

## EMERGING TRENDS IN BANKING SECTOR: ANALYTICAL STUDY ON MERGER OF PUNJAB NATIONAL BANK, ORIENTAL BANK OF COMMERCE AND UNITED BANK OF INDIA

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### ABSTRACT

The aim of the research, the results of which are presented in this paper, was to determine factors responsible for the merger of Punjab National Bank, Oriental Bank of Commerce and United Bank. We can see emergence of largest Public Sector Banks after State Bank of India with Rs 18 Lakh Crore business and impressive networking of branch in India. To boost the economy of the country, Nirmala Sitharaman Finance Minister of India announced creation of four big banks by amalgamating 10 public sector banks. This leads reduction of Public Sector Banks in the country to 12 from 27 banks in 2017. Merged bank will operate with new name and logo from 1<sup>st</sup> April, 2020.

Anchor Bank	Amalgamating Bank	Core Banking System	Public Sector Banks Rank by size	Year of Acquisition
Punjab National Bank	Oriental Bank Of Commerce	Finacle	2 <sup>nd</sup> largest	August 2019
	United Bank of India			

Summary of Punjab National Bank, Oriental Bank of Commerce and United Bank:

	PNB	OBC	United Bank of india	Amalgamated Bank
Total Business (in Crore Rs)	11,82,224	4,04,194	2,08,106	17,94,526
Gross advances (in Crore Rs)	5,06,194	1,71,549	73,123	7,50,867
Deposits ( in Crore Rs)	6,76,030	2,32,645	1,34,983	10,43,659
CASA ratio	42.16%	29.40%	51.45%	40.52%
Domestic branches	6,992	2,390	2,055	11,437
PCR	61.72%	56.53%	51.17%	59.59%
CET-I Ratio	6.21%	9.86%	10.14%	7.46%
CRAR ratio	9.73%	12.73%	13.00%	10.77%
Net NPA ratio	6.55%	5.93%	8.67%	6.61%
Employees	65,116	21,729	13,804	1,00,649

The research consists of two parts. The first one presents a review of literature on the subject, the major changes after merger of these three banks in Indian banking system. The second part of the research is demonstrating the demerits of merger of banks on public.

**Keywords:** Merger, Finacle, Public Sector Banks, NPA, amalgamation.

### Introduction

The merging of Punjab National Bank (PNB), Oriental bank of Commerce (OBC) and United Bank of India (UBI) is considered as a step towards development in India banking system. Banks merger provide avenues to the government to introduce fresh capital, adopting new recruitment policy, new technology etc. Through Merger of banks quality of the asset and capital structure improves. Also, issues like Non-Performing Assets (NPAs) and capital deficit can be overcome to some extent.

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The Central Government now decided to create 3-4 global sized banks. Because of this reason 10 public sector banks to be merged into four. The success achieved by the government in the merger of SBI and its five associate banks and Bhartiya Mahila bank helps to plan new merger of other public sector banks. Government granted Rs 55,250 crore to meet the capital requirements of the banks as well as to stabilize the economy of the country. Out of this Rs 16,000 crore allotted to Punjab National Bank.

**Reasons for merger of Punjab National Bank, Oriental Bank of Commerce and United Bank of India:**

- Establishment of global bank.
- Improving credit policy and minimizing risk
- To create Global Village bank for new generation.
- Government's intention not just to give capital but also give good governance.
- Giving authority to take decision by the bank on any banking issues.
- Monitoring large loans to avoid fraud.
- Separation of sanctioning and monitoring of loans.
- Formation of Special agencies to check loans above Rs 250 Crore to avoid a Vijay Malya like situation.
- Government taking steps to make a clear path to achieve a target of \$5 trillion economy.

**Methodology**

All are Secondary data was collected through research articles and Books.

**Summary of Punjab National Bank, Oriental Bank of Commerce and United Bank:**

	<b>PNB</b>	<b>Oriental Bank of Commerce</b>	<b>United Bank of India</b>	<b>Amalgamated Bank</b>
Type	Public	Public	Public	
Traded as	BSE: 532461	BSE: 500315	BSE:533171	
	NSE: PNB	NSE: ORIENTBANK	NSE: UNITEDBNK	
Founded	19 May 1894	19 Feb 1943	1950	
Founder	Dyal Singh Majithia, Lala Lajpath Rai	Rai Bahdur Sohan	Narendra Chandra Dutta	
Headquarters	New Delhi	Gurgaon	Kolkata	
Total Business (in Crore Rs)	11,82,224	4,04,194	2,08,106	17,94,526
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Website	www.pnbindia.com	www.obcindia.com	www.unitedbankofindia.com	

