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THE MEGA MERGER 2020: AN EMPIRICAL STUDY

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ABSTRACT

A rapid increase in the volume of the NPAs of the public sector banks has led to the slow development in the economy as major portion of the deposits are held with these banks. Nearly 85% of the unpaid loans are held in the PSBs and increasing continuously. This can be identified as the main reason why the profits of the PSBs are gradually declining from in last few years. Government is bound to have 51% stake in the PSBs which cannot be reduced, so it is trying to reduce its spread by reducing the number of banks and making the available ones stronger. The option left with Government either to close the non performing banks or to merge them with a stronger one. Closing a bank is not considered as wise decision as it will affect the customers of the bank and reduce the capital and savings. This may also hamper the confidence of people in the banks. So it will be a right decision to merge as it will impact in many ways, such as increased capital of the new bank, support to the weaker bank, increased size of the bank etc. the point of merger was also mentioned in the Budget presented in 2014. This time the government is really serious about this matter and announced the merger of 10 PSBs in August 2019. What would be the possible impacts of the merger? In the paper we will see how the merger has impacted the banks and the other related parties. We will also analyse whether it was good or bad from various contexts.

Keywords: *Merger, Consolidation, PSBs, Impact, Entitites, NPAs, Non Performing Banks.*

Introduction

In a layman language when two entities are combined together for any reason, it is called a merger. It is also known with other names such as union, hook-up, link-up, alliance or association etc. In business language it is understood as when two companies or business enterprises enter into an agreement to form a new company it is called a merger. It can be voluntary and imposed as well. In banking sector merger when two banks are combined to form a new one it is banking merger. In some cases it can be more than two also. The new bank thus formed can adopt any one banks name or it can be new name or a name combining the two names. So in merger two individual identities come together to form a new identity. For the purpose, a panel of experts is formed who will work with the Bank Board Bureau to analyse the factors like assets, technicality, strength, culture and then identify the best match for the merger and consolidation.

Objectives of the Study

- To study the pros and cons of merger of banks in India.
- To study the past mergers happened in Indian banking industry.
- To study the details of the merger of 2020.
- To evaluate the consequences of the merger.

Research Methodology

My research is purely based on secondary data that are collected from different sources like websites of Govt., news reports, magazines, articles of newspapers and announcement of Govt. Published in various articles.

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Why there is need of Merger?

Generally a merger is done for a weaker organisation to be able to stand in the market, so it is merged with a strong organisation. This proves to be a solution for the weaker one. But there are other reasons for which the decision of merger is taken. The basic reasons may be synergy, growth in market and to eliminate tough competition.

- When two business firms are combined it has the idea that their combined performance will improve and it will show a visible reduction in the cost. Therefore banks also attempt to complement each other.
- When two banks combine they have an opportunity to capture the market share and thus ensuring growth in future.
- Mergers take place within two organisations of the similar market**.** And it is well known to all that any two firms in the same market are the competitors. So when merger take place, it is obvious that the competition between them gets eliminated.

History

The history of merger of banks is a long way from the 19th century. It started with the merger of three precedential banks of that time i.e. The Bank of Calcutta, The Bank of Madras and The Bank of Bombay and became the Imperial Bank of India in 1921, which later was named as The State Bank of India. Since then there have been various mergers in the Indian banking industry.

The decisions of merger of banks have been taken after a lot of research in the area. For the purpose various committees have been formed from time to time and the recommendations of these committees were accepted and changes were made in the banking industry.

The committees in this regard were:

- **Narasimham Committee (1991 and 1998)**: This committee suggested the banks of public sector with the financial institutions and non banking financial institutions.
- **Khan Committee (1997):** This committee recommended that there is need to harmonise the roles of financial institutions and commercial banks.
- **Verma Committee**: this committee figured out that the unification will pool the strengths of banks and result in the reduction of the cost.

There are certain laws that govern the merger of banking company. They are:

- Section 44 of the Banking Regulation Act 1949 provides the provisions for amalgamation of two banking companies.
- The Companies Act 1956 (section 391 to section 394) governs the amalgamation of a banking company with a non banking company.

Overview of the Past Mergers

Bank mergers in India have a long back root since 1960 with a view to protect the weaker banks and the customers of those banks. Since then, the banking industry in India is being undergoing such changes from time to time. Let us go through some important events in this regard from the past till date.

- **Pre Nationalisation Period:** The period between 1961 and 1969 is taken as the pre nationalisation period as during this period the banks were not nationalised, all were private banks. In 1969, the GOI took the decision to nationalise 14 banks. This period also saw many mergers (more than 40) with a main reason to support the weaker and underperformed banks and it proved successful too.
- **Post Nationalisation Period**: After nationalisation of private banks in 1969, the period till 1991 saw 13 bank mergers and six more banks nationalised. Most of the mergers of this time period were between public and private banks.
- **Post Liberalisation**: as we already know that when the economic reforms took place the LPG policy was introduced which liberalised many things. After this period till 2015 many such reforms in the form of mergers were also witnessed by the banks as well.
- PNB and NBI merged in 1993.
- Banaras Bank Ltd. And BOB merged in 2002.
- Oriental Bank of Commerce and Global Trust Bank merged in 2004 to support the GTB.

