An Overview of Mergers and Acquisitions in Indian Banking Industry

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Abstract:- The Indian banking industry has undergone a number of reforms throughout the years with the goal of improving asset expansion to promote national economic expansion. There is abundant evidence that the RBI has heavily relied on bank capital reforms in addressing issues of underperformance in the industry to attain this goal. Bank mergers shield struggling institutions from failure and closure. The main goal of this initiative, which has been taken also by RBI, is to achieve expansion at the strategic level in terms of scale and client base. As a result, the combined bank's ability to create credit is greatly increased. Bank mergers give the institution more strength to endure in a shifting economic climate. The weaker banks can more easily adapt and expand in the domestic and global financial markets through mergers. The development of a robust, competitive, and trustworthy banking system is a crucial element of mergers and acquisitions in the banking sector. This paper gives an overview of mergers & acquisitions in the banking sector. The study also provides insights into various stimulators of mergers in the banking sector. The paper adds to the existing literature by focussing on the benefits, challenges and solutions to the challenges of amalgamation of banks.

Keywords:- *Mergers, Acquisition, Banking, Reforms.*

I. INTRODUCTION

India's banking sector has unquestionably earned the country's largest and most varied democracy a number of great accomplishments in a relatively short period of time. The Indian banking industry has undergone numerous reforms, and numerous fruitful mergers and acquisitions have assisted in its tremendous growth.

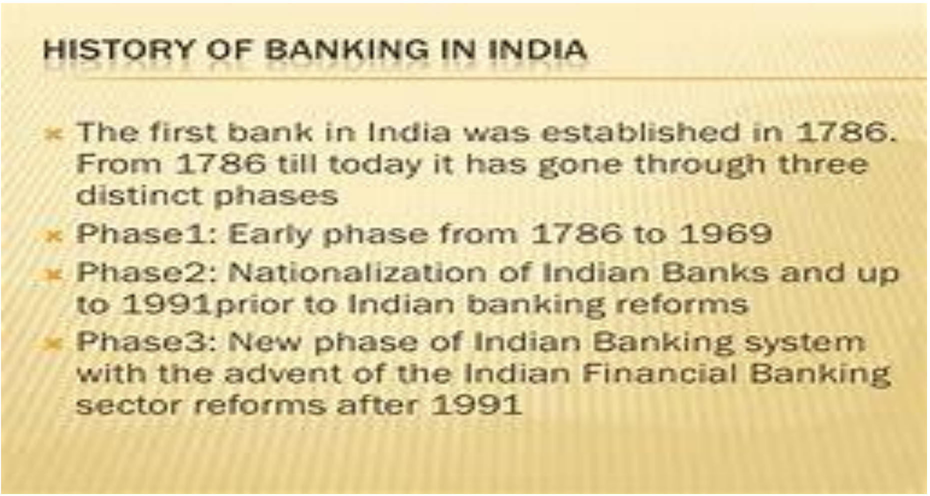

Fig. 1: History of Banking in India

The Government of India adopted an ordinance in 1969 that resulted in the nationalisation of 14 large commercial banks across the nation. Back then, a staggering 85% of all bank deposits in our nation were held by these fourteen institutions. Another round of nationalisation took place in 1980, when six further commercial banks were taken over by the government.

With this significant increase, the Indian Government gained direct control over a staggering 90% of the banking industry. With this, there are now twenty nationalised banks operating in India. Later, in the year 1993, the government made yet another move towards financial stability by turning towards bank mergers. The Punjab National Bank (PNB) and the New Bank of India were combined. In Indian history, this was the first merger of two nationalised banks.

In the current global economy, banking organisations have substantially increased the breadth and complexity of their operations and must contend with a regulatory framework that is always evolving and becoming more complicated. Around the world, people have realised that the only way to acquire a competitive advantage is through mergers and acquisitions.