**Home Loan Rate**

<b>Merged Banks</b>	<b>Home Loan Rate as on 21/02/2020</b>	<b>Banks after Merger</b>	<b>Home Loan Rates at the next reset rate, if PNB's MCLR remains unchanged</b>
Punjab National Bank	7.95%	Punjab National bank (+ Oriental Bank of Commerce +United Bank of India)	7.95%
OBC	8.00%		
United Bank of India	8.00%		

**Share Price**

Merged Banks	Share Price as on August 30th 2019	Share Price as on February 25 <sup>th</sup> 2020
Punjab National Bank	64.95	49.90
OBC	73.50	40.20
United Bank of India	10.42	7.55

**Quarterly earnings of Punjab National Bank, Oriental Bank of Commerce and United Bank of India**

Merged Banks	Q3FY20 (Rs in crore)	Q3FY19 (Rs in crore)	Reason
Punjab National Bank	492.3 (loss)	246.5 (profit)	Higher Loan Loss Provision, readjustment of provisioning policy
Oriental Bank of Commerce	201.66 (profit)	144.96 (profit)	Reduction in Bad loans
United Bank of India	113.56 (profit)	1,139.25 (loss)	Provision for bad loans halved

**Major Changes**

- **Changes in Account number, customer IDs:** A new Account number will be allotted with new customer ID to customer of Oriental Bank of Commerce and United Bank of India. Customer has to update their information whenever need arises. A single customer ID is given to customer who having more than one account.
- **Technology:** Technological up gradation on the card.
- **Impact on Shareholders:** Shareholders of Oriental Bank of Commerce and United Bank of India will get shares of the Punjab National Bank in a pre-decided ratio. i.e 1,150 equity shares ( Face value Rs 2 ) of Punjab National Bank for every 1,000 equity shares ( Face value Rs 10 ) of Oriental Bank of Commerce. 121 equity shares ( Face value Rs 2 ) of Punjab National Bank for every 1,000 equity shares ( Face value Rs 10 ) of United Bank of India.
- **Auto-credits/debits:** Customer will have to update new bank account details with others where they had earlier given details of their accounts in the amalgamating banks. These will include the IT department for refund of tax, Life insurance companies, mutual funds etc.
- **Borrowers:** Interest on Deposit and Interest on various types of loans to be decided by Punjab National Bank. If there is a merger of Banks MCLR linked retail loans transferred to MCLR of the Anchor Bank.

Ex: PNB subsumed Oriental Bank of Commerce and United Bank of India. Interest on home loan of Punjab National Bank as on February 21<sup>st</sup>, 2020 was 7.95%, but rate of home loan of United Bank of India were at 8.00% and Oriental Bank of Commerce at 8.00%. This will not affect on the customers of United Bank of India and Oriental Bank of Commerce. However, the next reset date; Punjab National Bank will give an option to customers of United Bank of India and Oriental Bank of Commerce to be at par with its existing home loan customers by increasing or decreasing the spread. So, in this case, given that Punjab National Bank has lower interest rate on home loan, one can expect a decrease in spread for existing customers of United Bank of India and Oriental Bank of Commerce.

- **Credit/debit Cards:** The customer of amalgamated bank need to take new Credit/debit cards issued by Anchor Bank. The Credit/debit cards issued by the merging banks may be used limited period of time.
- **Up Gradation in Mobile Application:** The customer of Punjab National Bank , United Bank of India and Oriental Bank of Commerce must and should upgrade their Mobile application like Online banking App, e-Passbook etc.
- **Insurance Business:** In India several banks engaged in life insurance business. Punjab National Bank, Oriental Bank of Commerce, United Bank of India are promoters in life insurance companies. Canara HSBC, OBC life insurance belongs to Oriental Bank of Commerce. PNB MetLife insurance belongs to Punjab National Bank. This bank should maintain their stake below 10% as per law.

**Impact of Amalgamation on Customer**

The customer will be impacted in a positive manner as under:

- Considered as esteemed customer of large bank with global network.
- Part of sound banking system.

