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MERGER OF PUBLIC SECTOR BANKS IN INDIA: AN OVERVIEW

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ABSTRACT

There are a number of strategies for the consolidation of businesses, but mergers are generally adopted by banks. This method of consolidation has turned into a need for Indian Economy to develop since, the non performing banks are rising the load on economy in the form of bad debts/advances, failure to create benefits, sell their banking products, failure to attract and retain customers and many more. Also, Merger have become vital methods within the business to form money gains massively and to improve the economies of scale. As a result, banks will be able to acquire established brand names, new regions, and complementary product offerings as a result of this, but there will also be an extra chance to cross-sell to newly acquired clients. One organization remains as a result of the merger procedure, while the other entity fades away. Banks' primary responsibilities include economic development, economic extension, and the provision of capital for investment.

Keywords: *Merger, Indian Banking Sector, Public Sector Bank, Nationalized Banks Corporate Restructuring, Growth Strategy.*

Introduction

Banks' primary responsibilities include economic development, economic extension, and the provision of capital for investment. The banking business has changed dramatically in recent years. These changes have influenced the industry's structure and strategy.

A bank is a financial entity that collects money and provides loans to borrowers. With these main functions, the bank also provides other services like collection of cheques, locker facility, issue of drafts, foreign exchange and many more. It earns interest on loans, charges on different services and pays interest on deposits. Banks play asignificant role in a country's financial stability and economy.

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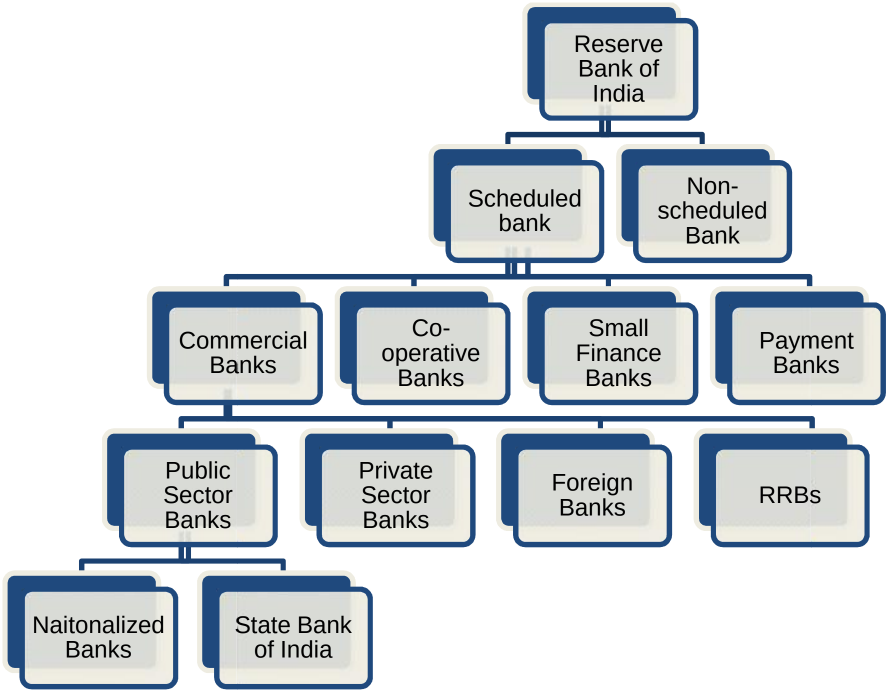
Banking Structure in India



Merger

A merger isa combination of two or more corporations in which the selling firm's assets and liabilities are absorbed by the buying firm. The buying firm preserves its original name, despite the fact that it may be a different organization following the merger.

Type of Merger

- **Vertical merger** occurs when one company supplies the other with its items. A vertical merger brings together companies that have real and possible buyer-seller connections.
- **Horizontal merger** is the joining of two or more organizations that work in the similar industry and are in the process of acquiring the same product or service. In other words, a horizontal merger is the joining of companies that are immediate opponents offering similar products in similar geographic areas.
- **Conglomerate merger** occurs when unconnected enterprises or organizations compete in different commodities markets and are situated at various stages of manufacturing of the same or comparable items, they join hands to access new marketplaces faster and lower financial problems through investment opportunities.
- **Product extension merger** occurs when companies that sell related products in same market join forces to bundle their items together and reach a larger audience. This assures that they make more money.
- **Market extension merger** occurs when companies that sell similar products but operate in separate markets join forces to get access to a wider market and client base.