A. Concept of Merger

A merger is an agreement that unites two current businesses to form a single new business. There are various merger types, and businesses merge for a variety of reasons. Most mergers combine two already-existing businesses into a single entity with a new name. Mergers and acquisitions are frequently carried out to broaden a company's clientele, enter new markets, or increase market share.

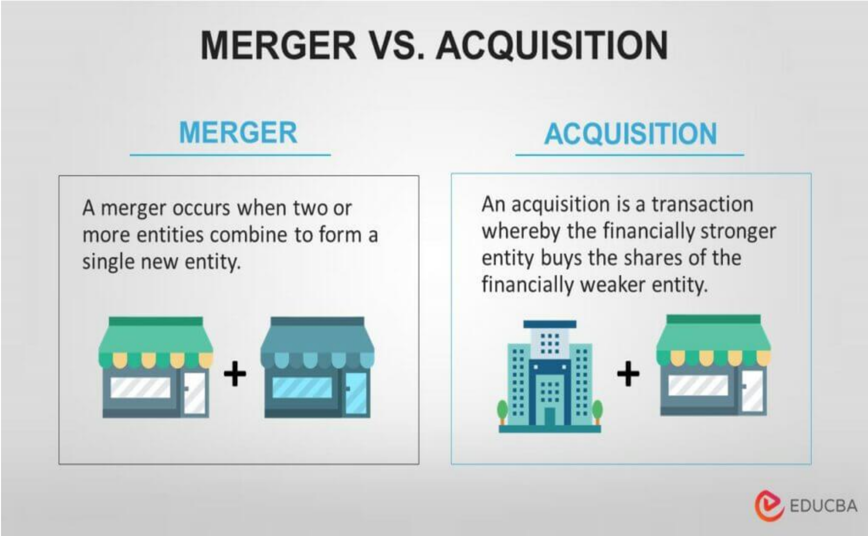

Fig. 2: Difference between Merger & Acquisition

Source: Educba.com

B. Concept of Acquisition

A company makes an acquisition when it buys the majority, if not all, of another company's ownership holdings in order to take over that company. When a buying company acquires more than 50% of a target company, an acquisition takes place. The acquiring business frequently buys the shares and other assets of the target company as part of the exchange.

II. LITERATURE REVIEW

- **Kanchan Jatkar (2012):** In the paper titled “Need of Mergers & Acquisitions in Banking Industry of India”, it is argued that the immediate threats to banks, such as those posed by full convertibility, the Basel-II environment, financial inclusion, and the need for large investment banks, are the main forces behind further banking sector consolidation in India and other Asian economies.
- **Parveen Kumari (2014):** In the paper titled “ Mergers & Acquisitions in Indian Banking Sector: A Strategic Approach”, it has been analysed that up until now, mergers and acquisitions in Indian banking have served as a safety net and hedge against the failure of weak banks. With merchant bankers and financial institutions, the merger cult in India has not yet taken off. For the purpose of absorbing failing banks and returning them to successful operations, consultants are developing their abilities in bank-grinding. After mergers and acquisitions, all amalgamated entities grow more rapidly than they did before the combination. The quantity of branches and ATMs, the number of deposits, their net profit, and their value have all increased.
- **Ishwarya J (2019):** In the paper titled “A Study on Mergers and Acquisition of Banks and a Case Study on SBI and its Associates”, results showed that overall mergers increased cost efficiency for the merging banks. Participating banks did not experience any appreciable efficiency advantages as a result of mergers between strong and distressed banks. However, the forced merger among these banks was successful in defending the interests of depositors of weak institutions, but merger benefits have not been demonstrated by the firms' stakeholders.

III. OBJECTIVES

- To provide an overview of Indian Banking System and the recent mergers that have taken place in the Indian banking industry.
- To assess the reasons which necessitate the amalgamation of banks.
- To identify the pros and cons of merger of banks and the solutions to the concerns of mergers and acquisitions in the banking industry.

IV. RESEARCH DESIGN

The study is descriptive in nature. Data has been collected from secondary sources like journals, websites, magazines etc.

