International Journal of Commerce and Management Research
ISSN: 2455-1627; Impact Factor: RJIF 5.22
Received: 16-03-2020; Accepted: 18-04-2020; Published: 23-04-2020
www.managejournal.com
Volume 6; Issue 2; 2020; Page No. 41-45

Bank merger drive in India in 2020-An economic perspective

Dr. NR Suryanarayana[1*], Uma TG[2]

[1] Associate Professor, HOD and Co-ordinator, Department of Commerce and Management, ISBR College, Bengaluru, Karnataka, India

[2] Assistant Professor, Department of Commerce and Management, Maharani Women's Arts, Commerce and Management College, Seshadri Road, Bengaluru, Karnataka, India

Abstract

The Finance Minister Sitharaman had announced the merger of 10 Public Sector Banks into four on August 30, 2019. This merger is approved by the union cabinet on 4 March 2020. The merger would be effective from April 1, 2020. The basic logic behind this merger is to increase the global competitiveness of the Indian banks. Now the total Public Sector Banks reduced to 12 from 27 in 2017 in India. The present article presents the consolidation of the banks as mega economic reform in a capsule.

Keywords: amalgamation, economic reform, asset consolidation

Introduction

Ten Public Sector Undertaking (PSU) banks will be amalgamated into four banks from 1st April 2020. In the biggest consolidation exercise in the banking space, the government in August 2019 had announced the merger of 10 public sector lenders into four bigger and stronger banks. With this, the number of public sector banks in India will come down to 12 from 27 in 2017. It was widely speculated that the government may defer the consolidation exercise for some time due to the novel coronavirus pandemic that has impacted our economy.

Fig 1: Mega Bank Merger Drive

Recommendations for consolidation

The Banking Companies (Acquisition and Transfer of Undertakings) Acts of 1970 and 1980 provide that the Central Government, in consultation with the Reserve Bank of India (RBI), may make a scheme, inter alia, for the amalgamation of any nationalised bank with any other nationalised bank. Various committees, including Narasimhan Committee (1998) constituted by the RBI, Leeladhar Committee (2008) chaired by RBI Deputy Governor, and Nayak Committee (2014) constituted by the RBI, have recommended consolidation of public sector banks (PSBs) given the underlying benefits/synergies.

Banks' merger: background

Announcing the mega plan of Banks' merger on Friday August 30, 2019 with an aim to have financially strong Public sector banks in India, the Finance Minister of India Nirmala Sitharaman had outlined the Government's 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 and Bank of Baroda. The merger is expected to create fewer and stronger global-sized Banks to boost economic growth.

On March 4, 2020, the Finance Minister announced the final date of merger as April 1, 2020. According to her, the exercise of consolidation of 10 public sector banks (PSB) into four is on course and the merger will come into effect from April 1, 2020. The Union Cabinet has given a go-ahead for the merger.

It is but the desire for growth that acts as the fuel not only for an entrepreneur but also for every professional or corporation. This deep desire for growth in terms of customer base, balance sheet and profit has led the organizations engaging in mergers and acquisitions to move ahead and onwards in synergy.

The Indian Banks too did not stay aloof from this 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 BMB also.

Merger & Nationalization during the period from 1961-1969

The period is called pre-nationalization period because in

1969 the government nationalized 14 private banks. As many as 46 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 saw 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

Which stretches from 1991-2015, saw major economic reforms initiated by Government of India. Many new policies were framed. Greater FDI and foreign investment was allowed which saw resurgence in Indian Banking. As many as 22 mergers took place - some to save 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.

Post the merger, 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 announce on August 30, 2019, ten public sectors banks are now reduced into four large banks. The four sets of banks that have been 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.

Benefits of banking merger

1. After these mergers, the lending capacity of the Public Sector Banks will increase and their balance sheet would also be strong.
2. These big banks would also be able to compete globally and increase their operational efficiency by reducing their cost of lending.
3. India needs investment in huge quantities to turned India into a 5 trillion economy. If banks have sufficient money to fund big projects than the economic development of the country would speed up.
4. The merger would help in better management of banking capital.

So after the merger of the 10 PSBs in the four major banks seems a good step in ensuring the availability of the money for the investment purpose in the country.

Demerits of bank merger

- The local identity of small banks won’t be notable.
- It will be tough to manage issues related to human resources.
- Few of the larger inter-linked banks can expose the economy to financial risks.

PSU Bank Consolidation

The amalgamation scheme includes the merger of Allahabad Bank with Indian Bank; Oriental Bank of Commerce (OBC) and United Bank of India with Punjab National Bank (PNB); Syndicate Bank with Canara Bank; Corporation Bank and Andhra Bank with Union Bank of India.

What’s also noteworthy is the fact that the government has announced capital infusion worth more than 55,000 crore into public sector banks (PSBs). The table below shows the amount distributed among the PSBs. That’s also noteworthy is the fact that the government has announced capital infusion worth more than 55,000 crore into public sector banks (PSBs). The table below shows the amount distributed among the PSBs.

