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Bank Mergers and Indian Economy

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Abstract: *Banking sector is one of the important sector which is affecting growth of Indian economy. Due to multinational players the banks both public and private intense competition. Moreover e-commerce and online banking has made small banks difficult to survive. As a result, Mergers and acquisitions are the order of the day. The study includes various aspects of bank mergers. The paper presents the merger of banks in post liberalisation period and its effect on the Indian economy. The data has been collected from secondary sources.*

Key Words: *Mergers & acquisition, financial parameters, Indian banks.*

1. INTRODUCTION:

Banking sector is one of the fastest growing sector in India and affecting growth of Indian economy. Merger is the amalgamation of two groups into single entity. It is the process of combining two business entities under the common ownership. Usually merger occurs when an independent bank loses its charter and becomes a part of an existing bank with. In Indian banking sector Mergers and acquisitions has become admired trend throughout the country. A large number of public sector bank, private sector bank and other banks are engaged in mergers and acquisitions activities in India. The main motive behind Mergers and acquisitions in the banking sector is to harvest the benefit of economies of scales. Merger and acquisition have played an important role in the transformation of industrial sector of India since the Second World War period. During the Second World War Period Economic and political conditions give rise to effective Mergers and acquisitions (M&A). Mergers can be a large source of growth in any economy but particularly in one that's comparatively stagnant and mired in deep uncertainty. Mergers and acquisitions (M&A) are considered as a relatively fast and efficient approach to expand into new markets and incorporate new technologies. the main motive behind used strategy by firms to strengthen and sustain their position in the market place. Mergers and acquisitions (M&A) have played a major role for corporate restructuring and the financial services industry. We can find many evidences that their success is by no means assured. Pressures on the employees of banks around the world have been manifold across, entry of new players and products with superior technology, globalization of financial markets, changing demographics of customer behaviour, consumer pressure for wider choice and low cost service, shareholder wealth demands, shrinking margins. In an Indian multinational, public sector banking and financial services company.

2. OBJECTIVES OF THE STUDY :

- To study the important mergers in the banking sector in India in the post liberalisation period.
- To study the effect of bank merger on Indian economy.

3. METHODOLOGY:

Sources of Data: The study is based on Secondary Sources which includes the Annual Reports of the Select Banks; RBI Database- Profile of Banks –various issues; research publications etc.
Period of Study: The Period of the Study is the Post Liberalisation Period i.e., from 1991 to 31st March 2017.
Sample Selection: During the Post Liberalisation Period i.e., from 1991 to 31st March 2017, Mergers have taken place in the Banking Sector in India between various Banks. Some of them were forced mergers (Private Sector Bank merged with Public Sector Bank) and a few were voluntary in nature.

3.1 What is the reason behind banks merger?

- To decrease unhealthy competition among Banks.
- It is difficult for smaller outfits to sustain the pace of competition and regulatory / risk mitigation norms.
- The merger has been necessitated on account of change in banking environment due to emergence of new area for compliance like Basel III, risk management etc., which require heavy investment on technology and compliance.
- With mergers the customers can be brought under one roof and banks can better focus on defaulters.

3.2 Mergers and Acquisitions in Indian Banking

Mergers and acquisitions are not an unknown happening in Indian Banking. In fact, the predecessor of State Bank of India, the Imperial Bank of India was born out of consolidation of three Presidency Banks way back in 1920. In fact, there were several cases of bank failures, mergers and acquisitions which were reported in pre-independence period dating back to even early 19th Century. Proper regulation and control of banks and intervention by the regulator in the event of a crisis came into being with the passing of Banking Regulation Act in 1949. However, forced merger and amalgamation as a tool to provide relief to ailing banks besides protecting public and depositor confidence in banking system came into being only in 1960 when Section 45 inserted in BR Act. Panic created by the Nath Bank in the fifties and Laxmi bank and Palai Central bank in 1960 had prompted this legislative move. The first half of the sixties saw 45 forced mergers under section 45. In the post nationalization period also a number of mergers and acquisitions took place, most of them under Section 45. Interestingly almost all of them were amalgamations of failed private banks with one of the Public sector banks. Nowadays M&A are voluntary efforts of the banks.

