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"Mega Merger policy of public banking sectors An Empirical analysis"

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Abstract:

Objective of this paper have see whether merger is beneficiary for firm and as well as society. As Union Finance Minister Nirmala Sitharaman announces the merger of ten big public sector banks (PSBs) into four. The banks which are being merged are Punjab National Bank, Oriental Bank of Commerce, United Bank of India, Indian Bank, Allahabad Bank, Canara Bank, Syndicate Bank, Union Bank of India, Andhra Bank and Corporation Bank. India will now have 12 Public Sector Banks from 27 in 2017. The merger of banks was announced under the Bank Consolidation plan among other major initiatives and steps to accelerate the economic growth of India. But in this paper author consider only 7 leading bank for empirical analysis.

Keywords: Merger, Bank, Global, competition, Public sector,Management

Introduction

Announcing the mega plan of Banks' merger on Friday August 30, 2019 with an aim to have financially strong Public sector banks in India, the Finance Minister of India NirmalaSitharaman has outlined the Government's plan to merge 10 public sector banks into four large banks. After the mergers, there will be 12 public sector banks in India, including State Bank of India and Bank of Baroda. The merger is expected to create fewer and stronger global-sized Banks to boost economic growth. As per studies conducted until now most of the mergers done in the past, have proved to be an overall success for the weaker banks although there are no concrete parameters to verify this observation. Hence going by the track record merger and acquisition in Indian banking have been fruitful for the Indian Economy.

Advantages of Bank Mergers

- Larger Bank is capable of facing global competition
- The merger will reduce the cost of banking operation
- Merger will result in better NPA and Risk management
- Merger will help in improving the professional standards
- 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

- Provides better efficiency ratio for business operations as well as banking operations which is beneficial for the 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 economy like India
- Chances of survival of underperforming banks increases hence customer trust remains intact which is vital for the 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
- The merger will help the geographically concentrated regionally present banks to expand their coverage
- Larger size of the Bank will help the merged banks to offer more products and services 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
- With a larger capital base and higher liquidity, the burden on the central government to recapitalize the public sector banks again and again will come down substantially
- 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.

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:-

- Compliance needed in every decision which might not be favorable as thinking perspectives and risk taking abilities of different organizations are different. It leads to friction and rift which, if not managed well may lead to the downfall of the organization as a whole.
- Banks are merged only on papers. Their people and culture are difficult to change. It is a recipe for disaster as it leads to poor culture fit not ideal for the organization or the economy.
- 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.
- 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.

Table:1

History of merging

Year of merging	Reason for merging	Number of Banks merging
1961-1969 or Merger &Nationalization during the period from	To revive the poorly performing banks which proved to be quite a successful move for the underperforming banks.	46
1969-1991or post-nationalization period.	six private banks being nationalized in 1980. 13 mergers took place mostly between public and private sector banks.	13
1991-2015 or **The post liberalization period.**	Major economic reforms initiated by Government of India. Many new policies were framed. Greater FDI and foreign investment was allowed which saw resurgence in Indian Banking. To save weaker banks and some for the sake of synergic business growth.	
1993-2004	Making decent market in South India. To provide life saving for the weaker bank.	The merger of Oriental Bank of Commerce with Global Trust bank in 2004. The Mergers of Punjab National Bank (PNB) with the then eroded New Bank of India (NBI) in 1993-94 .Benaras State bank Ltd with Bank of Baroda in 2002
2008-2010 or **Bank Mergers & Consolidation**	The board of SBI earlier approved the merger plan under which SBBJ shareholders got 28 shares of SBI (Re.1 each) for every 10 shares (Rs10 each) held. SBM and SBT shareholders got 22 shares of SBI for every 10 shares.	SBI first merged State Bank of Saurashtra with itself in 2008. State Bank of Indore was merged in 2010.
2018 or Merger of Banks	The government had merged creating the third-largest bank by loans in the country in 2018.	Dena Bank and Vijaya Bank with Bank of Baroda.
2019 or **Mega Merger of Banks**		Ten public sectors banks will be reduced into four large banks. Canara Bank and Syndicate Bank merger.

		Indian Bank and Allahabad Bank merger. Union Bank of India, Andhra Bank and Corporation Bank merger. Merger of Punjab National Bank, Oriental Bank of Commerce and United Bank of India.

The mega merger has left untouched six other banks, out of which two are national banks and the four have regional focus. The untouched banks are .
Bank of India,
Central Bank of India,
Indian Overseas Bank,
Uco Bank,
Bank of Maharashtra
Punjab & Sind Bank.
As per studies conducted until now most of the mergers done in the past, have proved to be an overall success for the weaker banks although there are no concrete parameters to verify this observation. Hence going by the track record merger and acquisition in Indian banking have been fruitful for the Indian Economy

Objective of Researcher in present economic situation Mergers are important for the consolidation and expansion purposes but, is it applicable in today's scenario ?
Is mergers and acquisition play crucial role for local Economy ?
Is merger successful weapon for increasing saving of weak banks about their expectations?

How merger creates variety of problems which can cause great damage if the process of merging is not executed properly?

If merging is needed how itis 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, how merging will have synergic effects and create a win-win situation?