Table 1: Amount Distributed Among the PSBS

PSBs	Capital Infusion (In ₹)
PNB	16,000 Crore
Union Bank of India	11,700 Crore
Bank of Baroda	7,000 Crore
Indian Bank	2,500 Crore
Indian Overseas Bank	3,800 Crore
Central Bank of India	3,300 Crore
UCO Bank	2,100 Crore
United Bank of India	1,600 Crore
Punjab and Sind Bank	750 Crore

Table 2: List of PSU Banks after Merger 2020

Anchor Bank	Banks to be Merged with Anchor Bank	Combined Domestic Branches
Punjab National Bank	Oriental Bank of Commerce + United Bank of India	11,437
Canara Bank	Syndicate Bank	10,342
Indian Bank	Allahabad Bank	-
Bank Of Baroda	Dena Bank +Vijaya Bank	9,490
Union Bank of India	Andhra Bank + Corporation Bank	9,609
State Bank of India (SBI)	State Bank of Bikaner and Jaipur (SBBJ) + State Bank of Hyderabad (SBH) + State Bank of Mysore (SBM) + State Bank of Patiala (SBP) + State Bank of Travancore (SBT) + Bharatiya Mahila Bank	24,000 (approx)

Merger of BoB, Dena Bank and Vijaya Bank

State-run Bank of Baroda has now become India's second largest public sector bank after its merger with Dena and Vijaya Bank respectively. The amalgamation of the two lenders with BOB, will be effective from 1 April, 2019. This is the first three-way merger of the banks in India, making the combined geographical reach of 9,490 branches, 13,400 ATMs with 85,678 employees serving 120 million customers.

From Monday onwards all the branches of Dena and Vijaya Bank will function as branches of Bank of Baroda and the customers of both banks will be treated as customers of BOB, the RBI said on Saturday. In addition to this, the customers will also continue to use the same account number, IFSC Code, MICR Code along with their current cheque books and ATM cards.

Table 3: Financial Parameters

Financial Parameters	Bank of Baroda (BoB)	Vijaya Bank	Dena Bank	Merged Entity
Total Business (In Cr)	10,29,810	2,79,575	1,72,940	14,82,325
Gross Advances (In Cr)	4,48,330	1,22,350	69920	6,40,600
Deposits (In Cr)	5,81,485	1,57,325	1,03,020	8,41,830
Domestic Branches	5502	2130	1858	9490
Advance Branches	81	57	38	68
Deposit Branches	106	74	55	89
Employees	56360	15875	13440	85675
RoA	0.29%	0.32%	-2.43%	-0.02%
CRAR Capital Ratio	12.13%	13.91%	10%	12.25%
CET-1 Capital Ratio	9.27%	10.35%	8.15%	9.32%
Net NPA	5.40%	4.10%	11.04%	5.71%
CASA Ratio	35.52%	24.91%	39.80%	34.06%

After this three-way merger, the combined entity will have deposits and advances of Rs.8.75 lakh crore and Rs.6.25 lakh crore respectively. Not only this, the merger also helps BOB increase its reach in the Western, Southern and North-Eastern regions of India such as Maharashtra, Karnataka, Gujrat, Kerala, Tamil Nadu and Andhra Pradesh. Well, if experts are to be believed, the new Bank of Baroda will improve customer base, market reach, operational efficiency and a capacity to offer a wider bouquet of products and services to the customers.

Top PSU banks to be merged with the smaller ones

According to several reports in the media, top PSU lenders like Punjab National Bank (PNB), Bank of Baroda (BoB), Bank of India (BOI), Canara Bank and Union Bank of India would take under their umbrella some 3-4 banks to create a large entity and would have a massive distribution channel to boast of. The merger will add to the operational strength of the PSU banks. So, see in the table where will the PSU banks stand if the proposed merger structure does take effect.

Table 4: Operational Strength of the PSU Banks after Merger

Acquirer Banks	Banks to be Merged	Staff Count (Approx.)	Asset Count (Crores) (Approx.)
PNB	Oriental Bank of Commerce (OBC), Allahabad Bank, Corporation Bank, Indian Bank	1,50,000	2,60,000
Bank of Baroda	Vijaya Bank, Dena Bank	85,675	6,40,600
Bank of India	Andhra Bank, Bank of Maharashtra	94000	10,90,0000
Canara Bank	UCO Bank, Syndicate Bank, Indian Overseas Bank	1,40,000	13,82,000
Union Bank of India	IDBI, Central Bank of India	1,04,000	11,80,000

Description of Bank Mergers in India

Last August, the finance ministry announced the merger of 10 Public Sector Banks. Punjab National Bank (PNB), Oriental Bank of Commerce (OBC) and United Bank will be merged to form the second-largest public sector bank in the country after the State Bank of India (SBI) with the business of Rs 17.95 lakh crore. Canara Bank will merge with Syndicate Bank to become the fourth-largest public sector bank with a business of Rs 15.20 crore, while Union Bank of India will merge with Andhra Bank and Corporation Bank to become the fifth-largest lender with Rs 14.6 lakh crore. Indian Bank and Allahabad Bank will merge to build India's seventh-largest public sector bank with a business of Rs 8.08 crore.

