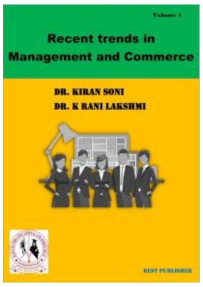
Recent trends in Management and Commerce
Vol: 1(1), 2020
REST Publisher
ISBN: 978-81-936097-6-7

Website: http://restpublisher.com/book-series/rmc/



Unlocking the Lock- A Mirror Image Effect of Merger in the Indian Banking System

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Abstract

The Indian banking sector has undergone a major change in the form of merger. Indian Public sector banks witnessed threats of increased Non- Performing Assets (NPA) and competition from the private and foreign banks. The steadiness in the financial structure leads to the stable growth of the country. Indian banks comprise of public banks, private banks, rural banks, cooperative banks, industrial banks, agricultural banks and foreign banks. Several banks in India are operating in a limited area and the turnover of the bank is not that eye-catching in the present competitive world. Compared to the banks of developed countries, Indian banks need to become stronger in terms of operation, technology, turnover and spread. Amalgamation is one such measure the government has taken to build strong banking sector in the economy through the merger process. Merger in simple words is a method to unite two or more surviving banking companies into one new bank. The largest public sector bank in India i.e. State Bank of India has 5 subsidiaries, more than 16,500 branches in India and 191 foreign branches is at present one among world's top banks through the merger process. At present India witnessed the mega merger of 10 banks. The article is based on the published data which analyses the merger of banks and is effect/ challenges in the present context.

Keywords*: *Merger, Indian Banks, Bank Employees, Shareholders.

Introduction

'The laurel -tree grew large and strong, its root went searching deeply down; it split the marble walls of wrong, and blossomed o'er the despot's crown'. Well said by Richard Henry Horne, efforts to become stronger result in being strong. The corporate world is subject to change. The factors such as competition, external and internal policy shifts, survival, and turnover are factors responsible for the change in the business. Even though majority of Indian population depend upon agriculture, the contribution of agriculture and industries (primary & secondary activities) for the economic growth is less compared to the service (tertiary) sector. India is second largest populated country and can very well flourish with the service based activities. Service based organizations have gained much importance in the society such that it has proved profitable, reliable and long lasting. The competition gradually increased among the service based organizations, presently it is the condition arose among the banks that survival of the fittest. Indian banks are not competent globally, because of a large number of small banks. Due to this reason, most of the foreign banks have gained success in India. The Indian Public Sector Banks are unable to compete with the private and foreign banks. The State Bank of India, being the largest bank operating in India has changed its operating structure by merging its subsidiaries with it. Similarly the other public sector banks also merged. The paper is a conceptual work and it deals with the effects of merger of banks in India.

Amalgamation

Amalgamation is the process of combining of two or more companies into a new entity/ business. i.e. absorption of one company by the other or two/ more firms join together to form a new entity. Amalgamation may take place either in the form of merger or through the purchase. Amalgamation in the form of merger refers to the combination of two or more companies in which the assets and liabilities of the selling firm(s) are absorbed by the buying firm. Although the buying firm may be a considerably a different organization after the merger, it retains its original identity (Sherman and Hart, 2006). Merger of companies include the pooling of assets, liabilities, shareholder's interest and businesses of these companies. The businesses will be continued after the amalgamation. Merger may be in the form of horizontal merger or vertical merger. The Merger of banking companies is the example for horizontal mergers as there were two or more banks as party to the merger and had the similar type of business operations. The horizontal merger is backed up by some general objectives namely, financial gain , eliminating the competition between the merging firms, Increasing the equity value, achieving the managerial efficiency and effectiveness, increasing market share, more emphasis for R&D, reduction of operating cost, increasing the concentration in the targeted market and to maintain stability in the pricing.

Merger of Public Sector Banks in India

Year	Amalgamating banks	After merger	Business Size	Size of merged entity	Market share (%)
2020	Punjab National Bank, Oriental Bank o Commerce and United Bank of India	Punjab National Bank	17.94 lakh cr.	2nd largest	7.7
2020	Canara Bank and Syndicate Bank	Canara Bank	15.20 lakh cr.	4th largest	6.6
2020	Union Bank of India, Andhra Bank and Corporation Bank	Union Bank of India	14.59 lakh cr.	5th largest	6.3
2020	Indian Bank and Allahabad Bank	Indian Bank	8.08 lakh cr.	7h largest	3.5
2017	Bank of Baroda, Dena Bank and Vijaya Bank	Bank of Baroda,	16.13 lakh cr.	2nd largest	7.0
2017	State Bank of India and its Associate banks	State Bank of India.	52.05 lakh cr.	Largest	22.5

