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MERGER OF BANKS IN INDIA: ITS IMPACT ON ECONOMY: A COMPARATIVE ANALYSIS

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ABSTRACT

This paper showcases the rationale for merger among public sector banks in India. Merger of Banks!! Though was a much-awaited strategic decision but is it right? was it necessary? All these answers will unfold with the passage of time. Thus, this research paper on the topic mergers in banks of India after liberalisation should provide a spark to the academicians to access the relevance and extent of impetus of this decision on gearing up of Indian economy. The emphasis of this paper is to probe into the motives of bank mergers and acquisition with special reference to Indian Banking Industry and analyse how far it has been a success. This paper paves way for further studies on mergers and acquisitions from analytical outlook and financial perspective.

Keywords: *Mergers, Acquisitions, Strategic Decision, Liberalization, Financial Perspective.*

Introduction

Mergers and Acquisitions, is a strategic step that is undertaken to better the financial position of the entities. The core rationale behind this step is quite apparent because majority of the banks were saddled with bad loans and their non-performing assets were continually mounting. Not only this, there were anomalies too that were the major cause of worry for the banking industry.

Evolution Story of Mergers in Indian Banking Industry: Historical Background

Mergers of banks initiated in India in the era of 1960s. The foremost reason behind this was to bail out the weak performing banks and to safeguard the interests of the customers. Moreover, in the period post liberalization, the quest to create such an Indian bank that would be in the league of global giants had been thought of since 1990. Merger & Nationalization during the period from 1961-1969 is called pre-nationalization period because in 1969 the government nationalized 14 private banks. Nearly 46 mergers took place mostly of private sector banks. The reason was to revive the poorly performing banks which proved to be quite a successful move for the underperforming banks. The period from 1969-1991 was the period of post- nationalization period. Further, six more private sector banks were nationalized during 1980. During this time frame 13 mergers happened which was majorly between public and private sector banks.

The stretch of post liberalization period from 1991-2015, saw major economic reforms initiated by Government of India. Many new policies were framed. Increased Foreign Direct Investments was allowed which saw resurgence in Indian Banking. As many as 22 mergers took place. The idea underlying this was pretty obvious. To protect weaker banks and others for the sake of synergic business advantages. In addition to it, during 1993-2004 the merger of Oriental Bank of Commerce with Global Trust bank also rescued the latter as its financial position revealed that its net worth had almost eroded. Moreover, it handed Oriental Bank of Commerce a million depositors along with decent market in southern India. Another example of the aforementioned factor is the case of Punjab National Bank (PNB) with the then eroded New Bank of India (NBI) in 1993-94. Further, Benaras State Bank Ltd merged with Bank of Baroda in 2002 that too became a rescue for the weaker bank. Bank Mergers & Consolidation

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during 2008-2010 saw that SBI first merged State Bank of Saurashtra with itself in 2008. In the year 2010, SBI took over State Bank of Indore. As a result, SBI then started the procedure to rationalize the network of its branches. This was accomplished by relocating some of the branches to maximize its reach. Moreover, this step enhanced bank's operations and profitability.

The case of SBI is evident from the fact that SBI had approved separate schemes of acquisition for State Bank of Patiala and State Bank of Hyderabad. There was hardly any proposal for any share swap or cash outgo because they were wholly-owned by the SBI. Further, Consolidation of Banks in 2015-2017 was the phase that saw five associates of SBI and Bhartiya Mahila Bank getting merged in SBI. The overall vision was to create stronger banks rather than increasing the number of banks. This made SBI as one amongst the 50 largest banks in the world. Five associates and the Bharatiya Mahila Bank became the part of State Bank of India (SBI) beginning April 1, 2017. This too has put State Bank of India among the top 50 banks in the world. It is significant to throw some light on the merger of SBI with its associates. These were- State Bank of Bikaner and Jaipur (SBBJ), State Bank of Hyderabad (SBH), State Bank of Mysore (SBM), State Bank of Patiala (SBP) and State Bank of Travancore (SBT). It is important to note here that the rest two associate banks namely State Bank of Indore and State Bank of Saurashtra had been merged before with SBI. As a result of this merger, SBI witnessed a sharp rise in its total customer base that rose to 37 crores. Its branch network reached to 24,000 and ATMs around 60,000 ATMs in India. This was the revolutionary step towards creation of one bank as largest global bank. Following this, the government also gave green signal to the merger of five associate banks with SBI in February 2017. Following the same lines the Cabinet also approved merger of BMB in March.