Merger Number 1: PNB+OBC+UBI

Oriental Bank of Commerce (OBC) and United Bank of India (UBI) are merged with the Punjab National Bank (PNB). So after this merger now the 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 lac crore.

Merger Number 2: Syndicate Bank+ Canara Bank

Syndicate Bank is merged with the Canara Bank. After this merger; the Canara bank would be the fourth largest Public Sector of India. The total business of Canara would be 15.20 lac crore with branch strength of 10,342.

This merger would reduce the cost of operations due to network overlaps. These two banks have a similar work culture that is why it would lead to facilitate a smooth transition.

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 bank's business by 2-4.5 times.

After this merger, the total business of Union Bank of India would be Rs. 14.59 lac crore while total branches would be 9,609.

Merger Number 4: Allahabad Bank + Indian Bank

In the fourth merger, the Indian bank would be merged with the Allahabad Bank. after the merger, Allahabad bank would be the 7th largest Public Sector Bank of India. After the merger, the total business of Allahabad bank would be Rs. 8.08 lac cr and the number of branches would be 6,104.

So after the merger of these two banks the size of business would get doubled which would increase their global competitiveness. The government has also declared capital infusion of over Rs 55,000 crore into public sector banks.

Source: Moneycontrol.com

Fig 2: Mega Public Sector Bank Mercer

At present, India has 18 state-owned banks in comparison to 27 banks in 2017. After the bank merger in India, the number will further go down to 12. In 2019, Bank of Baroda became the third-largest lender of the country after it was merged with Dena Bank and Vijaya Bank. The government plans to reduce the number of public sector banks with the hope of creating 3-4 global sized banks.

However, regional centric banks like Andhra Bank and Punjab & Sind Bank would continue to operate as independent entities. The same would apply in the case of some mid-sized banks. The reason why the government is going ahead with this merger process is because of the grand success SBI achieved after combining its five associate banks that include State Bank of Bikaner & Jaipur (SBBJ), State Bank of Hyderabad (SBH), State Bank of Travancore (SBT), State Bank of Patiala (SBP), and State Bank of Mysore (SBM) with Bhartiya Mahila Bank to form a single entity. This merger has helped SBI take its customer count to 37 crores and add a vast network of branches and ATMs that went up to 24,000 and 59,000 respectively.

According to a senior government official, this amalgamation of banks will make banking services more accessible. Also, the customers will get benefits through investments in technology-enabled smart banking like paperless tab-banking, faster loan processing, banking from home, and several credit offers. Businesses will benefit through increased lending capacity with the regulatory ceiling for lending to individual borrowers increased by Rs 3,000 crore.

Customer requirements of the bank merger

- The context of the merger is in the best interests of the customers, the banks, and the economy of the country. Thus, customers do not need to panic as their money will be safe. Official announcements and procedures will be communicated by the banks through emails or letters for the transition of savings/current accounts, locker facilities, fixed deposits, loan accounts and the like with the new bank.
- The customers should make themselves aware of their updated account details. If they have accounts in more than one bank then the two accounts may be allotted a single customer id and their IFSC codes can also change. So, do make sure that your mobile number is updated with the bank so that you receive all the official details of allotment of new accounts instantly.
- While transitioning, the individual online banking portals of the merging banks may not exist or you may be redirected to the merged entity's portal. So stay alert while redirecting to the new website and confirm that you are logging in to the correct bank website for internet banking and not on a phishing webpage.
- There may be branch rationalizations as more than one merging entity may have branches in the same vicinity. So, it may happen that some of the branches will be closed and some ATM outlets get reshuffled. Existing debit and credit cards will continue to be valid until further notification. Also, the customers will be able to access ATMs of all the merging banks for free; this refers to cash withdrawals, balance inquiries, etc.
- After the merger of the banks become effective, one should be aware of the free and chargeable services of the new bank as well as the interest rates for deposit and borrowing, and the like.

Conclusion

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. The consolidation of banks that the government has initiated with the motive to upscale the banking service delivery at the global standards. With the passage of time the real motives are to be realized.

References

1. Sangeeta Ojha. Merger of 10 public sector banks to come into effect from today: 10 points, 2020.
2. Srinivasa Rao K. Merger of public sector banks: here are the key merits, 2020.
3. Economics Time Article online dated Mar 31, 2020, titled "PSU bank mergers: customers of which banks are likely to be impacted and how".
4. Vijay Kumar. List of Merger of Public Sector Banks in India, 2020.
5. https://www.thehindubusinessline.com online dated Februrary 26, 2020, Article titled "Government to stick to april 1 deadline for amalgamation of 10 PSBs".