As on 31st March 2020

In the year 2008, SBI had merged State Bank of Saurashtra and in 2010, State Bank of Indore was merged with it. In the process of merger presently (2016), the SBI Board had decided to merge 5 subsidiaries Thus, State Bank of Bikaner & Jaipur (SBBJ), Travancore (SBT), Patiala (SBP), Hyderabad (SBH) and Mysore (SBM), and the Bharatiya Mahila Bank (BMB) have amalgamated in the form of merger. At present, State Bank of India is the largest Public Sector Bank in India with more than 16,500 branches in India and 191 foreign branches spread across 36 countries, is now among world's top banks through the merger process. As per the cabinet approval by March 2020, The Bank of Baroda, Vijaya Bank and Dena bank to be amalgamated in the form of merger and it will be the third largest bank with the 9,500 branch network . . The employees of Dena and Vijaya bank have now the employees of Bank of Baroda. The bank's tier 1 and 2 capital must be at least 8% of its risk-weighted assets. The capital adequacy ratio was 10.1% 13.56% and 11.888% for Dena, Vijaya and Bank of Baroda respectively and collectively 12.5%. The banks after amalgamation are expected to follow the Basel III (International standards) capital adequacy standards. The end March 2020 witnessed the mega public sector bank mergers in India. The PNB with 11,437 bank branches, Canara Bank having 10,342 branches, Union Bank with 9,609 branches and Indian bank with 6,104 branches. Merger in the banking companies poses some challenges too. The identity of the old companies will be lost. Merger may result in the closure of bank branches and thus reduction of workforce. In the process of becoming stronger and larger bank, the combination may give scope for monopoly market and there won't be any healthy competition. This may cost on the customers in the form of poor service quality, high cost and delay.

Post-merger: Public Sector Banks:

There will be 12 PSBs (Public Sector Banks) in India post merger.

S No.	Bank	Bank Size
1	**State Bank of India**	52.05 Lakh cr.
2	**Bank of Baroda**	16.13 Lakh cr.
3	**Punjab National Bank**	17.94 Lakh cr.
4	**Canara Bank**	15.20 Lakh cr.
5	**Union Bank of India**	14.59 Lakh cr.
6	**Indian Bank**	8.08 Lakh cr.
7	**Bank of India**	9.03 Lakh cr.
8	**Central Bank of India**	4.68 Lakh cr.
9	**Indian Overseas Bank**	3.75 lakh cr.
10	**UCO Bank**	3.17 Lakh cr.
11	**Bank of Maharashtra**	2.34 Lakh cr.
12	**Punjab and Sind Bank**	1.71 Lakh cr.

As on March 2020

The merger plan is made to attain operational efficiency and to increase the market share. The Bank's Board forecasts that, increased presence of bank in a vast geographical area will increase deposits and thus the cost of funds can be reduced. The bank can serve the customers at a reduced cost on advances (loans). The bank also presumes that, there will be a drop in overheads, centralization of treasury and administrative offices will reduce the running costs. Post merger, fast and uniform digital system can be brought easily wherein previously uniformity was the nightmare because of the existence of different entities with separate management.

The banks believe that cost synergy benefits are the biggest advantage of the merger, that can be achieved in near future. Treasury improvement and lower cost of funds is also a major aim. The merger will lead the increase of treasury. The bank will be deploying the human resource on customer centric areas. All the efforts are made to ensure customer satisfaction and creating a strong customer base. The additional capital may be employed for increasing the efficiency and to achieve economies of scale.

The public Sector bank's stocks are majorly owned by the government. The past records showed that the banks Non-performing Assets are in the increasing trend which hampered their solvency position and lending capacity. Prompt Corrective Action was needed to retain them. The Government's 4R philosophy is the guiding element for the merger process. Recognizing the bad assets, taking resolution through insolvency & bankruptcy Code, recapitalization by pumping- in additional capital, followed by reforming the structure of the banks. The stronger bank will have the capacity to utilize the money pumped in by the government.

Post-Merger: Status of Employees and Investors of parties to merger:

The Government's step towards merger of banks is motivated by the existing aggressive competition posed from the private and foreign banks, increased NPAs and incompetency of the banks. Do the employees and the investors of the parties to the merger are happy about the merger?

Several strikes carried out by the employees, unions and associations to show that the employees resistant over the merger. The associate banks will be losing their identity after the merger.

The banks also announced that the employees of the parties to the banks for merger will be continued under the umbrella Anchor bank and the bank have assured the associate bank's shareholder will be settled in the form of the share swap. The associate Banks and the shareholders are not happy with the swap value.

Some of the issues that need to be looked into post merger:

- The bank has to give prime importance to bring down the non- performing assets. Prudential lending is to be followed o reduce the NPAs.
- Accountable leadership, transparency and reporting.
- Rationalization of bank's branches, employee remunerations.
- Customer retention and service delivery.
- Unification of IT platform covering the merged banks and CBS Core Banking Solution.
- Superiority and Inferiority complex may arise between the employees of anchor bank and the other parties to the merger

Conclusion

State bank of India, the oldest bank in India plays very important role in the financial system of the country. The bank undertakes treasury function, advisory function to the government along with banking activities. The only Indian bank which has more branches in the foreign countries. The bank is aiming at achieving the success nationally and internationally. Followed by the SBI merger, the other PSB also merged to become stronger and efficient banks. The economy around the world is slowed down due to the Covid-19 pandemic the revival of which takes long time. However the banking sector plays major role in the recovery process of the economy.

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