MERGER AND ACQUISITION OF BANKS IN INDIA

Dr. Vijay .B. Desai
Assistant Professor, Rajrshi Shahu Arts and Commerce College, Rukadi
Corresponding Author: Dr. Vijay .B. Desai
Email- vijaydesai809@gmail.com

Abstract

Banking industry has played a significant role in money creation in economy. In Indian banking industry Merger and acquisition of bank has emerged as commendable Trend and for expending scale of operation and market share of bank. This paper has focus on merger and acquisition of Banks in India. This proposed study has contemplated to know reasons and challenges for merger and acquisition of banks. The Reason of merger and acquisitions of bank has been studied. And also study the positive effects have been seen on merged bank. Secondary data has been used for collection of Data.

Keywords*- Merger and acquisition, effects after merger, reason behind merger decision.*

Introduction

Banking Industry of India is rapidly growing industry with innovative digital trend and Merger and acquisition is applied strategic mode in Indian banking to compete globally. It is evident from reviewing related literatures that combined banks have to face many issues and challenges. Banking sector is one of the fastest growing areas in the developing economies like India. M&A is discussed as one of the most useful tool for growth, which has evoked the interest of researchers and scholars. Indian economy has witnessed fast pace of growth post Liberalization era and banking is one of them. Merger &Acquisition in banking sector has provided evidences that it is the useful tool for survival of weak banks by merging into larger bank. It is found in our study that small and local banks face difficulty in bearing the impact of global economy therefore, they need support and it is one of the reasons for merger. Some private banks used mergers as a strategic tool for expanding their horizons. There is huge potential in rural markets of India, which is not yet explored by the major banks. The merger of public sector banks (PSBs) involves integration of six weaker PSBs with four better performing ‘anchor’ banks. Andhra Bank and Corporation Bank were merged with Union Bank while Oriental Bank of Commerce and United Bank were merged with Punjab National Bank. Syndicate Bank has been merged with Canara Bank, while Allahabad Bank with Indian Bank

Objectives of the Study

1. To study the concept of Merger and Acquisition.
2. To Study the recent merger of banks in India.
3. To study the reasons for merger and acquisition of Banks in India.
4. To study the challenges for mergers and acquisition of Banks in India.

3. Concept of Merger and Acquisitions

Merger is the amalgamation of two or more corporations into a single corporation where one subsists and the others lose their corporate existence. The survivor obtains all the assets and the liabilities of the merged corporations. All assets, liabilities and the stock of one corporation stand transferred to transferee Corporation in consideration of payment in the form of Equity shares, Debentures and Cash. An Acquisition refers to the procurement of a smaller corporation by a larger corporation. Acquisition is also known as a takeover. It occurs between the bidding and the target corporation. There may be either hostile or friendly acquisitions. In business combinations, an acquisition is the purchase by one corporation of a controlling interest in the share capital of another existing company.

Recent Mergers of Banks in India

In August 2019, the Finance Minister of India announced the merger of 10 Public Sector Banks into four entities. The logic behind this merger is to increase the global competitiveness of the Indian banks. Presently, the total Public Sector Banks reduced to 12 from 27 in 2017 in India.

i. Merger Number 1: PNB+OBC+UBI

Oriental Bank of Commerce (OBC) and United Bank of India (UBI) were merged with the Punjab National Bank (PNB). After this merger, PNB will be the second-largest Public Sector Banks of India after the State Bank of India in terms of the branch network. Its total branches would be 11,437 and the total Business of the PNB would be Rs. 17.95 lakh crore.

ii. Merger Number 2: Syndicate Bank+ Canara Bank

Syndicate Bank is merged with the Canara Bank. After this merger, Canara bank would be the fourth largest Public Sector of India. The total business of Canara would be 15.20 lakh crore with branch strength of 10,342. This merger will reduce the cost of operations owing to network overlaps. These two banks have a similar work culture that is why it would lead to facilitate a smooth transition.

iii. Merger Number 3: Andhra Bank+ Corporation Bank+ Union Bank of India

Andhra Bank and Corporation Bank are merged with Union Bank of India. This merger would make Union Bank of India 5th largest Public Sector Bank. This merger would have the potential to increase the post-merger banks business by 2-4.5 times. After this merger, the total business of Union Bank of India would be Rs. 14.59 lakh crore while total branches would be 9,609.

iv. Merger Number 4: Allahabad Bank + Indian Bank

In the fourth merger, Indian bank was merged with the Allahabad Bank. After this merger, Allahabad bank will be the 7th largest Public Sector Bank of India. After the merger, the total business of Allahabad bank would be Rs. 8.08 lakh crore and the number of branches would be 6,104. After the merger of these two banks the size of business would get doubled which would increase their global competitiveness.

