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"Amalgamation of banks in India: A study of the amalgamation in 2019"

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ABSTRACT

In a bid to create financial institutions with stronger balance sheets and greater risk appetite, on August 30, 2019, the Indian government revealed a proposal to consolidate 10 public sector banks (PSBs) into 4. Government consolidated banks twice earlier for an economy worth $5 trillion and a robust banking system. As a result of this merger, Indian banks will be more globally competitive. As a result of the acquisition, Punjab National Bank will in terms of business, it has surpassed State Bank of India to become the country's second largest lender. There will be a merger of Syndicate Bank and Canara Bank, and Union Bank of India and Allahabad Bank will simultaneously merge. These mergers were driven by technological platform, customer reach, cultural similarities, and competitiveness. During the previous term of the National Democratic Alliance government, India had 27 PSBs. Firstly, five associate banks and Bharatiya Mahila Bank merged with SBI (from April 2017); secondly, Dena Bank and Vijaya Bank merged with Bank of Baroda to become third-largest lender in the country on April 1 is a topic of this research paper. As part of the government's plan to bolster the capital base of these banks, the ten public-sector banks were to be consolidated into four large institutions.

Meaning of Merger:

Merger is the procedure of merging at least two corporations into one and creating a new entity with a new name rather than remaining separate owners and operators. Purchasing a company through a merger helps reduce the weaknesses in the company, making it more competitive. A merger occurs when two companies merge and share information about debt, resources, technology, and assets, etc. Different industries experience mergers and acquisitions on a regular basis. Banking is no exception. It is possible for weak banks to merge with stronger ones in order to improve their performance and build up their capital position.

Objectives and Research Methodology:

The study is geared towards achieving the following goals:

1. Determine the financial position of ten public sector banks by analysing their top line revenue, deposits, and non-performing assets (NPAs).

2. Analysing the government's strategy to amalgamate ten public-sector banks have been consolidated into four major institutions using representative examples from the industry.

3. Analyse the benefits and risks of public sector bank consolidation.

4. To examine the potential impact of PSBs merging on customers.

METHOD OF RESEARCH:

A secondary data set was used for the purpose of this study. In this research, the data for 18 public banks have been collected from various journals, magazines, newspapers and websites, especially from the Reserve Bank of India (RBI) and Ministry of Finance, Government of India. The data is based on the period from March 2018 to March 2019.

A HISTORY OF MERGERS IN INDIA:

[1]During the 1960s, India began merging its banks in an attempt to bail out weaker banks and protect them from collapse in the interests of customers. As a result, following the liberalization period, the creation of an Indian bank that could compete with the global giants has been an ongoing process since 1990. To create one of the largest banks in the world, in February 2017, The merger of five affiliate banks with SBI had been approved by the government. The Cabinet, later in March, approved the merger for BMB as well.

Mergers & Nationalization in 1961-1969:

[2]A pre-nationalization period was defined as the time before the government nationalized 14 private banks in 1969. More than 46 mergers of private banks occurred to revive the underperforming financial institutions. These mergers were extremely effective for banks that are underperforming.

The time span from 1969 until 1991: It was referred to as the post-nationalization period. The government nationalized six private banks in 1980. There were 13 mergers during this time period, most of which involved public and private banks. Government of India initiated major economic reforms during the era preceding liberalisation, which lasted from 1991-2015. A number of nes proposed regulations were formulated. With more FDI and foreign investment authorized, Indian banking experienced a resurgence. Over 22 mergers occurred, some for the sake of saving weaker banks and others to increase synergy between companies.

[1] Kothavale, A.S., 2019. Impact of Mergers on Consumers and Employees with Respect to Banks in India. *MS Ramaiah Management Review ISSN (Print)-0975-7988*, *10*(02), pp.37-42.

[2] Reddy, D.M. and Prasad, K.V.N., 2011. Evaluating performance of regional rural banks: an application of CAMEL model. *Researchers World*, *2*(4), p.61.

Mergers (1993-2004): The merger of Oriental Bank of Commerce with Global Trust Bank in 2004 spared the latter from bankruptcy after its annual income had been significantly decreased, while also providing it with a million clients and a decent share price in South India. The mergers of Punjab National Bank (PNB) and New Bank of India (NBI) in 1993-1994 and that of Benaras State Bank with Bank of Baroda in 2002 saved the weaker banks from insolvency.

Mergers & Consolidations in the Banking Industry, 2008-2010:

[3]SBI merged with State Bank of Saurashtra in 2008. This was followed by a merger with State Bank of Indore in 2010. SBI's board of directors had authorised a merger proposal under which SBBJ shareholders would get 28 shares of SBI (Rs.1 apiece) for every ordinary share of SBI (Rs.10 each). SBI stockholders, like SBM and SBT owners, acquired 22 shares for every 10 shares owned.

In the wake of the merger, SBI began to rationalise its branch network by moving certain branches to optimise reach. As a result, the bank was able to improve its operations and enhance its revenues. Separate acquisition schemes were approved by SBI for State Bank of Patiala and State Bank of Hyderabad. As these companies were owned entirely by SBI, no share swap or cash outlay was proposed.

Consolidation of Banks (2015-2017) - [4]Throughout the stage, five associated banks between SBI and Bharatiya Mahila Bank became one. In lieu of having a large number of banks, the vision was to have strong banks. As a result, SBI has become one of the top 50 banks worldwide. The Union Cabinet approved the merger of the five affiliate banks of the State Bank Group with the State Bank of India in 2017.

Bank Mergers 2018- In 2018, the government combined Dena Bank and Vijaya Bank with Bank of Baroda to form the country's third largest bank by loans.