V. INDIAN BANKING SYSTEM

In order to promote stability in the sector and increase its capacity to provide top-notch services to the economy, the Reserve Bank of India raised the minimum bank capital requirement after persistent instances of bank distress in India (particularly between 1993 and 2006) and the attendant detrimental impact on public confidence and economic stability. Up till now, Indian banks have been accepting of technological advancements. As a result, there have been numerous bank mergers in India throughout the years. This has significantly increased market competition. There is no doubt that India's banking system has accomplished several amazing feats. The government's strategic strategy is to reposition and integrate the Indian banking sector into the global financial system. The banking sector reform process is an integral aspect of that agenda. The Indian banking industry has undergone numerous reforms, and numerous successful mergers and acquisitions have contributed to its exponential growth. M&As are viewed as a relatively quick and effective approach to enter new markets and adopt cutting-edge technologies. For instance, New Bank of India was merged with Punjab National Bank in 1993. In 2017, Bharatiya Mahila Bank and State Bank of India amalgamated. After mega merger in August 2019, the number of public sector banks reduced from 27 to 12.

VI. CATALYSTS THAT INITIATED THE MERGER

A. 1991 Reforms

The principal goal of the 1991 banking reforms was to increase the banking industry's competitiveness and basic soundness. The changes also demanded that the international standards be followed by the Indian financial system.

Fig. 3: Banking Sector Reforms as per Narasimham Committee

Source: iascurrent.com

The number of private banks entering the Indian banking industry increased dramatically as a result of the reforms of 1991, and as a result, the spread gained by public banks has decreased. The banks attempted to maintain their growth over time by diversifying into new markets, but as the market has grown so competitive, consolidation is the best course of action. There is strong evidence that the forces of competition are also at work in the Indian banking industry. In order to protect themselves and stay competitive, banks have begun to seize their new rivals. And this has sparked India's first round of mergers in the banking sector.

B. Rise in competition

Due to a greater selection of more suited human resources for the work, the system is more efficient. In fact, merger can lead to efficiency at all three levels of people, process, and product. This resulted in a cost reduction that may be passed on to the consumer in order to grow the customer base.

Naturally, these common conclusions about industrial organisation also apply to the banking markets. This is yet another justification for the bank merger.

C. Need for stability

The banking industry in India was very disjointed. Even the biggest bank in India was not ranked among the best banks in the world. Only four banks—Bank of Baroda, State of India, ICICI, and HDFC—had been able to surpass the market capitalization of Rs. 50 billion. Additionally, the pattern indicated that the wealth of the top 5 banks was eroding and that it was spreading to other banks, which was a sign that the top banks' stability is in doubt. Even while the lack of a single bank holding a monopoly may result in lower costs for the clients, it may still be beneficial to have a fragmented banking system. However, it is not helpful for the nation's financial stability when its banking system is unstable. This is yet another motivator for the consolidation of Indian banks.

D. Risk

If the merger is carried out in a controlled manner, it also helps the banks in lowering the chance of bankruptcy, according to a study by Hannan and Pilloff from 2006. In their research article, Craig and Santos also confirmed that risk is decreased as a result of diversity in bank mergers.

VII. WHAT IS THE NEED OF MERGERS IN THE BANKING SECTOR?

- According to the Reserve Bank of India, 5,743 frauds involving a total of INR 95,760.49 crores were recorded by Public Sector Banks (PSBs) between April 1 and September 30, 2019 in 2018–19.
- In the Indian banking environment, PSBs own a disproportionate 85% of the market, well outpacing their relative business share. In many examples, it appears from the outset that not only mid-level employees but also senior-most management, political intervention, and a "pro-corporate" mindset of decision-makers, all are involved.

