A STUDY ON MERGER OF COMMERCIAL BANKS WITH SPECIAL REFERENCE TO PUBLIC SECTOR BANKS IN INDIA

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Abstract

One of the fastest- growing industries in India, the banking sector holds a vital position in every economy. In the past 20 years, the Indian banking industry has undergone a fundamental transformation. The financial industry has recently focused on consolidation through merger, takeovers and acquisitions. The Narsimham committee's recommendations also emphasised the necessity of banking industry mergers and consolidations to produce synergistic effects. The government decided to combine all of the nation's nationalised banks at a time when the banking system was at a crossroads because of swollen NPAs, a surge in fraud, and collapsing banks. The advantages of bank mergers, the problems that bank and its customers experienced during and post-merger are all underlined in the study.

Keywords – Merger, Commercial Banks, India, NPAs, PSBs

INTRODUCTION

An all-encompassing phrase used to represent the combination of businesses or assets through different kinds of financial deals, such as mergers, acquisitions, consolidations, tender offers, asset purchases, and management acquisitions. Although they have different meanings, the words "mergers" and "acquisitions" are frequently used interchangeably. A merger is when two businesses come together to establish a new legal entity with a single corporate identity, whereas an acquisition is when one business buys another.

Commercial banks

A financial institution that accepts deposits, provides checking account services, makes different loans, and provides fundamental financial products like certificates of deposit (CDs) and savings accounts to individuals and small businesses is referred to as a "commercial bank." Most people conduct their financial business at commercial banks.

Commercial banks generate revenue through making loans, including mortgages, vehicle loans, business loans, and personal loans, and charging interest on those loans. The money needed to fund these loans is provided by customer deposits to banks.

One of the key measures of an economy's health is the banking system. The ability and independence of a bank to borrow from other banks and lend to corporations has a tremendous impact on the rate of economic growth. The banking industry is crucial to a country's development and economic process. Globalization, economic liberalisation, and technology advancement have significantly altered the financial sector.

Mergers

A merger is an agreement that unites two current businesses to form one larger business. There are various merger types, and businesses merge for a variety of reasons. Most mergers combine two already-existing businesses into a single entity with a new name. Mergers and acquisitions are frequently carried out to broaden a company's clientele, enter new markets, or increase market share.

Types of Mergers

- Vertical – when two businesses that operate at various levels of the supply chain but are in the same industry merge.
- Horizontal – When two companies sell same type of product or services, merge. It results in elimination of competition hence; economies of scale can be achieved.
- Market- extension merger – Two companies that sell the same products in different markets.
- Product-extension merger – Two companies selling different product in the same market, merge.
- Conglomerate merger - A conglomerate merger is the joining of businesses engaged in unrelated industries. The union will take place only if it increases the wealth of the shareholders.
- Congeneric or product extension merger - These mergers take place between businesses that are active in the same market. A new product is added to one company's current product range as a result of the merger. The union gives businesses access to a bigger customer base, which helps them gain market share.

In India, bank mergers first took place in the 1960s as a strategy to rescue weaker banks while simultaneously safeguarding the interests of customers. The desire to create an Indian bank that can compete with global giants in the post-liberalization era has existed since 1990. In February

2017, the government gave its approval for the merger of five affiliate banks to create one of the largest global banks with SBI. The Cabinet also authorised the merging of BMB later in March.

The merger of India's major public sector banks was announced in August 2019 by Ms. Nirmala Sitharaman, the country's finance minister, with a goal of restructuring and reorganising the nation's banking system. India now has 12 PSBs (Public Sector Banks). With fragmented lending capacity in 2017, there were 27 PSBs; following consolidation, there will be 12 PSBs.

The M. Narasimham Committee's 1991 recommendations were being followed by the current government.

Narsimham committee recommendations on banks

The committee had suggested the following changes be made to the Indian banking system in 1991:

- Three or four sizable banks, one of which being the State Bank of India, that have the potential to go global.
- Eight to ten national banks that have a nationwide network of branches.
- Local banks with operations that are typically restricted to a particular area.

Numerous recommendations were made in The Narasimham Committee's second report (April 1998) on structural problems in the banking sector.