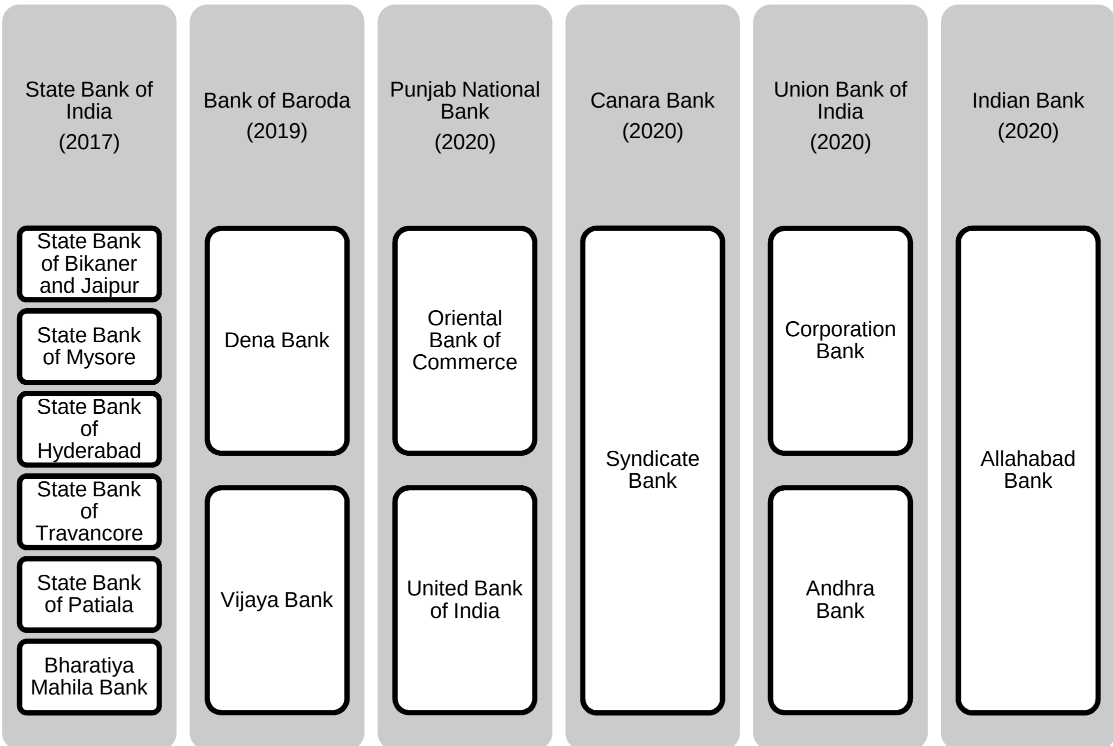
Reason behind Merger

- To enhance financial performance.
- To reduce cost and increase in profit margin.
- Extend customer base and market share.
- Decrease of competition and risk.
- Increase goodwill& combined synergy.
- Growth and diversification.
- Tax saving.

Merger of Public Sector Banks

- In 1993, the government merged the New Bank of India with the Punjab National Bank.
- In 2008, the State Bank of Saurashtra merged with SBI.
- In 2009, the State Bank of Indore merged with SBI.
- On February 15, 2017, the union cabinet authorized the merger of five remaining associate banks and Bharatiya Mahila Bank with SBI, and it went into effect on April 1, 2017.
- On September 17, 2018, the union cabinet authorized the merger of Dena Bank and Vijaya Bank with Bank of Baroda and it went into effect on April 1, 2019.
- The union cabinet approved the merger of 10 public sector banks into 4 entities on August 30, 2019 and it went into effect on April 1, 2020.
- Oriental Bank of Commerce and United Bank of India merged with Punjab National Bank.
- Syndicate Bank merged with Canara Bank.
- Andhra Bank and Corporation Bank merged with Union Bank of India.
- Allahabad Bank merged with Indian Bank.
- After this merger public sector bank remains 12 to 27.

Merger of Public Sector Bank from 2017 to 2020



After this merger public sector bank remains 12. Public Sector Bank of India at present is as follows:

State Bank of India	Punjab National Bank	Bank of Baroda	Canara Bank	Union Bank of India	Indian Bank
Bank of India	Central Bank of India	Indian Overseas Bank	UCO Bank	Bank of Maharastra	Punjab and Sind Bank

Advantage of Merger

- Reduce NPAs/Bad loans.
- It reduces the cost of operation.
- Geographical coverage.
- Helps to face competition globally.
- Development in rural areas.
- Increased opportunities.
- Improve risk management.
- Economy of scale.
- Improves customer base.
- Increase their operational efficiency by reducing their cost of lending.

Disadvantage of Merger

- Managing the people and cultures of many banks is difficult.
- Burden of non-performing bank.
- Strict assessment.
- Technical issue.
- Destroy the idea of decentralization.
- Governance issues and complication.

Conclusion

Merger had a significant influence on the banking industry. Some banks are in danger due to a lack of resources, old technology, and an over-systemized management pattern. In Indian banking, mergers have traditionally served to protect and hedge weak banks against failure. In India, the merger cult has yet to take hold, with merchant bankers and financial consultants honing their talents in grinding institutions to acquire unprofitable banks and re-establish effective businesses. After the merger, all of the amalgamated entities continued to develop at a faster rate than before the merger. The number of branches and ATMs has increased, as has the quantity of money deposited, their net profit, and their value. Merger helps in saving weak banks. Merger is important for economic growth and expansion purpose.

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