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Banks Merger in India: Impact on Indian Banking

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Abstract – The process of merger and acquisition of small and weak banks into strong banks is not new to India. It dates back to 1960s when some weak banks were m. erged into financially sound banks. The survey conducted so far shows that most of the mergers have been successful. On August 30, 2019 the Finance Minister of India Nirmala Sitharaman announced the merger of Banks focusing for development of global level financially strong Public sector banks in India. The Finance Minister declared the Government plan to merge 10 public sector banks into four large banks. After the mergers, there will be 12 public sector banks in India, including State Bank of India as the biggest commercial bank and Bank of Baroda next to it. The government is planning to create 6 to 7 strong global-sized Banks to have good and strong banking network to speed up economic growth.

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INTRODUCTION

In 1991 August14, the government of India appointed the first committee under the chairmanship of M Narasimhan, the former Governor of Reserve Bank of India and nine members, to review the progress of reforms in the banking sector. The committee submitted its submitted its report in November 1991. The second M Narasimhan committee was appointed in 1997 and it submitted its report in April 1998.The committee strongly recommended to merge small nationalized banks into strong banks and formation of 4 to 5 global level banks.

The Indian Banks did not stay in isolation from the wave of mergers and acquisitions (M&A). Initially banks were merged to save non-performing banks or non-efficient banks but as time evolved the system too evolved. In the recent times mergers and acquisitions have also been made on grounds of business growth, profitability and organizational restructure.

HISTORY OF MERGERS IN INDIAN BANKING

Mergers of banks began in India in the 1960s in order to bail out the weaker banks and protect the customer interests. After that in post liberalization period the quest to create an Indian bank that would be in the league of global giants had been continuing since 1990. Moving on the path of creating one of the largest global banks, the government had approved the merger of five associate banks with SBI in February 2017. Later in March, the Cabinet approved merger of Bharatiya Mahila Bank..

Merger & Nationalization During the Period From 1961-1969: The period is called pre-nationalization period because in 1969, July19, the government nationalized 14 private banks. As many as 45 mergers took place mostly of private sector banks in order to revive the poorly performing banks which proved to be quite a successful move for the underperforming banks.

The Period From 1969-1991: The period was called post-nationalization period. It witnessed six private banks being nationalized in 1980. In this period 13 mergers took place mostly between public and private sector banks.

The Post Liberalization Period: This period is from 1991-2015, where major economic reforms initiated by Government of India. Many new policies were introduced. Greater FDI and foreign investment was allowed which saw resurgence in Indian Banking. During this period 22 mergers took place. This was to save some weaker banks and some for the sake of synergic business growth.

Bank Mergers (1993-2004): The merger of Oriental Bank of Commerce with Global Trust bank in 2004 saved the latter after its net worth had wiped off and also handed OBC a million depositors and a decent market in South India. Mergers of Punjab National Bank (PNB) with the then eroded New Bank of India (NBI) in 1993-94 and that of Benaras State bank Ltd with Bank of Baroda in 2002 also proved to be life saving for the weaker bank.

Bank Mergers & Consolidation- 2008-2010: SBI first merged State Bank of Saurashtra with itself in 2008. Two years later in 2010, State Bank of Indore was merged with it. The board of SBI earlier approved the merger plan under which SBBJ shareholders got 28 shares of SBI (Re.1 each) for every 10 shares (Rs10 each) held. Similarly, SBM and SBT shareholders got 22 shares of SBI for every 10 shares.

The SBI was in the process to rationalize its branch network by relocating some of the branches to maximize reach. This, according to SBI helped the bank optimize its operations and improve profitability. SBI had approved separate schemes of acquisition for State Bank of Patiala and State Bank of Hyderabad. There was no proposal for any share swap or cash outgo as they were wholly-owned by the SBI.

Consolidation of Banks (2015-2017) – This phase saw five associates of SBI and Bhartiya Mahila Bank getting merged in SBI. The vision was to have strong banks rather than having large number of banks. This resulted in SBI being one amongst the 50 largest banks in the world.

Union Cabinet decided to merge all the remaining five associate banks of State Bank Group with State Bank of India in 2017. After the Parliament passed the merger Bill, the subsidiary banks ceased to exist and the State Bank of India (Subsidiary Banks) Act, 1959 and the State Bank of Hyderabad Act, 1956 were repealed.

Five associates and the Bharatiya Mahila Bank became the part of State Bank of India (SBI) beginning April 1, 2017. This has placed State Bank of India among the top 50 banks in the world. The five associate banks that were merged into State Bank of India 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). The other two Associate Banks namely State Bank of Indore and State Bank of Saurashtra had already been merged with State Bank of India. After the merger, the total customer base of SBI increased to 37 crore with a branch network of around 24,000 and around 60,000 ATMs across the country.

Merger of Banks 2018- The government had merged Dena Bank and Vijaya Bank with Bank of Baroda, creating the third-largest bank by loans in the country in 2018.

Mega Merger of Banks 2019- With the mega merger announced on August 30, 2019, ten public sectors banks will be reduced into four large banks. The four sets of banks are to be created out of Canara Bank and Syndicate Bank merger; Indian Bank and Allahabad Bank merger; Union Bank of India, Andhra Bank and Corporation Bank merger; and the bank to be created after merger of Punjab National Bank, Oriental Bank of Commerce and United Bank of India.

Six Banks Untouched: The mega merger has left untouched six other banks out of which two are national banks and the four have regional focus. The untouched banks are Bank of India, Central Bank of India, Indian Overseas Bank, UCO Bank, Bank of Maharashtra and Punjab & Sind Bank which will continue as separate entities as before.