- There are a lot of NPAs in the financial system, which is concerning. It displays the financial hardship of borrower clients like Vijay Malaya, Nirav Modi, Dewan Housing, etc., as well as transmission inefficiencies.
- India reportedly grew to be one of the tenth-largest economies in the world in 2018 and had the second-highest bad loan ratio after Italy.
- Around 90% of these non-performing assets are thought to be held by government-controlled lenders, including Bank of Baroda, IDBI Bank Ltd, Oriental Bank of Commerce, and Central Bank of India.
- The government planned these mergers after spending INR 21,646.38 crores in the fiscal year that ended on March 31, 2018.
- As a result of these disastrous circumstances, Bank mergers were advocated (forced) by Centre.

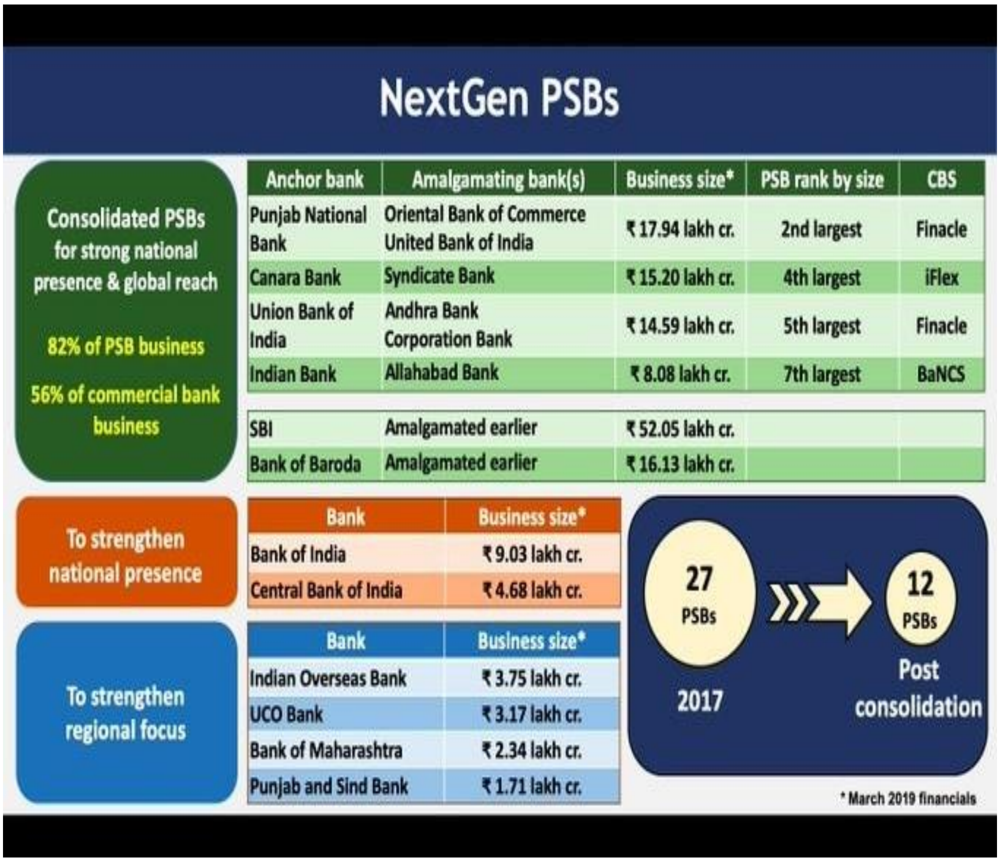

Fig. 4: Merger of Public Sector Banks

Source: Andhrafriends.com

- As part of the merging of public sector banks (PSBs), six weaker PSBs merged with four 'anchor' banks that are functioning in a better way.
- Oriental Bank of Commerce and United Bank were merged with Punjab National Bank, while Andhra Bank and Corporation Bank were merged with Union Bank.
- The mergers between Syndicate Bank and Canara Bank and between Allahabad Bank and Indian Bank went into effect on April 1, 2020.
- In 2019, Bank of Baroda combined with Dena and Vijaya banks.
- With a business size of INR17.94 lakh crore, Punjab National Bank (PNB) has become the second-largest bank in the nation.
- The fourth-largest public sector bank in the nation is now Canara Bank. The merged business has a gross NPA ratio of 8.77% and a combined revenue of INR 15.20 lakh crore after the merger.
- After the merger, Union Bank of India grew to be the fifth-largest PSB. The amalgamated bank's combined revenue is INR 14.59 lakh crore.
- The Net NPA ratio for Union Bank is 6.85%.
- After the merger, Indian Bank, which is now the seventh-largest PSB, has assets worth INR 8.07 lakh crore. The net NPA ratio for Indian Bank was 3.75%.