Chart demonstrating the scenario of mergers w-r-t Indian Banking Industry

S.No.	Target Bank	Acquirer Bank	Year
1.	Bareilly Corporation Bank Ltd.	Bank of Baroda	07.06.1998
2.	Sikkim Bank	Union Bank of India	25.05.1999
3.	Times Bank Ltd.	HDFC Bank Ltd.	26.02.2000
4.	ANZ Grindlays Bank	Standard Chartered	27.04.2000
5.	Bank of Madura Ltd.	ICICI Bank Ltd.	14.03.2001
6.	Benaras State Bank Ltd.	Bank of Baroda	21.06.2002
7.	ICICI and its Retail Finance Subsidiaries	ICICI Bank Ltd.	January 2002
8.	South Gujarat Local Area Bank Ltd.	Bank of Baroda	25.06.2004
9.	Global Trust Bank	Oriental Bank of Commerce	27.08.2004
10.	United Western Bank	IDBI Bank	03.01.2006
11.	Ganesh Bank of Kurundwad Ltd.	Federal Bank Ltd.	25.01.2006
12.	Bank of Punjab Ltd.	Centurion Bank of Punjab Ltd.	19.04.2007
13.	Lord Krishna Bank Ltd.	Centurion Bank of Punjab Ltd.	29.08.2007
14.	Centurion Bank of Punjab Ltd.	HDFC Bank Ltd.	23.05.2008
15.	Bank of Rajasthan Ltd.	ICICI Bank Ltd.	13.08.2010

Source: History of Banks.

As it is evident that the Indian Banks also did not stay away from the so-called wave of mergers and acquisitions (M&A). On one hand banks were merged in order to protect non-performing and non-efficient banks but as time evolved the approach also did evolve. Now mergers and acquisitions are happening for attaining business growth, profitability and organizational restructuring. It is worth mentioning that the then Finance Minister of India also had announced recapitalization plan for the banks that came into existence after merger and this amount was Rs 55,000 crores.

Banking Recapitalization

Amount of Recapitalization announced (Highest to Lowest)	**(Rs. in Crores)**
Punjab National Bank	16,000
Union Bank of India	11,700
Bank of Baroda	7,000
Canara Bank	6,500
Indian Overseas Bank	3,800
Central Bank of India	3,300
UCO Bank	2,100
United Bank of India	1,600
Punjab and Sindh Bank	750

Source: Times of India dated Aug. 31, 2019

Review of Literature

As have been observed by reviewing the literature, it is noticed that most of the researches done with respect to mergers and acquisition of banks is primarily based on the aspects like performance of banking institutions and their profitability analysis.

Kemal (2011) in his study focussed on accounting ratios to compare profitability of RBS and ABN AMRO post-merger. This gave an idea to seek comparisons between banks.

Devos, Kadapakkam & Krishnamurthy (2008) studied M&A as the value creation, efficiency improvements as explanations for synergy and produced evidences. They concluded that mergers generate gains by improving resource allocation.

Shanmugam & Nair (2004) included some factors in their study on mergers and acquisitions of banks abroad like globalization, liberalization and information technology developments. But few efforts have been made to measure the impact of bank's M&A on their employees and staff.

DeLong (2003) in his research analysed sample of 54 bank mergers in the period between 1991 to 1995. The study concluded that upon announcement, the market rewards the merger of partners. However, several attempts have been made to study and analyse the condition of customers in the course of Mergers and Acquisitions. Acquisitions sometimes also have not so positive impact on the behaviour of employees.

Motives / Objectives of the Study

The Finance Ministry opines that the merger of 10 public sector banks (PSBs) will the aid of which India is aiming to make a USD 5 Trillion Economy. The bank merger was done in order to seek consolidation. Have a look at the government's objective behind the merger of these banks which are also the rationale of this study.

- To identify enhanced capacity to increase credit.
- To identify banks with a strong national presence and international reach.
- To analyse reduction in lending cost.
- To locate Next Generation technology for the banking sector.
- To see improved ability to raise market resources.

It is imperative to clearly understand the motives of M&A. In this analysis, following benefits of mergers could be identified.

- Sick banks survived after merger.
- Enhanced branch network geographically.
- Larger customer base (rural reach).
- Increased market share.
- Attainment of infrastructure.

After clearly understanding the motives and rationale for merger through this study, this paper focusses on the mergers of 7 banks in India.

Source: History of Banks.

Research Methodology

Hypothesis Development:

H_{01}: No significant impact of mergers on banks' performance.

H_{02}: No significant relation between bank merger and economic growth and development.