The synergies, locational complementarities, and business-specific complementarities of the relevant institutions must be taken into consideration, and the merger of banks, domestic financial institutions, and non-banking financial organisations must ostensibly make good business sense. Public sector bank mergers must be initiated by the management of the banks, with the government acting as a supporting shareholder and common stakeholder. However, such mergers may be beneficial if they result in the optimization of the branch network and workforce; otherwise, the merging of public sector banks would encumber management with operational concerns and divert attention from the important issues. It would be necessary to develop strategies for "right sizing and redeployment of surplus workers either by way of retention and giving them suitable alternative employment or by implementing a Voluntary Retirement Scheme with suitable incentives." This would require the cooperation and understanding of the workforce, so top management should start conversations with staff representatives in this direction. They also need to convince their workers of the idea's inherent soundness, the competitive advantages it would bring, and the potential for their own professional advancement within a larger institution. Merger shouldn't be viewed as a way to support failing banks. Strong banks and financial institutions joining forces would be more advantageous economically and commercially, and it would be an example of a situation where the whole is larger than the sum of its parts. Thus, it is clear from the Narasimham Committee's recommendations that the government was only intended to serve as a supportive stakeholder. Management of the banks was anticipated to lead the merging of Public Sector Banks.

History of Merger of Public Sector Banks in India

Discussions on the consolidation and amalgamation of Indian banks have taken place on a plethora of occasions since the Narasimham report made this recommendation. While increasing scale and improving risk-taking capacity have always been the goals, the recent conversation has been sparked by the growing amount of non-performing assets (NPAs) harming public sector banks.

Few bank mergers have been motivated by the need for consolidation and growth since 1969, when Bank of Behar was merged with State Bank of India (SBI), and up until Kotak Mahindra Bank Ltd. acquired ING Vysya Bank Ltd. in 2015. Instead, most bank mergers have resulted from the central bank's efforts to safeguard the financial system and depositors' money.

There is only one case of two PSBs coming together, and that was when Punjab National Bank (PNB) acquired New Bank of India in 1993. According to Section 45 of the Banking (Regulation) Act, 1949, the RBI had to impose this merger because the liquidity of the New Bank of India had become shaky. PNB had an excellent track record of profitability before the merger, but it had to deal with a number of issues as a consequence. According to reports, PNB required a minimum of five years to recover from the merger effect.

The Associate Banks of SBI, formerly referred to as the "seven sisters”, were founded by princely states prior to the nation's independence to cater to local communities. After the government passed the State Bank of India (Subsidiary Banks) Act in 1959, these were accepted as Associate banks and became a part of SBI.

The State Bank of Saurashtra merged with the SBI initially in 2008. Consolidation of SBI with affiliates was aggressively considered when the banking sector was opened to international banks in 2009 in order to strengthen its competitiveness against the arrival of foreign banks. The initial option was Bank of Saurashtra because it was wholly owned by SBI, smaller than other affiliates, and would increase SBI's meagre presence in the Saurashtra region.

After a similar process with State Bank of Saurashtra, it was the second associate bank merger with SBI. In August 2010, the State Bank of India and the State Bank of Indore combined formally.

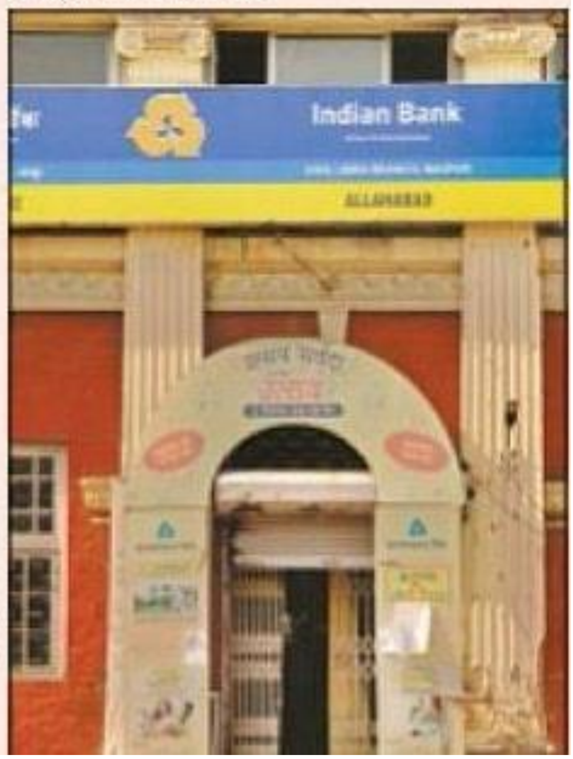
State Bank of India was already recognised as a systemically important institution because it is the biggest lender and megabank. Since April 2017, when it merged with five partner banks and the Bhartiya Mahila Bank, the bank has grown even more. SBI now ranks among the top 50 banks in the world in terms of assets thanks to the consolidation.

The Bank of Baroda, Dena Bank, and Vijaya Bank amalgamated on April 1st, 2019. Thus, Bank of Baroda rose to become the second-largest PSB in India.