Amalgamation of Punjab National Bank

S.No.	Particulars	PNB	OBC	United Bank of India	Amalgamated bank
1	Total business (in crore ₹)	11,82,224	4,04,194	2,08,106	17,94,526
2	Gross advances (in crore ₹)	5,06,194	1,71,549	73,123	7,50,867
3	Deposits (in crore ₹)	6,76,030	2,32,645	1,34,983	10,43,659
4	CASA ratio	42.16%	29.40%	51.45%	40.52%
5	Domestic branches	6,992	2,390	2,055	11,437
6	PCR	61.72%	56.53%	51.17%	59.59%
7	CET-I ratio	6.21%	9.86%	10.14%	7.46%
8	CRAR ratio	9.73%	12.73%	13.00%	10.77%
9	Net NPA ratio	6.55%	5.93%	8.67%	6.61%
10	Employees	65,116	21,729	13,804	1,00,649

Amalgamation of Canara Bank

S.No.	Particulars	Canara Bank	Syndicate Bank	Amalgamated bank
1	Total business (in crore ₹)	10,43,249	4,77,046	15,20,295
2	Gross advances (in crore ₹)	4,44,216	2,17,149	6,61,365
3	Deposits (in crore ₹)	5,99,033	2,59,897	8,58,930
4	CASA ratio	29.18%	32.58%	30.21%
5	Domestic branches	6,310	4,032	10,342
6	PCR	41.48%	48.83%	44.32%
7	CET-I ratio	8.31%	9.31%	8.62%
8	CRAR ratio	11.90%	14.23%	12.63%
9	Net NPA ratio	5.37%	6.16%	5.62%
10	Employees	58,350	31,535	89,885

Fig. 5: Data of Punjab National Bank and Canara Bank after merger

Source: Annual Report (March,2019) of Ministry of Finance.

Amalgamation of Union Bank

S.No.	Particulars	Union Bank	Andhra Bank	Corporation Bank	Amalgamated bank
1	Total business (in crore ₹)	7,41,307	3,98,511	3,19,616	14,59,434
2	Gross advances (in crore ₹)	3,25,392	1,78,690	1,35,048	6,39,130
3	Deposits (in crore ₹)	4,15,915	2,19,821	1,84,568	8,20,304
4	CASA ratio	36.10%	31.39%	31.59%	33.82%
5	Domestic branches	4,292	2,885	2,432	9,609
6	PCR	58.27%	68.62%	66.60%	63.07%
7	CET-I ratio	8.02%	8.43%	10.39%	8.63%
8	CRAR ratio	11.78%	13.69%	12.30%	12.39%
9	Net NPA ratio	6.85%	5.73%	5.71%	6.30%
10	Employees	37,262	20,346	17,776	75,384

Amalgamation of Indian Bank

S.No.	Particulars	Indian Bank	Allahabad Bank	Amalgamated bank
1	Total business (in crore ₹)	4,29,972	3,77,887	8,07,859
2	Gross advances (in crore ₹)	1,87,896	1,63,552	3,51,448
3	Deposits (in crore ₹)	2,42,076	2,14,335	4,56,411
4	CASA ratio	34.71%	49.49%	41.65%
5	Domestic branches	2,875	3,229	6,104
6	PCR	49.13%	74.15%	66.21%
7	CET-I ratio	10.96%	9.65%	10.36%
8	CRAR ratio	13.21%	12.51%	12.89%
9	Net NPA ratio	3.75%	5.22%	4.39%
10	Employees	19,604	23,210	42,814

Fig. 6: Data of Union Bank of India and Indian Bank after merger

Source: Annual Report (March, 2019) of Ministry of Finance.

