way those businesses are operating.

CFC group and Stanbic realized at a very early stage of our discussions that we shared a common vision of where the banks needed to head and that the journey was best travelled together. We also then, surprisingly yet fortuitously, realized that we had very little by way of overlap in network, customer base etc and that the merged business would fit very well together.

More importantly, we saw that our business conduct, behaviour and ethics were very much aligned and that we shared a very common set of values.

What is the implication on staff from both banks? Will there be any restructuring?

The key implication for staff is that the combined group will look to expand its scale pretty quickly and so in addition to the creation of new jobs in Kenya, staff who express a willingness to be mobile, will also have to

opportunity to consider offers of employment elsewhere within the Standard Bank network.

Yes, there will be restructuring in that for the first time, we will have both Group and Regional services offered for the other business units rather than from within the operating business units. In this way, we create another level of organization, which we believe will better service customer needs.

Needless to say, when an organisation increases significantly in scale, there has to be some re-structuring. We will borrow from like-sized institutions within the Standard Bank Group to ensure we have an optimal structure. All of the above provide great opportunities for our staff.

Will the new entity create a conflict of interest with the Capital Markets Authority or the Nairobi Stock Exchange?

Not at all; To start with, Standard Bank Group operates a not dissimilar structure elsewhere and we have not had issues with market players or regulators concerning conflicts of interest. Like any integrated financial services group, we are very well equipped to handle any issues relating to potential conflicts.

As regards the NSE, Stanbic currently acts as settlement bank for the CDSC but we do not see conflict in respect of the services offered by CFCFS – which incidentally is and will remain a separate legal entity to CFC Stanbic Bank. The CEO of the CDSC has already commented in the media that they do not see any scope for conflict. The role played by Stanbic is to receive net settlement data from the CDSC and to process this to the broker settlement accounts. Stanbic does not see the gross transactions or the underlying trades. The information passed to Stanbic is therefore very limited and essentially tells them nothing about what a broker has traded or with whom.

Questions have also been raised about possible conflicts between the Asset Management Units and Stanbic's Custodial business. Firstly, we already operate both businesses, so the situation is not changed virtue of the merger transaction. Secondly, there are very clear regulatory requirements regarding offering these two services for certain categories of clients. As part of the merger due diligence, we checked to see where there may be regulatory breaches and we will ensure that, as in the past and present, we continue to strictly adhere to those requirements.

How will this merger affect shareholders and customers? What should they expect (in the short and long-term)?

Shareholders will participate in the benefits of a far more integrated business, that has access to the products, expertise and distribution ideas of Africa's largest financial services group. This translates into more robust earnings, a lower risk profile and ultimately, a Kenyan institution we can all be extremely proud of as it will positively contribute towards the improvement in the sector.

In similar fashion, customers can expect a more comprehensive product offering and the knowledge that they are being served by a larger and a financially soundly structured business.

When is this process expected to be completed?

We anticipate that we will be in a position to call for Shareholder meetings in late August or early September and for the actual integration to take place soon thereafter.

ABOUT CAROLE KIMUTAI

Carole Kimutai is a writer and editor based in Nairobi, Kenya. She is currently an MA student in New Media at the University of Leicester, UK. Follow her on Twitter at @CaroleKimutai.

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