Mathematical model on merger
Suppose market demand in a economy for all all Banking industry is P= a - bQ
Where P= Price per unit of any commodity(brokerage price.)
a= Willingness to pay
b= Impact of demand on price ,Q= total demand banking product.
$Q= \sum q_i$ Where i=1,2,3,4……………………N
If consider each of the bank faces same or identical cost structure in that situation $C= c_i\, q_i$
Where q_i is demand for individual bank.
Now objective of 'i'th bank is to maximise it's profit
$^{max}\prod_{qi} = (P – b \sum qj^{*} - bq_i - c_i)\, q_i$ Where j= I,2,3……………….(N-1) and also consider that when 'i'th bank compete ting consider other banks are already reached to it's optimum situation . Now solving the problem with the help of optimum theory , we can get individual demand for each Banks and profit of Each in cartel situation . Individual demand for each bank is $q_i = (a-c)/b(N+1)$ and profit of individual bank is, $\prod_I = (a-c)^2/b(N+1)^2$. And total demand for banking industry is Q= N(a-c)/b(N+1) and total profit for all banking industry is $\prod = N(a- c)/b(N+1)^2$.
$W= ½\, b\, Q^2+ \prod$
Or $W= ½\, bN^2(a-c)^2/ b^2(N+1)^2+ N(a- c)/b(N+1)^2$
Or $W= (a-c)^2/2b×(N^2/2+ N)/(N+1)^2$
Or $W= (a-c)^2/2b× (\frac{N2+2N}{N2+2N+1})$
If N→α W>0 I.e if number bank increases that leads to increase welfare of the society.

Empirical analysis on merger policy

Table:2

List of PSU Banks After Merger 2020

Anchor Bank	**Banks to be Merged with Anchor Bank**	**Combined Domestic Branches**	**Rank**	**Year of acquisition**
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) + BharatiyaMahila Bank	24,000 (approx)	1	**1 April 2017.**
Punjab National Bank	Oriental Bank of Commerce + United Bank of India	11,437	2	August 2019
Bank Of Baroda	Dena Bank +Vijaya Bank	9,490	3	April 2019
Canara Bank	UCO Bank, Syndicate Bank, Indian Overseas Bank	10,342	4	August 2019
Union Bank	Andhra Bank + Corporation Bank	9,609	5	August 2019
Bank of India.	Andhra Bank, Bank of Maharashtra		6	August 2019
Indian Bank	Allahabad Bank		7	August 2019

Sources: https://gradeup.co/bank-merger-list-india-i

Table:3

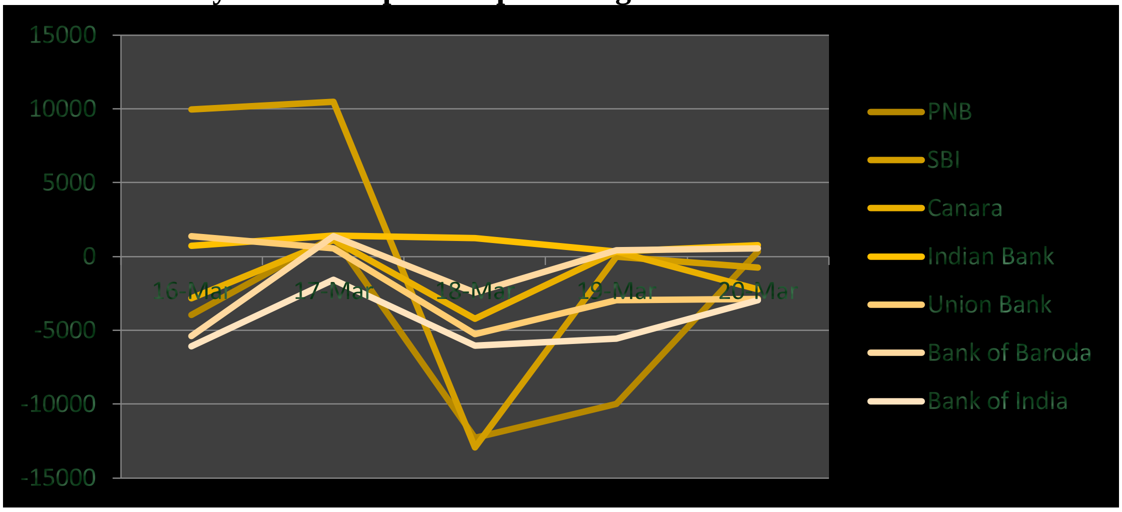
Profit of Public sectors bank pre and post merger situation

Acquired bank	**20-Mar**	**19-Mar**	**18-Mar**	**17-Mar**	**16-Mar**
PNB	**336.19**	**-9,975.49**	**-12,282.82**	**1,324.80**	**-3,974.40**
SBI	**-737.94**	**0**	**-12,954.83**	**10,484.42**	**9,950.98**
Canara	**-2,235.72**	**347.02**	**-4,222.24**	**1,121.92**	**-2,812.82**
Indian Bank	**753.36**	**321.95**	**1,258.99**	**1,405.68**	**711.38**
Union Bank	**-2,897.78**	**-2,947.45**	**-5,247.37**	**555.21**	**1,351.60**
Bank of Baroda	**546.19**	**433.52**	**-2,431.81**	**1,383.14**	**-5,395.54**
Bank of India	**-2,956.89**	**-5,546.90**	**-6,043.71**	**-1,558.31**	**-6,089.21**

Source : Dion Global Solutions Limited

Figure: 1

Trend line analysis of bank pre and post merger situation



From table :3 After merger Indian bank, Bank of Baroda and Punjab national Bank show improvement in their profit but other bank earn only negative profit. But individual profit of merger bank which able to earn positive profit also decline.

Table:4

Individual profit after merger

Acquired bank	Profit after merger	Individual profit
PNB	**336.19**	**336.19/3**
Bank of Baroda	**546.19**	**546.19/3**
Indian Bank	**753.36**	**753.36/2**

Source: Prepared by authors

Conclusion

So it is proved that merger policy is never good for individual firm as well as welfare of economy. Merger always leads to worse off situation for individual firms .But if all bank merge together in that situation merger leads to beneficiary situation .

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