VIII. BENEFITS OF MERGERS IN THE BANKING SECTOR

- Cost efficiency is achieved as after the merger, single line of operation of the merged banks can be extended.
- The bank will have a significant number of branches after the merger, increasing its visibility and aiding in the development of its brand. The importance of brand in boosting a bank's income cannot be overstated.
- As a result of the merger, the banks have access to a sizable capital base, which gives them more opportunities to invest money and generate higher returns. This boosts the banks' bottom lines.

Fig. 7: Pros of Merger of Banks

Source: Swaritadvisors.com

- Banks are also able to obtain larger amounts of credit at reduced costs as a result of the growth in the size of deposits. Due to the substantial quantity of the deposits, the banks' credit worthiness has also increased.
- The increase in the quantity of products offered to the client base by the merged firm justifies the high fixed cost associated with gathering customer data. Consequently, the fixed cost per product is decreased.
- Cross-selling to your current consumer base can also help you generate more sales.
- Additionally, it aids in the variety of the products, which lowers risk.

IX. CHALLENGES OF MERGERS & ACQUISITIONS IN BANKING SECTOR

A. Technology

One of the most visible and difficult issues in the M&A process is technology decisions. Each business will have unique technology needs that they must take into account. After an M&A transaction, it's conceivable that you may have several platforms or programmes that carry out the same task. You must choose which of them will be adopted by your entire organisation and which will be retired. You may need to think about upgrading your gear along with deciding which platforms and apps your business will utilise going forward. Your operating system might not be able to support the technology you've chosen if it's old or out of date.

When deciding which technology path to take, there are many logistical, financial, and functional aspects to take into account. However, any change is likely to cause discomfort for a portion of the employee base because they will have to give up the legacy system they are familiar with (and perhaps even love) in order to learn a new one.

B. Adoption

The difficulties with technology are merely one aspect of M&A. Adoption is a second aspect that needs to be carefully taken into account. Lack of appropriate assessment of the complete impact that technology changes would have on stakeholders and the broad employee base is one of the main reasons mergers and acquisitions fail. Beyond merely needing to master new technologies, these effects go far further. It will be incredibly challenging to succeed if your staff are unable (or unwilling) to adapt and adopt the new practises, technology, and initiatives that result from an M&A.

Employee worries, such as the following, are understandable when an M&A transaction is imminent:

Does that imply that I might lose my job?

Will there be a new person I report to?

Concerns like these have been demonstrated to effect employee retention and cost the acquiring company money. According to a 2019 study, occupational stress costs $500 billion in lost productivity annually. The same study indicated that employee disengagement resulted in a $605 billion loss in productivity.