Four new mergers of public sector banks (PSBs) were announced by Finance Minister Smt. Nirmala Sitharaman: United Bank of India and Oriental Bank of Commerce joining Punjab National Bank; Syndicate Bank joining Canara Bank; Corporation Bank and Andhra Bank joining Union Bank of India; and Allahabad Bank joining Indian Bank. This has been referred to as a PSB mega-merger. Six PSBs, including Indian Overseas Bank, Bank of Maharashtra, Uco Bank, and Punjab and Sind Bank, which have a strong regional focus, would continue to exist as separate organisations following the mega-merger. The distinct operations of the Central Bank of India and the Bank of India will also continue.

International Journal in Management and Social Science
Volume 10 Issue 10, October 2022 ISSN: 2321-1784 Impact Factor: 7.088
Journal Homepage: http://ijmr.net.in, Email: irjmss@gmail.com
Double-Blind Peer Reviewed Refereed Open Access International Journal

Pre merger 27 public sector banks	Post merger 12 public sector banks
1) Allahabad Bank	1) State Bank of India
2) Andhra Bank	2) Bank of Baroda
3) Bank of Baroda	3) Union Bank of India
4) Bank of India	4) Punjab National Bank
5) Bank of Maharashtra	5) Canara Bank
6) Canara Bank	6) Punjab & Sind Bank
7) Central Bank of India	7) Indian Bank
8) Corporation Bank	8) Bank of Maharashtra
9) Dena Bank	9) Bank of India
10) Indian Bank	10) Central Bank of India
11) Indian Overseas Bank	11) Indian Overseas Bank
12) Oriental Bank of Commerce	12) Uco Bank
13) Punjab & Sind Bank	
14) Punjab National Bank	
15) Syndicate Bank	
16) UCO Bank	
17) Union Bank of India	
18) United Bank of India	
19) Vijaya Bank	
20) IDBI Bank	
21) State Bank of India	
22) State Bank of Bikaner and Jaipur	
23) State Bank of Mysore	
24) State Bank of Travancore	
25) State Bank of Hyderabad	
26) State Bank of Patiala (SBP	
27) Bharatiya Mahila Bank	



Anil Futane

Source - *The Hitavada, The people's paper*

The nation has 12 public sector banks post - merger, including State Bank of India and Bank of Baroda.

LITERATURE REVIEW

CMA Jai Bansal and Dr. Gurudatt Kakkar (2018) conducted a study on "A research on the analysis of SBI with its 5 associated banks and Bharatiya Mahila Bank", using a variety of strategic considerations to reach the conclusion that the merger had a positive impact on the profitability of the participating banks. The study looks more closely at mergers and acquisitions in the Indian banking sector. Despite a few mergers in the Indian banking industry, the path to "international banks" remained long.

In her **2016** article titled "The Economic Impact of Merging and Acquisitions on Profitability of SBI," **Kotnal Jaya Shree** discussed the many drivers of merger in the Indian banking sector. Financial indicators such as gross profit margin, net profit margin, operational profit margin, return on equity, and debt equity ratio were used to evaluate the pre- and post-merger financial performance of the merging institutions.

Finally, it states that while banks have been favourably impacted, their overall financial health and development cannot be fixed through mergers and acquisitions.

Employee productivity is significant in M&As **(Rahaman, 2016)**, but it comes at a price in the near term **(Dhakal, 2015)**, and social costs have a big impact on M&A. **(Taneja, 2014)**.

In their 2014 study, "A pre-post comparative review of the profitability and liquidity positions of Indian commercial banks," **Chellasamy and Ponsabariraj** discovered no signs of an improvement between the pre- and post-merger periods.

The study "Evaluation Of Merger Of Hdfc Bank And Centurion Bank Of Punjab EVA Analysis" by **Rangan, S. Kasturi (2013)** discovered that various commercial entities have grown in size as a result of the liberalisation of Indian commerce through expansion, diversification, and merger and acquisition. This effort is anticipated to increase efficiency and profitability due to the size of the enormous entity. The Times Bank merged with HDFC Bank, the Bank of Madura merged with ICICI Bank, and other mergers have occurred in the Indian banking sector. It is crucial to assess whether the merging of the businesses has benefited the shareholders because the merger is being done with the intention of enhancing company performance measures.

Azeem Ahmed Khan (2011) in “Mergers and Acquisitions in Indian Banking Sector in Post Liberalization Regime” concentrated on illuminating the many drivers of mergers and acquisitions in India. According to the study's findings, mergers and acquisitions facilitated the payment of dividends to equity shareholders.

In his work, **Koetter (2008)** sought to propose a taxonomy for assessing post-merger performance in terms of cost and profit effectiveness. According to his research, mergers that concurrently meet two criteria are successful. First, the merged banks must demonstrate efficiency levels that are higher than the national average for banks. Second, banks must demonstrate changes in efficiency between the merger and the review. The study also reveals that every other merger succeeds in terms of cost or profit effectiveness.