Punjab National Bank to Become 2nd Largest Bank: Oriental Bank of Commerce and United Bank merger into Punjab National Bank will create a bank with □17.95 lakh crore business and 11,437 branches.

4th Largest Bank – Merger of Canara Bank & Syndicate Bank: The merger of Syndicate Bank with Canara Bank will create the fourth largest public sector bank with □15.20 lakh crore businesses and a branch network of 10,324.

5th Largest Bank: Merger of Andhra Bank and Corporation Bank with Union Bank of India will create India's fifth largest public sector bank with □14.59 lakh crore business and 9,609 branches.

7th Largest Bank: The merger of Allahabad Bank with Indian Bank will create the seventh largest public sector bank with □8.08 lakh crore business having strong branch networks in the south, north and east of the country

India has 12 Banks Now

The biggest overhaul in public sector banks has left India with only 12 banks now instead of 18 before the decision. According to the Government this decision of making large entities will make the Indian banks capable of meeting the higher funding needs of the economy and will help in acquiring the global scale.

Banking order (Largest to Smallest)	Business in Lakhs crore Rupees	Market Share
State Bank of India	52.1	22.5
PNB + Oriental Bank of Commerce + United Bank	17.9	7.7
HDFC Bank	17.5	7.6
Bank of Baroda	16.1	7
Canara + Syndicate Bank	15.2	6.6
Union + Andhta 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 + Allahabad Bank	8.1	3.5

Rs. 55000 Crore Recapitalization Plan with Mega Merger

The Finance Minister of India has also announced Rs.55,000 Crore recapitalization plan for the banks formed after merger. Besides, recapitalization will also be infused to the six other banks which are not the part of this merger.

Banking Recapitalization (Highest to Lowest)	Amount of Recapitalization announced (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 & Sind Bank	750

Advantages of Bank Mergers

- Larger Bank is capable of facing global competition
- The merger will reduce the cost of banking operation
- Merger will result in better NPA and Risk management
- Merger will help in improving the professional standards
- Decisions on High Lending requirements can be taken promptly
- For the bank, retaining and enhancing its identity as a larger bank becomes easier. After the merger, benefits of merger are enormous and the biggest is generation of a brand new customer base, empowering of business, increased hold in the market share, opportunity of technology upgrade. Thus overall it proves to be beneficial to the overall Economy
- Provides better efficiency ratio for business operations as well as banking operations which is beneficial for the economy
- Minimization of overall risk is there due to mergers and acquisitions which is always good from the business point of view
- Leads to increase in profitability and helps in raising the standard of living which is absolutely crucial for a growing economy like India
- Chances of survival of underperforming banks increases hence customer trust remains intact which is vital for the Economy. The weaker bank gets merged into stronger one and gets the benefit of large scale operations
- The objectives of financial inclusion and broadening the geographical reach of banking can be achieved better with the merger of large public sector banks and leveraging on their expertise.
- With the large scale expertise available in every sphere of banking operation, the scale of inefficiency which is more in case of small banks, will be minimized
- The merger will help the geographically concentrated regionally present banks to expand their coverage
- Larger size of the Bank will help the merged banks to offer more products and services and help in integrated growth of the Banking sector
- A larger bank can manage its short and long term liquidity better. There will not be any need for overnight borrowings in call money market and from RBI under Liquidity Adjustment Facility (LAF) and Marginal Standing Facility (MSF)
- In the global market, the Indian banks will gain greater recognition and higher rating
- 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
- Bank staff will be under single umbrella in regard to their service conditions and wages instead of facing disparities.

Problems Arising due to Mergers & Acquisitions in Indian Banking

Most of the problems arising due to mergers and acquisitions are more emotional and social in nature than technical or managerial. The major problems which arise are:-

- Compliance needed in every decision which might not be favorable as thinking perspectives and risk taking abilities of different organizations are different. It leads to friction and rift which, if not managed well may lead to the downfall of the organization as a whole.
- Banks are merged only on papers. Their people and culture are difficult to change. It is a recipe for disaster as it leads to poor

culture fit not ideal for the organization or the economy.

- Risk of failure increases if the executives are not committed enough in bringing the merger platforms together for the merging and taking over bank. Such failure may prove brutal for the Economy.

- Impact of customers on banking merger or acquisition is often quite emotional. If customer perception is not managed with frequent and careful communication it may lead to loss of business which is never good for the Economy.

- Managing Director of Federal Bank, V.A. Joseph is of the view that Co-existence of the big, medium and regional banks would be preferable in the present scenario. According to him most acquisitions in India were borne out of compulsions and over 90 per cent of past acquisitions had failed to achieve the objectives.

- Many banks focus on regional banking requirements. With the merger the very purpose of establishing the bank to cater to regional needs is lost.

- Large bank size may create more problems also. 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.

- With the merger, the weaknesses of the small banks are also transferred to the bigger bank.

- So far small scale losses and recapitalization could revive the capital base of small banks. Now if the giant shaped bank books huge loss or incurs high NPAs as it had been incurring, it will be difficult for the entire banking system to sustain.

Important But to Remain under Watch

Mergers are important for the consolidation and expansion purposes that is why in today's scenario many private sector banks are genuinely interested in mergers and acquisition. They are also crucial for Economy as they are most of the times successful in saving weak banks which fail in meeting expectations.

Merger creates variety of problems which can cause great damage if the process of merging is not executed properly.

If merging is needed it must be executed in a manner which leads to an environment of trust and agreement among the people of both the organizations. If people, work culture and vision are blended together nicely, merging will definitely have synergic effects and create a win-win situation.

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