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Recent Merger of Public Sector Banks and Future Prospects

Komal Gakher
Assistant Professor, Department of Commerce, DAV College, Malout

Abstract

From a legal point of view, a merger is a legal consolidation of two or more entities into one, whereas an acquisition occurs when one entity takes ownership of another entity's stock, equity interests or assets. In a major move that is set to redefine India's banking space, Finance Minister Nirmala Sitharaman announced the merger of 10 public sector banks into four on 30-August-2019, which will applicable from 1st April, 2020. SBI has achieved the grand success by combining its five associate banks and Bhartiya Mahila Bank to form a single entity in 2017. There are many benefits of mergers and acquisitions such as reduction in operation costs of banks, better management of NPAs, improvement in professional standards and many more. At the same time many problems are also being faced which are more emotional and social in nature than technical or managerial.

Keywords: [Mergers, Acquisitions, Indian Banking Industry]

Meaning of Mergers & Acquisitions

Mergers and acquisitions are transactions in which the ownership of companies, other business organizations, or their operating units are transferred or consolidated with other entities. As an aspect of strategic management, M&A can allow enterprises to grow or downsize, and change the nature of their business or competitive position. From a legal point of view, a merger is a legal consolidation of two or more entities into one, whereas an acquisition occurs when one entity takes ownership of another entity's stock, equity interests or assets. An acquisition/takeover is the purchase of one business or company by another company or other business entity.

The term mergers and acquisitions (M&A) refer to the process of one company combining with another. In an acquisition, one company purchases the other outright. The acquired firm does not change its legal name or structure but is now owned by the parent company. A merger is the combination of two or more firms, which subsequently form a new legal entity under the banner of one corporate name.

Types of Merger

Horizontal merger: Two companies that are in direct competition and share the same product lines and markets.

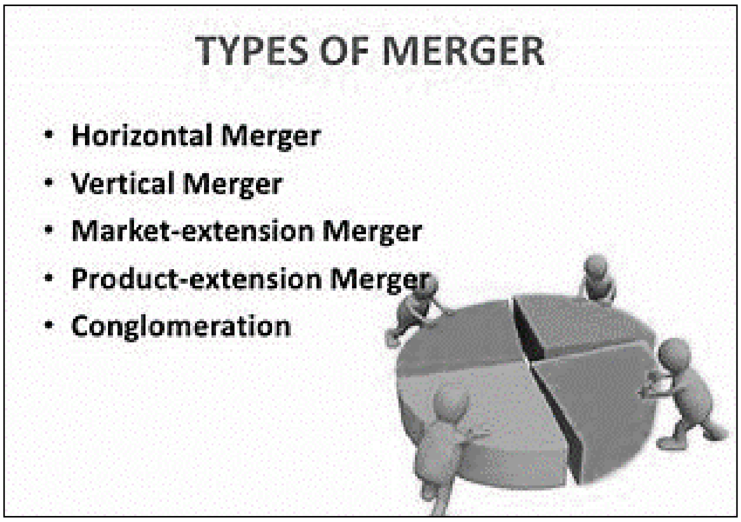
Vertical merger: A customer and company or a supplier and company. Think of a cone supplier merging with an ice cream maker.

Congeneric mergers: Two businesses that serve the same consumer base in different ways, such as a TV manufacturer and a cable company.

Market-extension merger: Two companies that sell the same products in different markets.

Product-extension merger: Two companies selling different but related products in the same market.

Conglomeration: Two companies that have no common business areas.



Recent Merger of Public Sector Banks in India

In a major move that is set to redefine India's banking space, Finance Minister Nirmala Sitharaman announced the merger of 10 public sector banks into four on 30-August-2019, which will applicable from 1st April, 2020.

The amalgamation scheme includes the merger of Indian Bank with Allahabad Bank;

Oriental Bank of Commerce (OBC) and United Bank of India with Punjab National Bank

(PNB); Canara Bank with Syndicate Bank; Union Bank of India, Corporation Bank and

Andhra Bank. The government has announced capital infusion worth more than 55,000

crore into public sector banks (PSBs).

