Available online @ www.iaraindia.com
RESEARCH EXPLORER-A Blind Review & Refereed Quarterly International Journal
ISSN: 2250-1940 (P) 2349-1647 (O)
Impact Factor: 3.655 (CIF), 2.78 (IRJIF), 2.62 (NAAS)
Volume IX, Issue 31
April – June 2021
Formally UGC Approved Journal (63185), © Author

A STUDY THE CONCEPT OF BANK MERGERS IN INDIAN BANKING SYSTEM

W.ROSELIN PRABHA
Ph.D. Full Time Research Scholar
PG & Research Department of Commerce
Periyar EVR College, Trichy, Tamil Nadu
(Affiliated to Bharathidasan University, Trichy- 24)

Abstract

Banking is one of the fastest growing sectors in all over the world. In India banking sector plays a major role in both private and public sectors. In this competitive world banking sectors facing a lot of challenges such as customer relationship, digital banking, online banking, financial consolidation etc. In order to gain advantage banks are adopting and merging to have a good impact on the market. Merging is an only way to get a better advantage in this situation, but also open up various opportunities and more challenges which may affects the banking efficiency, employees and their customers. Once it merge with strong banks it will increase competition, economies of scale, advanced level of technology and its integration, new product and services, future banking will be better for their development of the customers.

Keywords: *banking system , banking merger, customer relationship, digital banking, online banking, financial consolidation*

INTRODUCTION

RBI bid to move towards the best international banking practice will moulding the norms and strength and the digital securities. Current banking sectors comes with lot of innovative and technology to provide a better customer service. In 1991, the government opened the doors for foreign bank to start their operation in India and provide their wide range of facilities, it helps banks industry deals with new challenges and economic poses using technology. Technology opened up new markets, new products, services, and delivery channels using online banking, Mobile banking, and Internet banking. This progress of technology help our banking sector moved to World Wide and all so significantly reduce the cost of global fund transfer. This globalization enables the high expectation of the customers. It will help the customer to transfer their funds all over the world easily using NEFT, RTGS, and IMPS etc.

Review of Literature

Baby Soundarya.M, MoghanaLavanya.S, Hemalatha.S (**2018)** in their paper studied about Mergers and acquisition has emanated as the innate process of business reorganizing.9 There are different motives for companies to enter M&A namely, shareholder gains, managerial gains, economies of scale, economies of scope, cost savings, taxes exemption, diversification, to raise entry barriers, to obtain multimarket contact and to have better research and development. the keen issue in mergers and acquisitions is the status of human resource in the companies that are merged or acquired.

Srivastava & Prakash (2014) examined the cross-border M&A have given opportunities to the emerging market multinationals to add value while implementing the strategy of internationalization examined. The study result indicates no statically significant difference in the mean value of all the measures except R&D expenses as percentage of operating expenses for the acquirer Indian firms before and after merger and acquisition event.

Ghosh& Dutta (2014)explored the overall strategic impact of M&A in telecom sector with the tools like ratio analysis of 8 BSE listed telecom companies goes for M&A during 2000-2010, The study concluded that changes in overall performance of the 7 firms due to M&A not much significance. They faced difficulties in coping with the adverse macro financial situation and integration the merger firms on the other.

Paramasivan. C (2011) Information technology plays a key role in the modern world which meets the day to day activities of the human beings directly or indirectly associated. Commercial activities particularly banking and financial sectors may not function without proper information technology. With rapid development in the Information Technology Commercial and financial sectors performed will and could reach to nook and corner of the world. Common man can enjoy the benefits of the personal, commercial and official activities through information technology. Commercial banks and Information Technology are inseparable and interrelated segment which provides immense services to the customers and make them satisfied.

Idea of Merging Banks in India:

Idea behind bank mergers it will help increase the asset and also increase the value of shareholders and increase profits. Banks can attain quick growth with expanded market access. It would increase efficiency of performance and valve of their company .It reduced the risk and bankruptcy. The potential competitors will be absorbed into one entity and reduces the competition in the market.

After 10 months of banks merger by the current government, the half yearly financial results of the banks highlights their superior performance than the pre merger period in the subsequent analysis.

The merger of public sector banks involves integration of six weaker public sector banks with four better performing 'anchor' banks. Andhra Bank and Corporation Bank were merged with Union Bank while Oriental Bank of Commerce and United Bank were merged with Punjab National Bank. Syndicate Bank has been merged with Canara Bank, while Allahabad Bank with Indian Bank. The mergers took effect from 1.4.2020. Dena bank and Vijaya bank were merged with Bank of Baroda in 2019.