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[3] Ibrahim, M.S., 2013. A study on the performance of regional rural banks (RRB's) in India before and after amalgamation. *International SAMANM Journal of Business and Social Sciences*, *1*(1), pp.2308-2372.

[4] Mogla, M. and Kakkar, S., Recent Amalgamation in Public Sector Banks: A Case Study.

Mega Merger of Banks 2019- With the announcement of the mega merger on August 30, 2019, ten public sector banks will be amalgamated into four. Four sets of banks will be created by merging Canara Bank and Syndicate Bank, Indian Bank and Allahabad Bank, Union Bank of India, Andhra Bank, and Corporation Bank; and Punjab National Bank, Oriental Bank of Commerce, and United Bank of India.

[5]After the most comprehensive overhaul in India's public sector banks, there are only 12 banks left instead of 18. By forming large entities, the government believes that Indian banks will be able to meet the economy's increased financial requirements and gain access to a global market.

As a result of mergers with Dena and Vijaya Bank, the State-owned Bank of Baroda is now the country's second-largest public sector bank. The integration of both lenders with BOB went into effect on April 1, 2019. The three-way merger is India's first of its sort. There are 85,678 staff serving 120 million clients through 9,490 locations and 13,400 ATMs.

Dena and Vijaya Bank branches started functioning as branches of Bank of Baroda in April, clients of both banks will be considered as BOB customers, according to RBI. Moreover, the new account numbers will remain the same for the current customers. The IFSC and MICR codes, as well as their current ATM cards and cheque books

Mergers of public sector banks have their advantages and disadvantages. With the impending merger move, we can easily see the effect of adding new staff and enhancing our network.

Benefits of Merger

1.Competitive: PSBs can strengthen their presence and reach globally, nationally, and regionally by consolidating their operations.

2. Governance and Capital: The government wants to provide both capital and good governance. As a result, boards will have the flexibility to integrate the chief general manager level, based on business needs. Furthermore, market-linked compensation will be used to recruit the best risk managers.

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[5] Adhana, D. and Saxena, M., 2016. Big Is Beautiful: A Study of Amalgamation Plan Of 27 Public Sector Bank Into 6 Large Institutions. *International Journal of Research in Finance and Marketing (IJRFM)*, *6*(9), pp.113-127.

3. Efficient: It can reduce operational costs as overlapping networks share resources. The bank will be able to reduce its lending costs due to this enhanced operational efficiency.

4. Technological Synergy: Combined banks in a particular bucket use the same Core Banking Solution (CBS) platform, allowing them to synergize technologically.

5. Self-Sufficiency: A large bank has more resources at its disposal than one dependent upon the State budget.

6. Loan recovery: For the benefit of customers, PSU banks are improving their loan tracking mechanism.

7. Lending costs will decrease: with fewer fragmentations, the cost structure will decrease, which will result in a lower interest rate.

8. Monitoring: With the merging process, the number of PSBs will decrease, and the government will be able to more easily allocate capital, monitor performance, and monitor developments.

9. Fewer boards: With fewer banks, the government could reduce the number of bank boards as well.

Obstacles:

1. Decision Making: It is envisaged that combined banks would decelerate top-level decision-making since senior bank officials will put all decisions on delay, resulting in a decline in credit delivery throughout the system.

2. Geographical Synergy: It is not easy to carry out geographical synergy between merged banks because of the process of merger. There were three mergers involving banks that served only a single region within the country. However, combining Allahabad Bank (present in the North and East) with Indian Bank (present in the South) broadens its geographical coverage.

3. Slowdown in Economy: Although the move is a noble one, the timing does not seem right. In addition, private consumption and investments are on a downward trend. As a corollary, there is a need to bolster the economy and enhance credit flow in the short term, and this decision will obstruct that liquidity in the short run.

4. Weak Banks: A complex merger with an undercapitalized and weaker PSB would impede the bank's recovery efforts since those weaknesses of the weak PSB may leak into the merged entity with the bank becoming weak.

The Importance of Remaining Alert:

Due to the importance of mergers and acquisitions for consolidation and expansion in today's world, many private sector banks are truly interested in them. Additionally, they make a big difference for the economy, as they save weak banks who don't meet expectations most of the time. The process of merging can cause many problems, and not performing the merge properly can cause great harm. Mergers must be conducted in such a way that the people of both organizations feel trust and are on the same page with respect to the merger process.

CONCLUSION:

Banks were critical in transforming India into a $5 trillion economy; to do so, they need more lending capacity in order to deliver better services using cutting-edge technology. In order to move forward, consolidation is key. The larger banks would be able to focus on foreign markets as a consequence of the merger, meanwhile the smaller ones would focus domestically. With the combination, 82 percent of public sector banks will be controlled and 56 percent of commercial banks will be controlled. As a result of the consolidation, there will be 12 PSU banks, which is the right number for PSU banks. Fusion of the companies would benefit capital management. In addition to mergers, these banks must reform their management as well as governance. Members of the All India Bank Employees' Association protested here against the Centre's merger of ten public sector banks into four. Thus, the Government have reached out to them and assisted them with solving their problems. Public sector banks will have a stronger balance sheet and lending capacity after these mergers. In addition to gaining global competition, these banks might enhance their operating efficiency by lowering their loan expenses. Investing in India in vast quantities is necessary for the country to become a five trillion-dollar economy. The development of the country's economy would be accelerated if banks could provide funding for big projects. Better management of banking capital would result from the merger. In other words, the merger of the 10 PSBs into four major banks would seem to be a great step forward for investment purposes in the country.

Researcher/Scholar Index

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