BoB, Dena Bank and Vijaya Bank Merged Together on April 1, 2019: State-run Bank of Baroda has now become India's second largest public sector bank after its merger with Dena and Vijaya Bank respectively.

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.

SBI has achieved the grand success by combining its five associate banks and Bhartiya Mahila Bank to form a single entity in 2017. The five associate banks included 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). By virtue of the merger, SBI got into the hall of fame by making an entry into the list of 50 banks in the world. The merger has helped the bank take its customer count to 37 crores and add a vast network branches and ATMs that went up to 24,000 and 59,000, respectively. It is Humongous. The post scenario of merger of associate banks with SBI is appreciable and financial results are satisfactory.

List of PSU Banks After Merger 2019

ANCHOR BANK	BANKS TO BE MERGED WITH ANCHOR BANK	COMBINED DOMESTIC BRANCHES
Punjab National Bank	Oriental Bank of Commerce + United Bank	11,437
Canara Bank	Syndicate Bank	10,342
Union Bank	Andhra Bank + Corporation Bank	9,609
Indian Bank	Allahabad Bank	6104
Bank Of Baroda	Dena Bank +Vijaya Bank	9,490
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 branches (approx)

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.

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

Recent Highlights of PSU Banks Merger

- United Bank of India, Oriental Bank of Commerce, and Punjab National Bank to be merged; Allahabad Bank and Indian Bank to be merged.
- Syndicate Bank and Canara Bank to be merged; Andhra Bank, Union Bank, and Corporate Bank to be merged.
- Number of public sector banks reduced from 27 to 12.
- The after the Oriental Bank of Commerce and United Bank are merged into the Punjab National Bank; it will become India's second-largest bank. (SBI remains India's largest bank). Once these three banks are combined, it will create a bank with a business of ₹17.95 lakh crore and have 11,437 branches.
- Once the Syndicate bank is merged into the Canara Bank, the resultant bank will become India's fourth-largest public sector bank with ₹15.20 lakh crore business.
- Union Bank, Andhra Bank, Corporation Bank to merge to become India's fifth largest public sector bank with ₹14.59 lakh crore business.
- The merger of Allahabad Bank with Indian Bank will create the seventh largest public sector bank with ₹8.08 lakh crore business with strong branch networks in the south, north and east of the country.
- Last year, the government had merged Dena Bank and Vijaya Bank with Bank of Baroda, creating the third-largest bank by loans in the country.

Ranking of Public Sector Banks after Merger and Acquisition

1. State Bank of India
2. Punjab National Bank
3. Bank of Baroda
4. Canara Bank
5. Union Bank of India
6. Bank of India
7. Indian Bank
8. Central Bank of India
9. Indian Overseas Bank
10. UCO Bank
11. Bank of Maharashtra
12. Punjab and Sind Bank

Before and After Situations of Banks

Punjab National Bank

Table 1: Before and After Situation of Merger of Punjab National Bank with Oriental Bank of Commerce and United Bank

PNB + ORIENTAL BANK OF COMMERCE + UNITED BANK				
	PNB	OBC	UNITED BANK OF INDIA	AMALGAMATED BANK
Total business (in crore)	11,82,224	4,04,194	2,08,106	17,94,526
Gross advances (in crore)	5,06,194	1,71,549	73,123	7,50,867
Deposits (in crores)	6,76,030	2,32,645	1,34,983	10,43,659
CASA ratio	42.16%	29.40%	51.45%	40.52%
Domestic branches	6,992	2,390	2,055	11,437
PCR	61.72%	56.53%	51.17%	59.59%
CET-I ratio	6.21%	9.86%	10.14%	7.46%
CRAR ratio	9.73%	12.73%	13.00%	10.77%
Net NPA ratio	6.55%	5.93%	8.67%	6.61%
Employees	65,116	21,729	13,804	1,00,649

