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MERGERS IN INDIAN BANKING SYSTEM: EFFECTS AND CHALLENGES

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Abstract

In business, Merger means combining two separate business or bodies into single legal entity to achieve the desired financial goal. The main aim of Mergers in Indian banking sector is to increase the economic scale of a society. In times, Merger is used to mitigate the weakeness of either banks and accelerate the combined strength of two banks across geography. Start from 1991, after the adoption of "New Economic Policy" from the Government of India under the "Financial Reforms" there is enomerous institutional changes and adjustments occurred in Banking Sector which leads to Mergers and Amolgamations in public sector banks. This integrations are achieved in the structural way of approach and the banks involved in the process of mergers gets the new brand name, new structures, new products and new customers. The human brains are considered to be a sources for the success of mergers in banking sector as every merger pave way to the disposal of weak leadership and empower the bank to fill the product or technology gaps. Same time, it scares the banks to provide loans for small size business. This paper deals with history and origin of merger in banking sector, difference between merger and amalgamation, role of RBI in the process of merger in banking sector and the impacts or effects of mergers in banking sector.

Keywords : Merger, Banking Reforms, Public Sector Banks.

I. Introduction

The Government of India had made significant shifts in economic policy and fiscal policy in the beginning of 1990's with the aspect of growth and development in various sectors of business either in two ways, organically or inorganically. Organic way of growing refers to the launch of new products, new flavors and obtaining new customers

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whereas inorganic growing refers to a radical thinking of acquisition and merger, identifying the business or brand which is potential to be successful and merging it to the existing business.

With respect to banking sector, The New Economic Policy was adopted by Reserve bank of India in 1991 to achieve the new economic reforms which is extended to financial, fiscal, trade and industrial reforms. In order to guide the government for achieving the financial reforms, the committee has set up by Reserve bank of India under the ownership of Mr.M. Narashiman popularly called as “Banking Reforms Committee”.

The Banking reforms committee has recommended the government, rather to have multiple small and medium size of bank. We should have merge this banks to few in order to gain a strength in operating international level which includes the foreign trade, EXIM activities and should exhibit the performance of Indian banks on international level with less manpower and more technology involved. This paper will bring out the challenges in adoption of mergers involved in banking sector and study the various instances how merger strengthens the Indian economy.

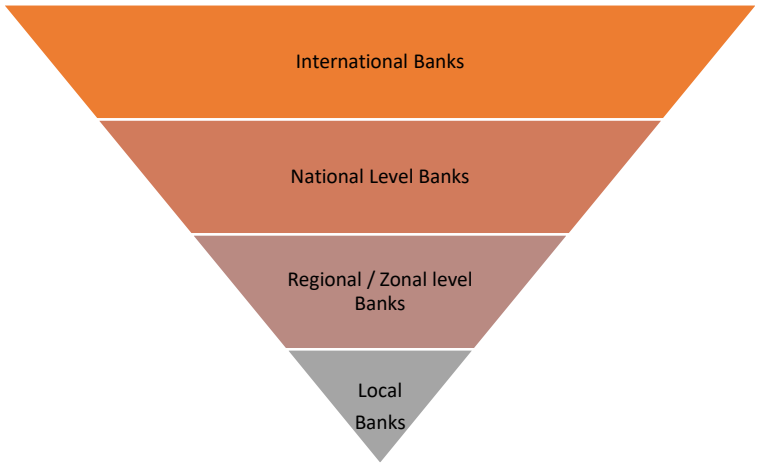


Fig.1 Model of Results after Merger recommended by Banking Reforms

II. Objectives

- To study the need of new economic policy and essence of merger in banking secorof India.
- To determine the challenges in the adoption of Merger in Banking Sector.
- To recommend the means for secured operation in Banking Sector through Mergers.

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III. Literature Review

Praveen Kumari in her article entitled "Mergers and Acquisitions in Indian Banking SectorA Strategic Approach" for Global Journal of Finance and Management. ISSN 0975-6477 Volume 6 stated that " aim of the merger and acquisition of bank is increase credit creation and make progressive increase in size of customer base."