The table below shows mergers in During the Post Liberalisation Period

Merger Year	Acquirer Bank	Target Bank	Motive of merger	Motive of merger
1993	Punjab National Bank	New Bank of Bank	Restructuring of Weak Bank	Forced Merger
1993	Bank of India	Bank of Kerala Ltd	Restructuring of weak bank	Forced Merger
1995	State Bank of India	Kashinath Seth Bank	Restructuring of Weak Bank	Forced Merger
1997	Oriented Bank of Commerce Punjab	Co-operative Bank Ltd	Restructuring of Weak Bank	Forced Merger
1997	Oriented Bank of commerce	Bari Doab Bank Ltd	Restructuring of Weak Bank	Forced Merger
1999	Union Bank of India	Sikkim Bank Ltd	Restructuring of Weak Bank	Forced Merger
2000	HDFC Bank Ltd	Times Bank	To achieve scale and scope economies	Voluntary Merger
2001	ICICI Bank	Bank of Madura	To achieve scale and scope economies	Voluntary Merger
2002	ICICI Bank	ICICI Limited	To achieve the objective of universal banking	Voluntary Merger
2002	Bank of Baroda	Benaras State Bank	Restructuring of Weak Bank	Forced Merger
2003	Punjab National Bank	Nedungadi Bank Ltd	Restructuring of Weak Bank	Forced Merger
2004	Bank of Baroda	South Gujarat Local Area Bank	Restructuring of Weak Bank	Forced Merger
2004	Voluntary Merger	Global Trust Bank	Restructuring of Weak Bank	Forced Merger
2005	Centurion Bank	Bank of Punjab	To achieve scale and scope economics	Voluntary Merger
2006	Federal Bank	Ganesh Bank of Kurandwad	Restructuring of Weak Bank	Forced Merger
2006	IDBI Bank	United western	Restructuring of Weak Bank	Forced Merger
2006	Centurion Bank of Punjab	Lord Krishna Bank	Expansion of size	Voluntary Merger
2007	ICICI Bank	Sangali Bank	Expansion of size	Voluntary Merger
2007	Indian Overseas Bank	Bharat Overseas Bank	Restructuring of Weak Bank	Compulsory Merger
2008	HDFC Bank	Centurion Bank of Punjab	Expansion of size and benefits of scope economics	Voluntary Merger
2010	ICICI Bank Ltd	Bank of Rajasthan	Expansion of size	Voluntary Merger

2017	State Bank of India	Bharatiya Mahila Bank (BMB)	Restructuring of Weak Bank and achieve economies of scale	Forced Merger
2017	State Bank of India	State Bank of Travancore (SBT	Restructuring of Weak Bank and achieve economies of scale	Forced Merger
2017	State Bank of India	State Bank of Bikaner and Jaipur (SBBJ)	Restructuring of Weak Bank and achieve economies of scale	Forced Merger
2017	State Bank of India	State Bank of Hyderabad (SBH)	Restructuring of Weak Bank and achieve economies of scale	Forced Merger
2017	State Bank of India	State Bank of Mysore (SBM)	Restructuring of Weak Bank and achieve economies of scale	Forced Merger
2017	State Bank of India	State Bank of Patiala (SBP)	To achieve economies of scale	Forced Merger

Source: Compiled from report on trend and progress of banking in India, RBI, Various issues

3.3 Effect of merger of banks on Indian Economy

Banks are central to a nation's economy as it caters to the needs of credit for all the sections of the society. As Indian companies increase their business and become global in nature, their demand for large scale credit will become higher. Banks also have to grow in size to meet the higher demand of credit. This indicates that under Indian conditions, there is lot of scope for banks to grow in size which is possible through mergers.

3.4 The bright side

- The size of each business entity after the merger add strength to the Public Sector Banks in particular and Indian Banking System in general.
- After the merger, Indian banks are able manage their liquidity – short-term as well as long-term – position comfortably.
- The number of public sector banks have gone down. This reduces the unhealthy and intense competition going on even among public sector banks as of now. Moreover, the new banks, after the merger, are giving the private sector banks a good run for their money.
- Cost of Banking operations will be reduced.
- With the merger of large public sector banks the objectives of financial inclusion and broadening the geographical reach of banking can be achieved better.
- With the large scale expertise available the scale of inefficiency in small banks, will be minimised
- The merger would help the geographically concentrated regionally present banks to expand their coverage.
- The merged banks can offer more products and services and help in integrated growth of the Banking sector.
- The professional standards will be improved.
- A larger bank can manage its short and long term liquidity better.
- Multiple posts of CMD, ED, GM and Zonal Managers will be abolished which will result in financial savings.
- According to the RBI's report, PSBs hold 70% of the total banking system assets. It clearly shows that PSBs hold lion share of banking sector and Indian economy cannot move forward without strengthening them. Moreover, with increase in credit penetration and as credit to GDP ratio increases from present levels of 50 percent, PSBs with a market share of over 70 per cent need to contribute significantly in the process of easing credit availability.
- The merger benefits economies of scale and reduction in the cost of doing business.
- Indian banks will gain recognition and higher rating in the global market.

3.5 The Darker Side

- Larger banks are more effected by global crisis while the small banks can survive.
- Larger banks come under pressure because of mergers.
- Many banks focus on regional banking requirements. With the merger the purpose of catering to regional needs is lost.

- After merger the staff of the participating bank might be surplus and is transferred to the branches which are understaffed, which might create discontentment among the employees.

4. CONCLUSION:

Merger in general is considered as a strategic tool for the participants in merger activity for gaining certain synergies. Policy It is helpful for the survival of the weak banks by merging into the larger bank. The long-term benefits of consolidation outweigh the short-term concerns, so it must not be made a general.

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