- State Bank of Saurashtra merged into SBI in 2008.
- State Bank of Indore merged into SBI in 2010.
- **Consolidation Period**: the period from 2015 to 2017 was important for SBI. Govt. Decided to merge the associate banks of SBI into the parent bank to make it larger. So five associate banks were then merged into SBI in 2017. It made SBI stand among the largest banks list.
- **In the year 2018**, Vijaya Bank and Dena Bank were merged with the BOB as decided by the GOI.
- **Mega Merger**: A big decision to merger 10 public sector banks into four banks was initiated in August 1919 but it was executed in 2020 finally.

Pros and Cons of Mergers

Although merger of banks will ensure growth and development still we need to focus mon the weak points as well. Merger proves both beneficial and challengeable for the banks and the economy. Let us make a comparison of the pros and cons of the bank mergers in the economy as a whole.

- Merger as understood by everyone is the juncture of two institutions, no doubt will add to the strength of our banking system as the size of each merged entity will become much bigger, but it also points out to the difficulty in assessing the impact quantitatively so it is required that the terms and conditions of each merger should be clearly known before exercising such decision.
- The decisions (especially with the PSUs) are taken after taking into consideration a lot of factors and future impacts. The merger of weaker bank into stronger ones may give us stronger entities which can lead us in global economy gradually, but this is not a cake making process, this will take a long time to stand in the global scenario.
- Merger of bank may lead to good liquidity management by banks; still it will result in closure of many branches, ATMs as an economical decision.
- Of course the number of PSUs will come down; which will undoubtedly result in the end of unhealthy competitions among them, which will stop many unethical things being practiced and violating regulations. But on the other side of the coin it will leave many people jobless and increase unemployment, which is a petty situation.
- On a positive side, the scale of operations in the new organisation will improve savings and result in higher profits, many controlling hands need to be cut off which may lead to excess burden on the HR and also loose many data too.
- The new institutional authorities will be able to decide more quickly and boldly on crucial decisions, clarified channels of communications and logical decentralisation.
- Better work culture, quality of work with fresh talent may be infused in the new entity but there will arise a conflict as two different cultured organisations will come together.
- Customer service will get improved with the help of improved technology, initially the customer may face difficulties and find it a bit confusing, but later this issue gets resolved gradually with time.

Problematic areas of merger and acquisition in banking sector in India

Mergers are done to overcome economic problems, but due to mergers there arise some kind of problems which are mostly social and emotional rather than technical. Some of the visible problems are:

- When decision of merger is taken it is only economical perspective, but the problems faced by people of the banks, their work culture is also to be change which is painful for them.
- Mergers cannot guarantee the loyalty and commitment of employees of banks for each other and the banks.
- Many customers who have faith in their banks find it difficult to change their attitude for other banks.
- An economy should have all kinds of organizations large, medium and small looking at the population composition of the country. This will be impacted by decision of having large scale banks only.
- The requirements of the rural population were solved by the small banks which will be affected by the merger as the large entities may not succeed in catering the needs of the rural people.

The Mega Merger of 2020

The main objective of this paper i.e. a detailed study of the mega merger of 2020 is now discussed here below. Let us first understand why the Govt did, take such a big decision. What arguments the government has for the mergers.

Our country had a number of small, medium and big sized public sector banks operating within. But not all those banks are good performing or profitable. According to our finance minister Nirmala Sitharaman, the decision was taken to reduce or minimise the number of banks in public sector and to make the banks of India, global sized. The merger aimed at consolidation of strong nationality and global reach of banks. The other reason of the merger lies in the objective to support in capital upfront through the reforms, consolidation, financial strength and governance. It was also thought that the merger would also help in reducing the number of frauds in the banking sector.

So basically there were three main objectives of the merger:

- Consolidation of PSBs for global reach.
- Strengthening the national presence in the world.
- To make the rural forces stronger.

In 2017, we had 27 public sector banks in the country, which came down to 12 after the move.

The Finance Minister said that after initiating the reforms in the public sector financial system, the following changes were noticed:

- Improved profitability of the public sector banks.
- Reduction in the number of nonperforming assets (Rs.8.65 lakh in Dec. 2018 to Rs.7.9 lakh in March 2019)
- The Non Banking Financial Companies and the Housing Finance Institutions got improved liquidity support.

The above facts helped Govt. in taking the major decision. But what added the strength was the success of SBI after the merger of its associate banks and the Bhartiya Mahila Bank into a single organisation which took the bank into the list of the 50 largest banks in the world. The move made SBI to count its customer base to 36 crores and a vast stretch of ATMs and branches throughout the boundary and beyond.