IV. Need for aNew Economic Policy& essence of Merger

Begning of a bold reforms are always an outcome of challenging situations, late 1980s Public Sector banks of India had a poor performance in their liquidity due to weak loan offering methodology, geographical challenges and ineffiencient management system which was disappointing to government of india. Also, the imports of a nation are increased rapidly compared to exports, government couldn't control the size of imports and encourage the exports even after imposing the strong import tariff and tax relif for exporters which results in lack of foreign reseversto import the essential goods like petrol and oil from gulf countries and unable to settle the debts with other countries because of increase in exchange rate. As a result government started borrowing from various sources like world banks, IMF and started granting permission to the launch of various companies with less environmental restrictions which only paved way to spoil the environment but not increased the purchase power of a citizen in India and there was a consistent price increase in the essential commodities. In order to tackle the above situation, Government of India received the financial help from World bank and IMF on an agreement to announce its New Economic Policy which includes the essence of mergers in public sector banks to improve the standards and investor's profitability.

V. Evoluation of Merger in Public Sector Banks

In 1991, 90% of a market share are owned by public sector banks, Banking Reforms Committee recommended the merger of Public sector banks for the effective financial decisions and international presence. In 1997, Asian Pacific countries are affected by the financial crisis whereas Inida stood unaffected by the crisis. Later in 1993, RBI has forced the New Bank of India to get merged with Punjab National Bank due to the unwarranted liquitidy status of New Bank of India. Many small size banks are scared because of this merger and tried retaining their profitability but unfortunately, Punjab National Bank incurred the loss because of this merger. Similarly, in 1991 Banking

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reforms committee recommend the State bank of India to merge all its 7 subsidiaries. Followingly, State bank of Saurashtra is merger with State bank of India in 2008 and State bank of Indore is merged in 2010. In 2016, RBI has instructed the State Bank of India to merge its 5 remaining subsidiaries.

Positions of Banks as on 2017	Deposits	Advances	Net Profit
State Bank of India	20,44,751	15,71,078	10,684
State Bank of Bikaner and Jaipur	1,03,662	68,774	-1,368
State Bank of Hyderabad	1,42,955	87,715	-2,760
State Bank of Travancore	1,14,955	52,506	-2,152
State Bank of Patiala	1,00,507	77,100	-3,579
State Bank of Mysore	77,769	38,608	-2,006

Table.1 Positions of Banks as on 2017 during the Merger of subsidiaries with SBI

In 2020, Government of India has consolidate 10 public sector banks into 4 banks to manage the capitals more effectively. As a result of this merger Punjab National Bank became a second largest bank in the nation

S.no.	Acquirer Bank	Banks to be Merged
1	Punjab National Bank	Oriental Bank of Commerce United Bank of India
2	Indian Bank	Allahabad Bank
3	Canara Bank	Syndicate Bank
4	Union Bank of India	Andhra Bank Corporation Bank

Table.2Merger List of Public sector banks in 2021

VI. Challenges Foreseen

The profitability of banks after merger are not always guaranteed aslike the financial results of merger of New Bank of India with Punjab National bank where PNB took 5 years to set back their trend because of the losses taken place due the merger and the main challenge foreseen in the process of Merger is Human Resources where the employees and customers are emotionally connected with the brand name and might not be continuing with the new mergers taken place, the best example is Andra Pradesh people are protested for the merger of Andra Bank with United Bank of India as they demanded for the bank with their locality name. also, the customers are forced to follow certain procedures again when new brand arose because of merger activity where the customer are feeling harassed and might disconnect the link between the banks. Larger

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interlinked banks can expose the better economy to financial risks. The interest of public service are given second priority as the results are more focused in terms of money and even it implies strict loan offering methodologies which cannot be followed by rural people and local farmers. Finally the intention of such mergers are always to exhibit their financial capacity at globe level where they forget about the intention of banks formed, to serve people.

VII. Means of secured operations

Since, we are increasing the size of deposits and advances through merger of two or more banks, it should be monitored properly with the atmost technology upgradations, the large capital arosed to acquired bank because of merger should be empoloyed well to offer best loans to farmers, MSME, small scale industries, the portion of capital should spent for the research and development to ensure lower imports and higher exports. New products should be launched for the customers like mutual funds, insurance policies, cut on additional charges for the non using of accounts and minimal balance maintaining. The foreign securities can increased due to the abundance of capital and separate ministry should be appointed to govern this small structure reporting to finance ministers and service delivery should be increased by the acquired banks by employing right human resources and selection process to offer large scale industries can implement the environmental restrictions as the banks are reduced and can have a big transparency of such cases.

VIII. Conclusion

The financial performances of the public sector banks are proven to be stable after the Mergers taken place, the interest rate of the loans are came down due to abundant capital employed in process of merger and innovative digital era in banking sectors are evolving due the employment of intellectual bankers which are gathered from different sources. Private banks in India and foreign banks are also witnessing the successful impacts and effects Mergers in Indian banking system.

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