Reasons for Mergers and Acquisitions of Banks

Mergers and acquisitions have molded the Indian Banking sector in a perfect manner. Though there seem to be diverse opinions on this particular material, yet there is always hope for an improvement in the current condition after bank mergers. The following are the reasons for the mergers to take plakhe in banks.

1. The exercise of merger of weaker banks with stronger banks was encouraged in order to provide stability to weak banks but Narasimhan committee conflicted with this practice. They said that mergers can diversify risk management.
2. Invention of new financial products and merging of regional financial system are the reasons for merger. Markets industrialized and became more competitive and because of this, market share of all individual firm condensed and hence, mergers and acquisition started.
3. Ability of producing economies of scale when firms are merged.
4. Allocation of skill takes plakhe between two organizations which helps them to progress and become more competitive.
5. Introduction of e- banking and some monetary instruments / Derivatives. Removal of admission barrier opened the gates for new banks with high technology and old banks can’t compete with them and hence they decide to merge.
6. When two companies merge their sole motive is to create a positive result which is higher than the shared effect of two individual companies working alone. Two features of it are cost synergy and revenue synergy.
7. Performing banks survived after merger and enhanced branch network geologically.
8. Larger customer base i.e., through rural reach and increased market share.
9. Achievement of infrastructure & restrict competition and prevent congestion of banks & utilize underutilized resources so that the banks can contest with the foreign banks in a global era.

Challenges for Merger of Banks in India

i. Technology Integration

These different banks could be seen as asymmetrical entities using different technological platforms and having various geographic reach. Hence, it is important to select the merger partners based on their IT compatibilities over anything else. This sometimes leads to a lack of geographical synergy as the geographic reach is overlooked. Then, there are cases where merger partners are using different versions of the same software solution hence it has to be upgraded for seamless integration. Besides, every bank has got a certain level of customization done depending on their needs. Thus, it takes a considerably long time to integrate technology platforms of partners involved.

ii. Human Resource

Harmonizing the human resource is another key aspect of these bank mergers. The banks are merged only on papers but their people and culture don't. Employees of all partner banks often go through the changes in guidelines, policies, designation, and sometimes they get transferred. Ignoring their issues can decrease morale, productivity and may lead to an exodus of key talent. So, several committees are formed to look after various aspects of the merger including HR, IT, and product offerings. While the best available benefits from all the banks are passed on to employees, there remain many challenges to deal with. Apart from job security, different working styles, levels of stress, career-related issues in terms of growth, internal transfers, and pay structures need to be in synchronization.

iii. Other Challenges

When two banks are being merged, compliance is needed in every decision, which might not be favorable as their risk-taking abilities and thinking perspectives are different. This may lead to friction and rift which, if not managed well can result in the downfall of the organization as a whole.

One of the purposes behind banks' merger is to bail out poor performing banks. The anchor banks are made to set aside crores for loans to harmonize the bad loan accounts of the banks to be merged and as the ensuing provisions after the merger. A complex merger with an under-capitalized PSB can halt the bank's recovery efforts and the merged entity may become weak as well.

Conclusion

The banking industry has been experiencing major Mergers and Acquisitions in the recent years, with a number of global players emerging through successive Mergers and Acquisitions in the banking sector. The current study indicates that the pre- and post- Mergers and Acquisitions of selected banks in India have no greater changes in profitability ratio; a few banks are satisfactory during the study period. But in future, there are robust projections of improvements in profitability. However, results specify that mergers led to higher level of cost efficiencies for the merging banks. Merger between distraught and strong banks did not produce any significant efficiency gains to participating banks. However, the forced merger among these banks prospered in shielding the interest of depositors of frail banks but stakeholders of these banks have not revealed any gains from mergers.

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