Canara Bank

Table 2: Before and After Situation of Merger of Canara Bank with Syndicate Bank

CANARA BANK + SYNDICATE BANK			
	CANARA BANK	SYNDICATE BANK	AMALGAMATED BANK
Total business (in crore)	10,43,249	4,77,046	15,20,295
Gross advances (in crore)	4,44,216	2,17,149	6,61,365
Deposits (in crores)	5,99,033	2,59,897	8,58,930
CASA ratio	29.18%	32.58%	30.21%
Domestic branches	6,310	4,032	10,342
PCR	41.48%	48.83%	44.32%
CET-I ratio	8.31%	9.31%	8.62%
CRAR ratio	11.90%	14.23%	12.63%
Net NPA ratio	5.37%	6.16%	5.62%
Employees	58,350	31,535	89,885

Union Bank of India

Table 3: Before and After Situation of Merger of Union Bank with Andhra Bank and Corporation Bank

UNION BANK + ANDHRA BANK + CORPORATION BANK				
	UNION BANK	ANDHRA BANK	CORPORATION BANK	AMALGAMATED BANK
Total business (in crore)	7,41,307	3,98,511	3,19,616	14.59,434
Gross advances (in crore)	3,25,392	1,78,690	1,35,048	6,39,130
Deposits (in crores)	4,15,915	2,19,821	1,84,568	8,20,304
CASA ratio	36.10%	31.39%	31.59%	33.82%
Domestic branches	4,292	2,885	2,432	6,906
PCR	58.27%	68.62%	66.60%	63.07%
CET-I ratio	8.02%	8.43%	10.39%	8.63%
CRAR ratio	11.78%	13.69%	12.30%	12.39%
Net NPA ratio	6.85%	5.73%	5.71%	6.30%
Employees	37,262	20,346	17,776	75,384

Source: March 2019 financials

Indian Bank

Table 4: Before and After Situation of Merger of Indian Bank with Allahabad Bank

INDIAN BANK + ALLAHABAD BANK			
	INDIAN BANK	ALLAHABAD BANK	AMALGAMATED BANK
Total business (in crore)	4,29,972	3,77,887	8,07,859
Gross advances (in crore)	1,87,896	1,63,552	3,51,448
Deposits (in crores)	2,42,076	2,14,335	4,56,411
CASA ratio	34.71%	49.49%	41.65%
Domestic branches	2,875	3,229	6,104
PCR	49.13%	74.15%	66.21%
CET-I ratio	10.96%	9.65%	10.36%
CRAR ratio	13.21%	12.51%	12.89%
Net NPA ratio	3.75%	5.22%	4.39%
Employees	19,604	23,210	42,814

- **Advantages of Bank Mergers**
- Larger Bank may become capable of facing global competition.
- The merger may reduce the cost of banking operation.
- Merger may result in better NPA and Risk management.
- Merger may help in improving the professional standards.
- Merger may help in improving work culture and bank ethos.
- Banks can start their operation in remote areas across the country.
- Banks can start their branch in foreign countries also.
- Problem of Procrastination will decline. Jump to search. Procrastination is the avoidance of doing a task that needs to be accomplished by a certain deadline. It could be further stated as a habitual or intentional delay of starting or finishing a task despite knowing it might have negative consequences.
- Banks can install CCTV
- cameras to supervise.
- Decisions on High Lending requirements can be taken promptly.
- For the bank, retaining and enhancing its identity as a larger bank becomes easier.
- After the merger, benefits of merger are enormous and the biggest is generation of a brand-new customer base, empowering of business, increased hold in the market share, opportunity of technology upgrade. Thus overall, it proves to be beneficial to the overall Economy.
- Minimization of overall risk is there due to mergers and acquisitions which is always good from the business point of view.
- Leads to increase in profitability and helps in raising the standard of living which is absolutely crucial for a growing and young economy like India.
- Chances of survival of underperforming banks increases hence customer trust remains intact which is vital for the young Economy. The weaker bank gets merged into stronger one and gets the benefit of large-scale operations.
- The objectives of financial inclusion and broadening the geographical reach of banking can be achieved better with the merger of large public sector banks and leveraging on their expertise.
- With the large-scale expertise available in every sphere of banking operation, the scale of

inefficiency which is more in case of small banks, will be minimized.