Type of Research

- Descriptive and Statistical
- Cross-sectional study (Pre-merger period and Post-merger period)

Sample Size

- Public Sector banks 14 Private Banks 04

Data Collection

- Secondary sources (RBI websites, Banks' websites, Journals, Publications, Newspapers, Internet etc.)

Tools of Data Analysis

- Ratio Analysis using financial parameters and Comparative analysis has been done by studying the balance sheets and profit and loss accounts of the selected banks.

Analysis of Data

On the basis of analysing different parameters and comparing them the following Statistics of banks' mergers were revealed:

Details of Amalgamation of 10 Banks into 4 Next Gen PSBs

Head/Anchor Bank	Merged Banks	Business Size (Rupees)	PSB Size
Punjab National Bank	PNB, OBC, United Bank of India	17.94 Lakh Crore	2nd largest bank
Canara Bank	Canara Bank, Syndicate Bank	15.20 Lakh Crore	4th largest bank
Union Bank of India	Union Bank of India, Andhra Bank, Corporation Bank	14.59 Lakh Crore	5th largest bank
Indian Bank	Indian Bank, Allahabad Bank	8.08 Lakh Crore	7th largest bank
State Bank of India	Merged earlier	52.65 Lakh Crore	Largest bank
Bank of Baroda	Merged earlier	16.13 Lakh Crore	3rd largest bank

Banks that will continue to work individually: Apart from these 10 merged entities six bank will continue to work individually. Have a look at the details of these banks

Banks	Business Size
Bank of India	9.03 Lakh crore (6th largest bank)
Central Bank of India	4.68 Lakh crore
Indian Overseas Bank	3.75 Lakh crore
UCO Bank	3.17 Lakh crore
Bank of Maharashtra	2.34 Lakh crore
Punjab and Sind Bank	1.71 Lakh crore
United Bank of India	Rs. 1600 Lakh crore
Punjab & Sind Bank	Rs. 750 Lakh crore

Banking Order (Largest to Smallest)	Business (in Lakhs of Crores Rupees)	Market Share
State Bank of India	52.1	22.5
PNB + OBC + United Bank	17.9	7.7
HDFC Bank	17.5	7.6
Bank of Baroda	16.1	7
Canara Bank + Syndicate Bank	15.2	6.6
Union Bank + Andhra Bank + Corporation Bank	14.6	6.3
ICICI Bank	12.7	5.5
Axis Bank	10.6	4.6
Bank of India	9.0	3.9
Indian Bank + Allahabad Bank	8.1	3.5

Source: Times of India dated August 31st, 2019

Findings

On the basis of analysing the aforementioned financial parameters the findings include some of the advantages of mergers. These are:

- Large banks can combat global competition easily.
- Cost of banking operations gets reduced.
- NPA and Risk management can be bettered.
- Provides better efficiency ratio for business as well as banking operations.
- Risk minimization.
- Enhancement in profitability.
- Survival of underperforming banks.
- Financial inclusion and broadening the geographical reach.
- Better management of short term and long-term liquidity.

- With a larger capital base and higher liquidity, the burden on the central government to recapitalize the public sector banks again and again will come down substantially.
- Multiple posts of CMD, ED, GM and Zonal Managers will be abolished, resulting in substantial financial savings.

The mergers are also not free from some challenges. These challenges can be categorised into emotional and social in nature rather than technical or managerial. Although the banks are merged, their people and culture are difficult to change. Moreover, the impact on customers regarding merger or acquisition of banks is often quite emotional.

Suggestions

- Co-existence of the big, medium and regional banks would be preferable in the present scenario.
- Banks must focus on regional banking requirements.
- Large global banks had collapsed during the global financial crisis while smaller ones had survived the crisis due to their strengths and focus on micro aspects.

Conclusion

Mergers are quite imperative for the expansion as well as consolidation of the not so well performing entities. This is the main reason as to why many private sector banks are genuinely inclined towards mergers and acquisition. They are also crucial for boosting and fostering the Economic growth as they are most of the times successful in saving weak banks which fail in meeting expectations. Merger poses in front of us numerous challenges that can be detrimental if the whole procedure of merging is not executed promptly. Though it must be taken care of that if mergers are imperative then it must be implemented in such a way that it should result into an environment that is rested upon the pillars of mutual trust, harmony and agreement among the people of both the organizations. Moreover, if people, work culture and vision are blended together efficiently and effectively, then mergers will definitely have synergistic effects and will also create a win-win situation for all. Further, consolidation would also provide thrust to the entities that have been merged by enhancing their capabilities to support larger ticket-size lending and also have competitive operations by virtue of greater financial capacity.

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