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Positive & Negative Outcomes of Banking Mergers

Shivam Narwal[a]

[a]Chandigarh University, Punjab, India

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The banking industry is one of the most dynamic and rapidly expanding in India at the moment. This is because it plays an important role in every economy. Global players, such as international banks, provide a challenge that is exceptionally difficult and difficult to overcome. On the other hand, both public and private banks are contending with intense rivalry among themselves to attract the demographic they have in mind as their customers. On the other hand, the fact that non-performing assets are also growing at the same time as the core business is cause for concern. As a direct consequence of this, mergers are taking place in the banking industry to lower the NPA.[1]

Keywords: *NPAS, mergers, banking industry, anchor bank.*

INTRODUCTION

The question "What precisely are mergers?" is the most natural one to ask initially. A merger is a process by which two or more firms join forces to establish a new organization, often under a new name. This occurs rather than the businesses continuing to operate independently of one another. Because of the merger, the two firms have improved their ability to fix their

[1] 'Bank Mergers: Is it the panacea for the Banking Sector?' (*Bankers' Club*, 17 August 2018) <https://bankersclub.in/bank-mergers-is-it-the-panacea-for-the-banking-sector/> accessed 4 January 2023

[2]shortcomings and have gained an edge over their competitors as a consequence. Debt, resources, technology, assets, and other subjects are among those that are freely addressed between organizations that are in the process of merging. Therefore, the merging of banks is analogous to the merging of corporations. The procedure whereby two or more banks join into one bigger organization is referred to as "banking mergers," and the word "banking mergers" is used to characterize the process.

Could you expand on the relevance of the recent bank mergers that have taken place in India? When two or more financial institutions combine their operations under the banner of a single franchise, this kind of transaction is known as a banking merger. The amalgamated business often retains the bank's name, but it is now responsible for all of the previous duties as well. However, in unusual circumstances, existing banks may combine their resources to launch a brand-new approved bank that will do business under a completely different name. As a consumer or a participant in the market in India, you may be curious about how the recent bank mergers would affect you. Let's have a look at it, along with a list of banks that have combined, as well as the benefits and drawbacks associated with banking mergers in India.

THE FOLLOWING IS A LIST OF BANK CONSOLIDATIONS IN INDIA'S PUBLIC SECTOR FOR THE YEAR 2022

After much debate, the Indian government has decided to merge 10 public banks into just four.[3] The Indian government's Minister of Finance, Nirmala Sitharaman, was the one who broke the news in 2019 that a significant merger will be taking place. Despite this, the Reserve Bank of India (RBI) published a circular in late March for the new fiscal year announcing the bank mergers (1st April 2020). According to the Minister of Finance, the combination would make it possible to have greater control over the amount spent on capital expenditures. The concentration of bad loans and regional factors are the primary forces driving the merging of PSBs.

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[2] 'Bank Mergers in India' (*CB Value*) <https://cbvalueaddrealty.in/bank-mergers-in-india/> accessed 05 January 2023

[3] 'Nirmala Sitharaman announces major bank merger: 27 PSBs will now become 12 | Updates' (*The Hindu*, 30 August 2019) <https://www.thehindu.com/business/Economy/nirmala-sitharaman-press-meet-live-updates/article29299217.ece> accessed 05 January 2023

After the recent consolidations, the State Bank of India (SBI) and the Bank of Baroda are the only two remaining Indian public sector banks out of a total of 12. (BoB). This will result in the creation of seven large public sector banks as well as five smaller ones. In 2017, there were as many as 27 PSEs that took place. One other fascinating piece of information is that the government put around 55,000 crores of rupees into the public sector banks (PSBs). The government intends to bring the total number of public sector banks down from the present 21 to 12. This will allow for the establishment of three or four institutions on a global scale. Clients (including depositors) of the banks that are participating in the merger will be considered customers of the bank that is left standing after the merger.

- First, there would be a consolidation of three major Indian financial institutions as Punjab National Bank (PNB), Oriental Bank of Commerce, and United Bank of India all merge into one. The Acquirer is Punjab National Bank (PNB).
- Secondly, Indian Bank acquired Allahabad Bank.
- Third, Syndicate Bank will merge with Canara Bank.
- Fourth, The consolidation of Union Bank of India, Andhra Bank, and Corporation Bank. The Acquiring bank is Union Bank of India.