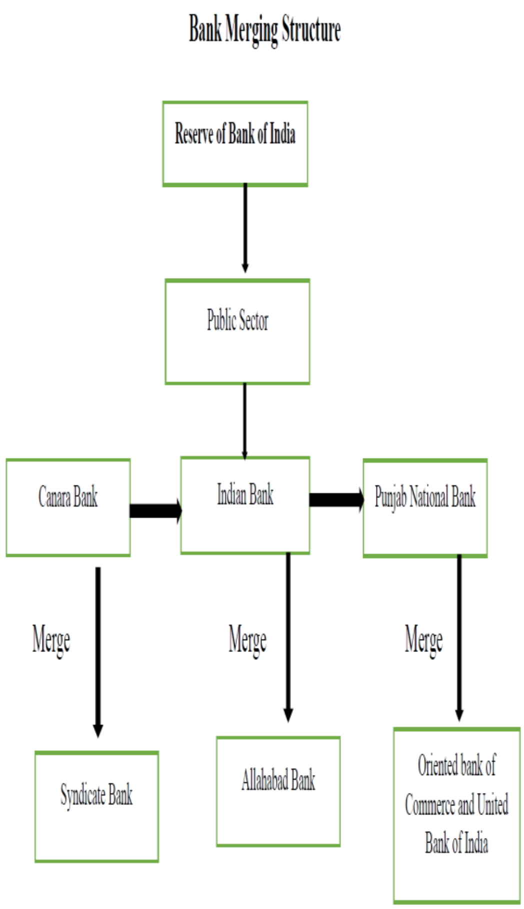
Punjab National Bank (PNB) has become the country and second-largest bank, with business size of Rs 17.94 lakh crore, after SBI which has the business of over Rs 52 lakh crore.

Canara Bank has become the fourth-largest public sector bank of the country. After the merger, the combined business is Rs 15.20 lakh crore and a lower gross NPA ratio of 8.77 per cent

Union Bank of India post-merger has become 5th largest PSB. The combined business base of the merged bank is Rs 14.59 lakh crore. Union Bank has a high Net NPA ratio of 6.85per cent .

Indian Bank has assets of Rs 8.07 lakh crore post-merger becoming 7th largest PSB. Indian Bank had a net NPA ratio of 3.75per cent

.



Reasons of Merger banking

1. A key reason for the merger is the **weight of mounting bad loans** over the years.

2. Ostensibly aimed at improving operating efficiency, governance and accountability and **facilitate effective monitoring.**

3. Creating **globally stronger banks,** doing away with needless overlaps in operations and infrastructure, and ushering in **economies of scale to bring down costs** have always been at the heart of any consolidation drive.

4. The move was aimed at creating **next-generation banks** with a **strong national presence** and **global outreach** accompanied with **enhanced capacity to increase credit** to the various important sectors of the economy.

Some of the mergers and acquisition are:

Name of the Bankers	Banks Merged
Punjab National Bank	Oriental Bank of Commerce
	United Bank of India
Canara Bank	Syndicate Bank
Indian Bank	Allahabad Bank
Union Bank of India	Andhra Bank
	Corporation Bank
Bank of Baroda	Dena Bank
	Vijaya Bank

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.

Bank Name	Merged Year	Before Merging (Net Worth) in Crore	Merging Banks	After Merging (Net Worth)in Crore
Punjab National Bank	2019-2020	11,82,224.00	PNB+OBC+UBI	17,94,524.00
Oriental Bank	2019-2020	4,04,194.00		
United Bank of India	2019-2020	2,08,106.00		
Canara Bank	2019-2020	10,43,249.00	CNB+SYNB	15,20,295.00
Syndicate Bank	2019-2020	4,77,046.00		
Indian Bank	2019-2020	4,29,972.00	INB+ALB	8,07,859.00
Allahabad Bank	2019-2020	3,77,887.00		

Merger has no effects on the total assets or return on capital employed but they do result in improved return on investments. There are a few banks in India who are involved in this process, rest functions individually. There is a significant and noticeable impact on the net profits and also on shareholders' capital.

Conclusion:

Banking sectors needs transformation and technology upgradation due to global competition. Merging is the one of the concepts to improve and support for the long-term development scheme. Bank merging is one of the ways to reduce NPA and also it increases customer service and development of the bank. RBI planning to increase economic growth in India, bank merging is one of the plans, it is also having their own benefits as well as dis-advantages, but it increases efficiency and strength of the bank and also customer support service technically. Merging of public sector banks provide an opportunity to increase the operational performance and able to meet the international competition. In future merging of few more public sector banks are unavoidable not only to improve their financial strength but also sustainability in the financial market.

Reference

Baby Soundarya, S. Moghana Lavanya and S. Hemalatha (2018), Merger and Acquisition of Business Organization and its Impact on Human Resources, Journal of Business Strategy, Finance and Management, 1(1)

Ghosh, M. S., & Dutta, S. (2014). Mergers and acquisitions: A strategic tool for restructuring in the Indian telecom sector. Procedia Economics and Finance, 11, 396-409.

Paramasivan. C (2011),Customer Satisfaction through Information Technology in commercial banks, Journal of Commerce and Management Thought, Vol.2, Issue 4, October, pp 509-522.

Srivastava, R., & Prakash, A. (2014). Value creation through cross border mergers and acquisitions by the Indian pharmaceutical firms. Journal of Strategy and Management, 7(1), 49-63.

Websites:

https://www.jagranjosh.com/general-knowledge/banking-merger-in-india-1567425591-1

https://www.oliveboard.in/blog/bank-merger-list-2019/

https://www.ukessays.com/essays/marketing/definition-of-mergers-and-acquisitions-marketing-essay.php

https://researchersclub.wordpress.com/2014/07/12/merger-and-amalgamation-in-banking-sector-in-india/