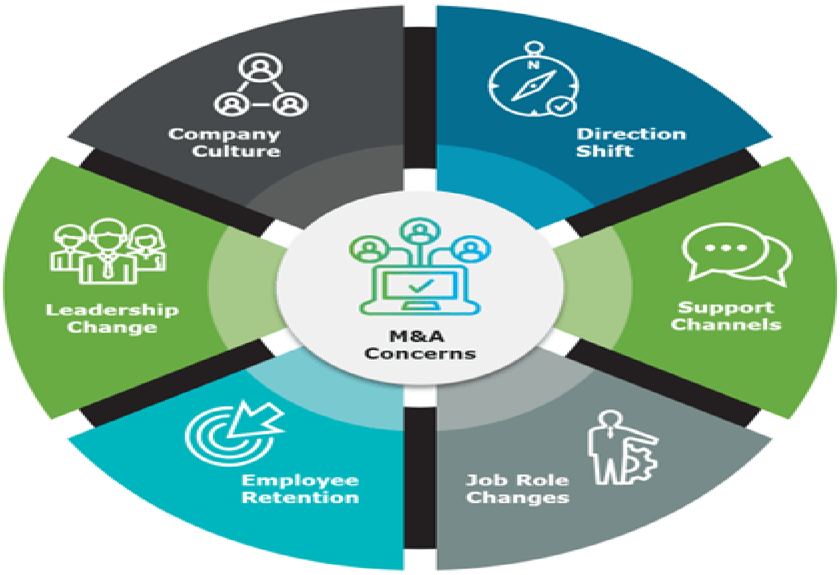

Fig. 8: Concerns of Mergers & Acquisitions

Source: corebts.com

C. Coexistence of Tenants

"Tenant coexistence" is a timeframe that is typically included in M&A transactions. This is a period of time during the post-merger integration when various staff groups will be required to use several tenants simultaneously. The period of coexistence is extremely disruptive and presents its own particular set of difficulties, such as:

- **Dual Tenant Disruption:** Communication problems frequently occur when staff members use two or more tenants. Multiple email addresses can cause confusion and make it difficult to rely on technology to determine whether a person is online or not. What was once a straightforward stream of communication and collaboration is now disrupted by this.
- **Move Dates Will Be Spaced During Tenant Coexistence:** The dates planned for moving personnel and equipment to the primary tenant will be spaced out during tenant coexistence. To guarantee a smooth transition and user experience, this must be appropriately managed as it can cause misunderstanding among workers.
- **Generalised Uncertainty:** During this time, resistance to the implemented changes, both active and passive, is frequently seen. It is crucial to gain support from the individuals who will be most impacted by the changes. Timing is everything when doing this.

X. SOLUTIONS TO THE PROBLEMS OF MERGERS AND ACQUISITIONS

A. Time of Discovery

Timing is crucial in M&A. A discovery phase should be a component of your first due diligence for any M&A transaction. The best strategy is to carry out the technological discovery first, followed by the discovery of people and culture. Your findings from your research on people and cultures ought to guide and affect how you use technology. Additionally, it's crucial to keep assessing and confirming decisions at every stage of the project.

B. Gap Analysis

Next, we strongly advise that you conduct a gap analysis. This will expose flaws and areas for improvement by contrasting the status of your organisation now with its ideal state. As a result, creating an implementation roadmap will be simpler.

C. Exercise Programme

Similar to communication, we also advise you to develop a plan for numerous employee trainings.Better personnel wi ll participate in training sessions if they have multiple chanc es to do so. As a result, they will be better ready to utilise th e new system(s) when they are requestedto.Additionally, giv ing staff members access to a list of frequently asked questio ns (FAQs) will ease common problems as the shift gets unde rway.

D. Plan for Communication

Create a strategy for how you will inform those who will be impacted about the impending changes once you have a roadmap in place. The intended audience will be reached if communications are sent on numerous days and via a variety of channels (email, Teams, Slack, Yammer, meetings, etc.). Staff that are experiencing stress and uncertainty during the integration process can benefit from this.

E. Champion Change

The belief of employees at all organisational levels in the new initiatives will be crucial in overcoming cultural differences and ensuring a more seamless transition, even though getting decision makers on board is key. Implementing a Change Champion Programme is one of the best strategies to boost employee acceptance. In this programme, a few employees assist in boosting support and lowering opposition to M&A-related changes. Changes in business culture and technological advancements can be made easier for employees by champions.

XI. CONCLUSION

A merger is a significant step, and it has an impact on industries outside of finance. Following a merger, banks are now able to compete with major international banks and provide significant consumer loans. Better management of banking capital is a result of the merger. Some of the factors that are common to bank mergers are new clients, business empowerment, market reach, increased capital, and stability. But due to weaker banks, mergers put big banks under strain. The most difficult aspect of the merger is adjusting to the new workforce. The notion of decentralisation can be destroyed by a merger because many banks cater to local customers. The challenges of free convertibility and the need for large investment banks are among the key factors for future mergers in the Indian banking industry. So the Government and policy makers should be more careful in endorsing merger as a way to gain economies of scale and scope.

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