There will be a total of four banks remaining after the consolidation of the previous 10 public sector banks, which was scheduled to take effect on April 1, 2020. This is one of the most significant mergers in the history of the banking industry. Following the impact of the merger, the customers of the banks that were merging will now be regarded in the same manner as the customers of the banks into which they were merged. There are a total of 12 banks in the public sector, however, only six of them operate independently. Indian Overseas Bank, UCO Bank, Central Bank of India, Bank of Maharashtra, and Bank of India are the names of these financial institutions. The consolidation will, in essence, serve no other function than to rescue failing financial institutions and safeguard the interests of clients. The increasing weight of "Non-

Performing Assets" On the shoulders of the government is another factor that contributes to the phenomenon of mergers.[4]

WHAT DIFFICULTIES ARE ASSOCIATED WITH THE CONSOLIDATION OF BANKING OPERATIONS IN INDIA?

- It's possible that the government won't face as much of a financial obstacle in the process of recapitalizing smaller banks as compared to larger banks. Because of the possibility that the problems faced by smaller banks would snowball into a larger problem for the larger bank, the whole economy, let alone the financial sector, will be forced to deal with the repercussions of this situation.[5]
- The emotional toll that bank mergers have on their clientele cannot be understated. If the clients are not kept up to date promptly regarding the merger and its goals, they may decide to cancel their orders, which will result in a loss of revenue.
- If the different points of view are not addressed at the management level, it is possible that friction may result. If the situation is not brought under control, the merger could not be successful, which would result in the collapse of the whole organization.
- When it comes to combining banks, cultural compatibility is on par with other aspects of viability. Because acquiring a company also involves integrating its human resources with those of its PSBs, any problems that arise among the employees as a result of changes in the work environment or internal policies might, if not resolved effectively, undermine the whole purpose of the merger.
- Since the non-performing assets of the smaller banks would be combined with those of the larger banks, the latter bank would be under increased pressure to rectify these issues.
- Strikes and other disruptions might be caused by dissatisfied employee unions at financial institutions.

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[4] 'Mega Bank Merger List 2023 -Current Affairs related to Bank' (*Oliveboard*, 2023) <https://www.oliveboard.in/blog/bank-merger-list//> accessed 05 January 2023

[5] 'Common Challenges of Mergers and Acquisitions for Banks and Credit Unions' (*Info-Pro*, 24 March 2020) <https://go.info-pro.com/blog/common-challenges-of-mergers-and-acquisitions-for-banks-credit-unions> accessed 05 January 2023

- Bringing in less strong institutions under its wing would make the anchor bank vulnerable to problems relating to governance.
- After the merger, if there is a need for money, it will need comparatively greater investment from the government.

DOES THE COMBINATION OF SEVERAL PUBLIC SECTOR BANKS MAKE THE FINANCIAL SYSTEM STRONGER?

Even if the goal of the consolidation of public sector banks was to achieve greater efficiency, several industry professionals think that, in practice, it is bringing about a weakening of the more robust institutions as well as the financial system as a whole. Abhiman Das, who teaches economics at the Indian Institute of Management in Ahmedabad, and Subal Kumbhakar, who teaches the same subject at the State University of New York in the United States, have collaborated to write an article in which they argue that recent mergers have been detrimental rather than beneficial to the economy. The two individuals used the stochastic frontier approach (SFA) in their investigation, which resulted in the discovery of a paucity of economic justifications for the recent PSB mergers.

When comparing the performance of Dena Bank before and after the merger, its effectiveness dropped by around sixty percent between the years 2014 and 2018! Additionally, the company's cost inefficiency had worsened, growing by more than 30 percent within the same period. The two individuals believe that a reorganization of Dena Bank ought to have taken place a great deal sooner. Concerning the Oriental Bank of Commerce (OBC), they discovered that it was operating effectively up until the year 2011, after which its productivity fell to 86% from 95%, but then it began to recover and reached 92% in the year 2020. In addition to this, they said that further instances were demonstrating a decrease in PNB's efficiency after the merger.