- Getting banking services around the Globe by visiting branches, ATM network and new technology.
- Access to new products, facility of credit and new banking services.
- Merger of closely located branches of the three banks, by sending SMS message to customers.
- Until complete merger of the three banks, Customer will continue to be served by present branch of respective bank. There are also cordial relations with amalgamated bank.
- Customer can obtain following banking services at any existing branch of Punjab National Bank, Oriental Bank of Commerce or United Bank of India :
  - Deposit of Cash to SB/RD/Current Account
  - Withdrawal of cash ( through cheque )
  - Transfer of fund between Punjab National Bank and Oriental Bank of Commerce and United Bank of India
  - Transfer of fund among branches of Punjab National Bank / Oriental Bank of Commerce / United Bank of India
  - NEFT/RTGS/IMPS
  - All services relating to issue/stop payment/ status enquiry of the cheque.
  - FD /RD Opening
  - Updating Passbook
  - Statement of Account
  - Periodical Balance Enquiry
- The customer can use E-banking services of their bank (PNB, OBC and UBI) until complete merger of these banks.
- The customer can use Existing ATM/VISA/ Debit card until complete merger of these banks.
- The cheque book issued by the Oriental Bank of Commerce and United Bank of India will be valid until further notification.
- Reward Point awarded by the merged bank to customer will be retained in the amalgamated bank. Further information in this respect will be shared separately.
- Customer of Oriental Bank of Commerce and United Bank of India can access ATM's of Punjab National Bank and vice versa without any charges as stated by RBI.
- Every Bank's website contains Information relating to maintaining minimum balance in Saving Bank and Current account and charges levied for not maintaining the minimum balance in the account.
- Till complete merger of banks, customer having accounts in all the banks will continue. One Customer-One Customer information File (CIF) / Customer ID (Cust-ID) followed irrespective of number of accounts.
- With prior notice/SMS message any change in Customer ID will be communicated.
- Salary/pension accounts will continue after amalgamation, with other services offered by the Anchor Bank.
- Existing Recurring Deposit/Fixed Deposit will be charged current rate of interest until maturity. If there is renewal of FD, it will be done by the amalgamated bank with the latest term deposit rates.
- Interest on savings account revised time to time. All information available on the banks' website.
- Branches of three banks will be retained. In future, there may be merger/ shift of closely located branches of the three branches. Lockers of shifted/merged banks transferred to nearby branch. All information intimated to customers well in advance.
- The insurance product issued by Punjab National Bank, Oriental Bank of Commerce, United Bank of India will be valid until maturity. All information intimated to customers well in advance.

- Standing Instructions of the customer for ECS/ utility payments, EMIs of Loan and RD, payments of credit card and other services continue without any hustle to the customer. Resubmission of customer mandate is not necessary.
- If customers opened DEMAT account through any of the bank will operate continuously. Changes will be informed well in advance.
- Agreement with Merchants will continue. Anchor Bank will decide terms and conditions of new agreement during post amalgamation. Changes will be informed well in advance. Tripartite/Bipartite agreements services will be continued.
- Resubmission of loan documents will not be required. Certain statutory documents will be requested for, if previously not submitted, as per routine practice.
- **Loan or lines of credit:** The existing Terms & Conditions (T&C) will continue as per agreements with existing bank until the date of amalgamation. Post-amalgamation, T&C along with rates will be linked to T&C of the Punjab National Bank for which, information will be accordingly communicated to customer.
- **Collateral documents hypothecated with Punjab National Bank / Oriental Bank of Commerce / United Bank of India:** The title deeds and other documents mortgaged with Punjab National Bank / Oriental Bank of Commerce / United Bank of India will be safe.
- Post-Amalgamation, Punjab National Bank will be the custodian and customer can approach Punjab National Bank to closure the loan without any hassle.
- **Overdraft (OD)/Cash Credit (CC):** Overdraft/Cash Credit renewal/enhancement will take place in normal course. Any changes in procedures intimated to customer in advance.
- **Rate of interest:** No changes in the interest rate for existing customers as per the legal contract until reset period. However, revised rate of interest applicable for new customers, the revised rate of interest will be intimated on the bank's website.
- All the services pertaining to lending products such as amount transfer, loan amortization, pre-closure, pre-payment will be serviced through customer's existing bank branches respectively.
- Invoices generated with GST number of PNB. Information relating to GST number available in the Bank's website.

#### **Advantages of Merger of Banks**

- It reduces the cost of operation.
- Helps to cover large area as well as scattered population.
- Optimum utilization of Deposit and effective disbursement of funds.
- Reduction in NPA and minimizing risk in lending.
- Better management with the help of efficient officer which minimize inefficiency.
- One Rank One Pay Policy. Uniformity in service conditions all over the country.
- Service delivery can get improved.
- Recapitalization of public sector banks may come to end.

#### **Disadvantages of Merger of Banks**

- Deep impact on performance of the stronger banks.
- Temporary solution to problems like bad loans, NPA and poor management
- Merged Bank will lose regional identity.
- Employee dissatisfaction.

#### **Conclusion**

Stability in the banking sector leads to economic growth in the country. Performance of the bank directly impact on Stock Market. Because of this reason Government of India and RBI took many steps to improve the banking sector in India. Merger of Public Sector Banks is one of the weapon which can be used effectively to bring stability in the banking sector. This leads to flow of fund for productive purposes and thereby increase the GDP of the country. To conclude that merger of Public Sector banks and capital infusion to banking sector leads to stability in the banking sector as well as growth of economy. The RBI directives also help to check the ways of loan given by the banks and help to reduce the NPAs of Banks.

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