- Larger size of the Bank will help the merged banks to offer more products and services as per the needs of customers and help in integrated growth of the Banking sector.
- A larger bank can manage its short- and long-term liquidity better. There will not be any need for overnight borrowings in call money market and from RBI under Liquidity Adjustment Facility (LAF) and Marginal Standing Facility (MSF).
- In the global market, the Indian banks will gain greater recognition and higher rating.
- Multiple posts of CMD, ED, GM and Zonal Managers will be abolished, resulting in substantial financial savings.
- Bank staff will be under single umbrella in regard to their service conditions and wages instead of facing disparities.
- Mergers allow the acquirer to eliminate future competition and gain a larger market share.
- Problems Arising due to Mergers & Acquisitions in Indian Banking
- Most of the problems arising due to mergers and acquisitions are more emotional and social in nature than technical or managerial. The major problems which arise are:
- Mergers will result in immediate job losses on account of large number of people taking VRS on one side and slow down or stoppage of further recruitment on the other. This will worsen the unemployment situation further.
- Risk of failure increases if the executives are not committed enough in bringing the merger platforms together for the merging and taking over bank. Such failure may prove brutal for the Economy.
- It would be tough to manage issues pertaining to human resource.
- People working in the larger bank (acquiring bank) will try to dominate the personnel working in the smaller bank (acquired bank). Thus, the latter will be treated as second class citizens in the new, merged entity.
- Staff identified as surplus in many pockets (urban and metros) will be transferred to far off places. This will create turmoil and widespread protests. Promotional avenues for staff after merger will come down.
- Management issues: Number of bank branches will certainly increase after a merger, which will make it all the more difficult for the head offices to regulate and monitor all activities.
- There will be surplus staff at many branches, which will lead to transfers in previously understaffed branches, usually in remote locations. This will trigger widespread discontent.
- Impact of customers on banking merger or acquisition is often quite emotional. If customer perception is not managed with frequent and careful communication it may lead to loss of business which is never good for the Economy.
- Managing Director of Federal Bank, V.A. Joseph is of the view that Co-existence of the big, medium and regional banks would be preferable in the present scenario. According to him most acquisitions in India were borne out of compulsions and over 90 per cent of past acquisitions had failed to achieve the objectives.
- Many banks focus on regional banking requirements. With the merger the very purpose of establishing the bank to cater to regional needs is lost.
- Large bank size may create more problems also. Large global banks had collapsed during the global financial crisis while smaller ones had survived the crisis due to their strengths and focus on micro aspects.
- With the merger, the weaknesses of the small banks are also transferred to the bigger bank.
- So far small-scale losses and recapitalization could revive the capital base of small banks. Now if the giant shaped bank books huge loss or incurs high NPAs as it had been incurring, it will be difficult for the entire banking system to sustain.
- Mergers will result in shifting/closure of many ATMs, Branches and controlling offices, as it is not prudent and economical to keep so many banks concentrated in several pockets, notably in urban and metropolitan centres.
- After merger, the share price of the merged entity will fall immediately.
- The rate of dividend also will diminish during the first two- or three-years following mergers.
- From the date of merger, several problems will crop up in the area of reconciliation of accounts, updation of records etc.
- The bank accounts linked to ECS (electronic clearing service) and demat records are to be changed. This is a laborious, time taking and expensive exercise.

Future Prospects

Mergers are important for the consolidation and expansion purposes that is why in today's scenario many public sector banks are resulting in mergers and acquisition. They are 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.

Operating expenses could go up in the near to medium term. Banks will also face higher expenses related to VRS. The merged banks would take 18-24 months to synchronise all processes.

For the benefits of the merger to materialise, greater emphasis on corporate governance is critical. Without removing administrative barriers, creating a larger bank may not necessarily lead to a stronger one. The benefits of this mega merger therefore are still variable, and as of now, a bit undefined. It is a change, but whether it is a "reform" (beneficial change) is something that only the future will tell.

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