THE POSITIVE ASPECTS OF COMBINING TWO FINANCIAL INSTITUTIONS

- The result of bank mergers is the creation of bigger institutions that are better able to compete on a global scale.[6]

[6] Sunil Kumar D, 'Merger of Banks – Indian Economy Notes' (*Prepp*, 6 July 2022) <https://prepp.in/news/e-492-merger-of-banks-indian-economy-notes#benefits> accessed 05 January 2023

- The length and breadth of the network operated by the anchor bank are both increased as a result of mergers and acquisitions, which unite the branches of all of the banks in issue under one roof.
- Customers have access to a greater selection of financial products in addition to the ones that were already available to them as a result of mergers, which add to the goods and services that the anchor bank offers.[7]
- Banks may grow their operations more effectively and efficiently via mergers and acquisitions by combining forces with other financial institutions. They assist address technical and financial gaps, hence eliminating the need to establish such capabilities from the ground up. In addition to this, costs would be optimized across all of the branches.
- A further benefit of mergers is the expansion of the customer base of the anchor bank, which is accomplished by uniting the customers of the merging banks under the same roof. The geographical expertise of smaller PSBs is made available to larger banks, which gives them a competitive advantage.
- Acquisitions are beneficial to banks in terms of strengthening their balance sheets since the assets and liabilities of all of the banks in question are consolidated into a single entity. In the long run, it would assist in eliminating the Non-Performing Assets (NPA) of India's smaller PSU banks.
- The capital base of the anchor bank would expand as a result of a merger. In addition to this, it provides the bank with access to a greater pool of money, which enables it to make judgements on requirements for increased lending amounts. This, in turn, would have the effect of lowering the need for recapitalization, which, in the alternative, the government would have been required to put in.

CONCEIVABLE DRAWBACKS OF CONSOLIDATION OF FINANCIAL INSTITUTIONS

- Following the completion of the bank merger in India, the unhealthy influence of the weaker banks would make it difficult for the stronger bank to carry out their business

[7] *Ibid*

activities. For instance, after the announcement of the bank merger, the share prices of Vijaya Bank and Bank of Baroda plummeted dramatically, whilst the share price of Dena Bank saw a tremendous gain.

- There is also the potential for difficulties resulting from cultural differences and human resources when it comes to the success of bank mergers.[8]
- The decision made by the government, which holds the majority of shares in the company, will affect the minority shareholders, who will now have a reduced level of influence over company decisions.
- The workers are worried that they won't be able to keep their positions, and there's also a chance that their chances of advancement may be hampered.
- There is a possibility that the pensions may be impacted since distinct employee benefit schemes are in place.
- The individuals who own the accounts will be required to update the newly assigned IFSC codes and account numbers with various third-party organizations such as their income tax returns, their mutual funds, and so on. This must also be done for the automatic crediting of dividends, auto-debiting of bills and charges, and auto-crediting of wages, among other things.
- After the merger, if there are a significant number of branches located in the same geographic region, then it is possible that some of those branches may be shut down.
- At some point in the future, the credit and debit cards will need to be replaced with new ones that reflect the name and emblem of the new anchor financial institution.
- The chequebooks with post-dated checks will be considered invalid, and fresh chequebooks will be distributed.

[8] 'The Benefits (And Dangers) Of Bank Mergers And Acquisitions' (*Big Sky Associates*) <https://www.bigskyassociates.com/blog/the-benefits-and-dangers-of-bank-mergers-and-acquisitions/> accessed 05 January 2023

WHAT ARE THE DRIVING FORCES FOR THE CONSOLIDATION OF BANKING INSTITUTIONS IN INDIA?