The Plan and the Result

In the major reform of merger of the ten PSBs in order to define the Indian Banking Scenario afresh, the announcement got approval from the cabinet which was decided to take place with effect from April 2020. The merger is to be executed in such a manner that six PSBs will be merged with four better performing banks of public sector. The plan of the merger goes as under:

- The Oriental Bank of Commerce and The United Bank to be merged with Punjab National Bank.
- The Syndicate Bank to be merged into Canara Bank.
- The Union Bank, Andhra Bank and The Corporation Bank to become one.
- Indian Bank and Allahabad Bank to merge together.
- Bank of India, Central Bank of India will remain untouched.
- The number of PSBs to come down to 12 namely: State Bank Of India, Central Bank of India, Bank Of India, Bank of Baroda, Union Bank Of India, UCO Bank, Bank of Maharashtra, Punjab National Bank, Canara Bank, Indian Overseas Bank, Punjab and Sind Bank, Indian Bank.

The latest move of the merger of these banks would definitely change the picture of the banking sector of the country in terms branch expansion, geographical area widened, capital acquisition, human resource and stronger balance sheets. Like:

- PNB became the second largest PSB having ATMs above 13000, branches over 10000 and over 1 lakh employees with a mixed business of over Rs. 16 lakh crore.
- Union Bank became the fifth largest bank with a business over Rs. 14 lakh crore and extended branches over 9600.
- Canara Bank becomes the fourth largest bank with more than 10000 branches and business over Rs. 16 lakh crore and employee strength above 90000.
- Indian Bank became the seventh largest PSB with a network of above 6000 branches and 2800 ATMs having a business over Rs. 8 Lakh crores.

Considerable Changes

Such a large scale reform would not come in force with ease. It may have some major impacts on the system, entities, employees or set ups of the banks. Let us have a look at some major changes as an impact of the mega step:

- There may be overlap of many roles which may be sorted out lately either by transfer or by change in job roles as the government says there would be no loss of jobs.
- According to the experts there are no clues of closure of banks immediately after the merger but certain changes like shifting of branch location may take place.
- Till the time all the formalities and procedures are duly completed (which may take a few months), the customers won't face any difficulty in availing the services of their banks. Later all the issues will be resolved and customers of each bank will be intimated about the new scenario.
- The internet banking services, mobile banking services or the mobile app services will not be affected immediately after merger; they will continue to operate as they were. The changes in the regard will be made gradually.
- As of now the existing cheque books, debit cards and credit cards may be used but later the customers will be issued new ones with all details of the new entity.
- The shareholders of the merging bank may get affected but then swap ratio will be announced later.
- The banks will have a larger network of branches and ATMs and the customers will get easy access to the banking services.
- The customers of the anchor banks and the banks which are untouched from the merger will not be affected by any terms after the merger.

Important to Watch

Although merger decision is taken considering that it will bring solution to existing problems. But there are certain things that are important to keep a watching eye on.

- Mergers result in solution as well as various problems during the process like study of books, different processes followed by different banks, work culture adaptation by the merging employees, employment conditions after merger etc. and many more. So it is said that if the processes are executed properly with all care then only it will be successful otherwise it will create more problems.
- Merging needs not only formal on paper agreements between the two organisations but also the ethical and emotional agreement too is required. So the organisations need to be merged in a peaceful manner taking into confidence and trust of the employees of both organisations. It will give synergic impact if all aspects are blended in a nice manner.
- The great move is being initiated amidst the crucial period of lockdown, when it becomes very difficult for the customers to cope with new changes taking place in any field. So the banking sector needs to execute the plan by keeping a watch on the attitude of people, their reactions to be faced and their requirements during this crucial stage.
- The lockdown also has given a situation of concern for the banks as the banks are working with limited employees and lesser working hours and the amount of work being more, so this situation should also be watched.
- Merger needs proper training of manpower to deal with the changes and cope with the new as well as old customers, so a planned and proper training schedule should be executed for the employees of both the banks and this is really a herculean task during this lockdown period.

Suggestions

- Government should not rush for such big moves. There should be ample time to do an in-depth and careful study of all facts and figures.
- The weak or merging banks should be chosen with utmost care and analysis of future consequences, not by anybody's influence or pressure.
- The anchor banks' employees should not impose their dominance over the employees of the weaker banks.

- Every aspect should be clearly and explicitly expressed. There should not be any hidden agenda of the Govt.
- Private Banks too play a very important role in the economy, so they should not be ignored in such decisions. They can also help to uplift the weak banks in the country.

Conclusion

The merger of banks acts as a levelling of the economy with view that bigger banks can efficiently help the smaller banks. But it is not only the concept of takeover rather a decision to make our financial system more powerful and strong. Two firms together can do that a single firm cannot. Before such decisions all plans must be made with utmost care and considerations of all possible and impossible factors, giving a logical reason of the decision. Merger should satisfy all necessary conditions and executed properly to ensure a win-win situation. Mergers do have a number of advantages and disadvantages as discussed above but overall, it will help to make us stand strong in the global economy. It should be noted that merger should not hamper the interest of any customer, bank, employees or the shareholders. This way a well planned and well execute merger will improve the health of the financial system of the country.

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