OBJECTIVES OF THE STUDY

The research paper primarily focuses on three dimensions of study -

1. Issues faced by Indian public sector banks post-merger
2. Issues faced by customers of banks during and post-merger
3. Reasons for merger of banks in India in recent decade

METHODOLOGY

A comprehensive review of the literature on merger of public sector banks in India was undertaken to define the scope of the study and ensure its objectivity. The secondary data selection criteria were based on top-cited research papers on google scholar website. Some key data and trends were taken from websites, e-articles and online resources.

DISCUSSIONS

Reasons for merger of banks in India in recent decade

Nirmala Sitharaman, India's Finance Minister, announced the government's massive proposal to merge 10 public sector banks into four major banks on 30th August, 2019, with the goal of creating financially sound public sector banks in India.

Fewer and more powerful global-sized banks will likely result from the merger, which will accelerate economic growth.

The only thing acting as the fuel for an entrepreneur, a professional, or a corporation is the desire for growth. The businesses involved in mergers and acquisitions are moving forward and onward in synergy due to their intense drive for growth in terms of their customer base, balance sheet, and profit.

Additionally, the Indian Banks participated in this wave of mergers and acquisitions (M&A). At first, banks were combined in an effort to salvage underperforming or inefficient institutions, but as time went on, the system also changed. In more recent years, business expansion, financial success, and organisational restructuring have all been used as justifications for mergers and acquisitions.

The positive sides of merger of PS banks

- The quality of the bank's services will significantly increase.
- A large capital base made possible by mergers will help the acquirer provide a larger loan amount.
- Customers of the bank will have a far greater selection of mutual funds, insurance products, loans, and deposits from which to pick.
- After a merger, there will be less need for government recapitalization.
- The bank will have the chance to implement technological improvements in their operations.
- In the case of a larger bank with a greater number of branches, managerial effectiveness will result from the optimization of the distribution network.

Issues faced by Indian public sector banks post-merger

1. **Non-Performing Asset Ratio** - When one or more of the merging banks has a greater Non-Performing Assets ratio, there is a concern with the merger. As an illustration, Bank A's non-performing asset ratio is 2% and Bank B's is 4%. Now imagine that Bank B and Bank A merge. The non-performing asset ratio of Bank B would undoubtedly increase as a result, which will negatively impact its financial status.
2. **Unemployment of Bank Employees** - Bank personnel experience job loss as a result of mergers. After the merger, employees potentially lose their jobs as a result of overstaffing or in an effort to cut operating expenses.
3. **Managerial Efficiency** - The managerial effectiveness of a strong bank may be compromised, and the strong bank may have less incentive to perform well, if it is forced to accommodate a weak bank and absorb the liabilities. The overall financial performance of banks will be impacted by this. A merger will not help to reduce the amount of subprime loans. If not handled appropriately, it can occasionally make things worse.
4. **Political pressure** - Any bank's main issue is with non-performing assets. It is crucial to address the underlying cause rather than shifting the load to a more powerful opponent. Politicians have meddled in several matters in our nation. The same is true of banks. Political pressure forces many public sector banks to make compromises on the loan-eligibility requirements in order to offer loans. This ultimately leads to an increase in the amount of non-performing assets. Since merged banks with more lending power now

have to make more loans under political pressure, the situation can only get worse as a result of the merger.

Issues faced by customers of banks during and post-merger

1. **Change of Account number and Customer IDs** – If a customer had an account with a bank that was going to merge with another, the merging bank gave the customer a new ID and account number. If the customer's email address, physical address, and mobile number were all updated with his bank then only he would have received the notification.

2. **Re-submission of account details and Re-KYC** – The customer who received a new account number and IFSC code were required to provide the bank with their KYC information. The bank's automatic credit and debit feature also became problematic because clients must inform third parties of their new account number and IFSC code. Customers had to submit new registration-cum-mandate forms if systematic investment plans (SIP) automatically debited their accounts. For loan EMIs, the same procedure had been used.

3. **Local Branches and ATMs** – The branch rationalisation process was another issue the customers had to deal with. For example, if the new acquiring firm had a branch in the same area, an existing home branch might well have closed its doors.
4. **Credit or Debit Cards** – Credit or debit cards issued by the merging banks required to be replaced for those of the merged firm at some point, although the former were likely to stay valid for the interim time or even longer to ensure no service disruption.

CONCLUSION

There are always merits and demerits. Both are necessary for the other to exist. Always base the proper choice on a thorough examination of the two. Many people criticised the government's decision to merge all public sector banks at once. It does have good points and bad points. In this paper, the Mega-merger of 2020 is discussed from both angles. Due to their many benefits, mergers can contribute to the economic growth and development of any country. Additionally, it helps a firm grow, which is a crucial objective for any company. Therefore, addressing the drawbacks brought on by mergers thoroughly and effectively aids in making up for them.

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