In the 1960s, bank mergers in India got their start as a means of saving failing banks and safeguarding the best interests of their customers simultaneously. That beginning in the year 1990, there has been a desire to create an Indian bank that is capable of competing with global giants in the period of post-liberalization, and this longing has persisted till now. In February 2017, the government gave its approval for the merger of five affiliate banks, which would have combined with SBI to establish one of the major global banks. In the latter part of the month of March, the Cabinet gave its approval to the merging of BMB. The purpose of bank mergers is to achieve combined synergy, which means that the combined entity can diversify its growth and expansion in the market. This is made possible by an increase in the effectiveness of performance as well as an increase in the value of the company as a result of the combined worth and value of both merging parties. Take a look at some of the significant bank mergers that were the focal points of the financial revolution in India and are included on this list. They caught the general public's interest.

HDFC Bank & Times Bank: It was the very first mega-merger of Indian banks and is considered to be one of the most famous bank mergers in the history of India. Following the merger, the capital adequacy of HDFC Bank was 10.3 percent, and it increased to 11.1 percent after the preferred offer that was recommended to retain the separate classes of investors that now hold ownership. The merger brought the total number of HDFC Bank customers up to 6,50,000, an increase of 200,000 from before the merger. The number of branches throughout India expanded from 68 to 107 during the course of the expansion. The total deposits at HDFC Bank came to be about 6,900 billion rupees, while the size of the bank's balance sheet was more than nine thousand billion rupees.

ICICI Bank & ICICI Ltd[9]: In October of 2001, the boards of directors of both ICICI and ICICI Bank gave their approval for the merger of ICICI and two of its wholly-owned retail finance subsidiaries, ICICI Personal Financial Services Limited and ICICI Capital Services Limited, with

[9] *Ibid*

ICICI Bank. The shareholders of ICICI and ICICI Bank gave their approval for the merger in January 2002. Subsequently, the High Court of Gujarat in Ahmedabad in March 2002, the High Court of Judicature in Mumbai in April 2002, and the Reserve Bank of India in April 2002 also gave their approval for the merger. As a direct consequence of the merger, the wholesale and retail banking and finance operations of the ICICI group were consolidated into a single entity. Because of the merger, a powerful institution was formed, which, in this day and age of liberalism and globalization, redefined banking.

LAWS ASSOCIATED WITH BANKING MERGERS

- Banking Regulation Act 1949;
- Companies Act 2013;
- Companies Act 1956;
- Banking (Acquisition and Transfer of Undertakings) 1970;
- Banking (Acquisition and Transfer of Undertakings) (Amendment) Act 1994;
- Banking Companies (Acquisition and Transfer of Undertakings) Act 1980;
- Reserve Bank of India Act 1934;
- Regional Rural Bank Act 1976;
- Maharashtra Co-operative Societies Act 1961;
- Competition Act 2002.[10]

CONCLUSION

As a result of the fact that mergers are necessary for the goals of both consolidation and growth, many private sector banks are truly interested in the prospect of mergers and acquisitions in the current environment. They are also essential to the economy since they are often effective in rescuing weak banks that fall short of satisfying expectations. This makes them a very important factor. The level of contentment that the worker's experience in their jobs will be a significant factor in determining the culture of the workplace at the bank. As a result, there must be an appropriate code of behaviour that every employee is required to adhere to. It is not the size of

[10] 'Mergers and Acquisitions in the Banking Sector – A critical study' (*JCIL*, 2020) <https://jcil.lsyndicate.com/wp-content/uploads/2020/11/MERGERS-AND-ACQUISITIONS-IN-THE-BANKING-SECTOR-A-CRITICAL-STUDY.pdf> accessed 05 January 2023

the banks that are to blame for the accumulation of non-performing assets; rather, it is the ineffectiveness of the regulations governing NPAs. As a result, there is a need to find a solution to the problem of NPAs.

India needs additional banks that are on par with those found throughout the globe if it is going to remain competitive. How the government addresses the challenges presented by merging is going to be the deciding factor in whether or not merging is successful. If a merger is required, the process must be carried out in a way that fosters an atmosphere of trust and consensus among the individuals who make up both businesses. The combining of two companies will unquestionably produce synergistic benefits and set the stage for a scenario in which both parties emerge victorious, but only if the people, work culture, and vision are harmoniously brought together.[11]

[11] 'VIII. Competition And Consolidation' (*Reserve Bank of India*, 4 September 2008) <https://rbi.org.in/scripts/PublicationsView.aspx?id=10495> accessed 05 January 2023