MERGER OF PUBLIC SECTOR BANKS AND ITS IMPACT ON BANKING SECTOR

DISSERTATION

Submitted in partial fulfillment of the requirements for the degree of

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UNDER SUPERVISION OF:

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LLM- IInd Semester

(Corporate & Commercial Laws)

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I wish him/her success in life.

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I would like to express my sincere gratitude and deep appreciation to my Supervisor **Ms. Trishla Singh (Assistant Professor)** for her constant encouragement and valuable suggestions. I express my sincere gratitude towards **Dr. T.N. Prasad, Dean, School of Legal Studies, B.B.D. University** for his guidance throughout my LLM course. I am grateful to both of them as this dissertation would not have been possible without their help, support and patience throughout the period.

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LIST OF ABBREVIATIONS

IPO - Initial Public Offer

WTO - World Trade Organization

BRA - Banking Regulation Act

M & A’s - Mergers and Acquisitions

SBI - State Bank of India

CB - Centurion Bank

BOP- Bank of Punjab

CBOP - Centurion Bank of Punjab

SBS - State Bank of Saurashtra

OBOC - Oriental Bank of Commerce

SBOI - State Bank of Indore

IBA - Indian Bank Association

DMU - Decision Making Unit

MIS - Management Information System

DFI - Development Financial Institution

CAC - Capital Account Convertibility

SEBI - Securities and Exchange Board of India

IFRS - International Financing Report Standards

ICAI - Institute of Chartered Accountant of India

FEMA - Foreign Exchange Management Act

RBI - Reserve Bank of India

NABARD - National Agricultural Banking Authority Rural and Development

NBFC - Non – Banking Financial Company

CAR - Capital Adequacy Ratio

NPAs - Non- Performing Assets

TA - Total Assets

IOB - Indian Overseas Bank

SBI - State Bank of India

NSE - National Stock Exchange

BSE- Bombay Stock Exchange

LKB - Lord Krishna Bank Rupee

SME- Small-Medium Enterprise

BSE - Bombay Stock Exchange

NSE - National Stock Exchange

ADR - American Depository Receipt

GDR - Global Depository Receipt

Govt.- Government

PNB - Punjab National Bank

SBOI- State Bank of Indore

PMJDY - Pradhan Mantri Jan-Dhan Yojana

CHAPTER 1

INTRODUCTION

INTRODUCTION

[1]"The banking system in India has undergone enormous changes during the last two centuries. Traders known as Sharoffs, Seths, Sahukars, Mahajans, Chettis, etc managed our banking system in the form of money-lending since time immemorial. They undertook such functions as lending money to farmers, tillers, traders, businessmen, and craftsmen. Their grandeur extended to placing vast sums of money at the disposal of kings, warlords, and Nababs for funding their feuds or battles. However, the element of collecting money from the public at large was almost nonexistent during all this time though this function constitutes the major activity of banking system of the present time. Modern banking system originated in our country during the closing years of the 18th century. The General Bank of India, started in 1786, was the first formal bank followed by the Bank of Hindustan. They were among the first two banks. Presidency banks numbering three and named after three Presidency towns, namely Calcutta, Bombay, and Madras. There were three banks that is the Bank of Bengal (formerly known as Bank of Calcutta, which was originally started in the year 1806 and in 1809 it became Bank of Bengal, and then the Bank of Bombay & the Bank of Madras, were established. These three Presidency banks acted as quasi-central banks for many years. It means that they were more or less independent of one another. The above mentioned three banks merged in 1925 and formed the Imperial Bank of India owing to economic crisis of 1848-49, there was a failure by Indian merchants who formed Union Bank in 1839, in Calcutta but it failed in 1848. From 1906 to 1911, the Swadeshi movement inspired local businessmen and political figures to establish banks for the Indian community. There were few banks, which were established and survived during that time, namely BOI, COB, IB, BAOB, CB and CBOI. In Indian banking history, in 1934, a major landmark was establish when a decision was taken, to establish the ‗RBI', and it started functioning in 1935. The apex Bank of India, RBI, as a Central Bank of the Country, has been regulating the entire banking system enter since that time."

One of the main and notable of the quality of an economy is the working of the banks of that country. An incredible impact on the development pace of any economy is there by methods for a bank's eagerness and autonomy of obtaining from others and loaning to corporate part. Numerous exceptional changes in US banking were made at the hour of deregulation in the United States. The banks increased also, were expanded. When the banks from different other created countries gone with the same pattern, it started to work in exceptionally serious markets. In a decade ago of the twentieth century, there were suit documented by many developing nations. Our Indian banking industry also has been experiencing different changes like those of the U.S since 1992. In an economy, when there was a blast, there was increment in removal salary what's more, increment in corporate movement, store and credits have quickened at a quick pace; credit infiltration has expanded altogether regardless of the way that they are still far

[1] David L. Rainey, The Pursuit of Sustainability, (2015), Part I, Pg. 18

beneath the numbers in created markets. The pattern in item and administration advancement was started by different remote banks.

Mergers and acquisitions owing to deregulation and increased competition have ushered in an era of intense activity and intense competition in our country. The need of competition and consolidation brought the surge of M & As in India. It was driven by a variety of other strategic imperatives, namely globalization, capital market expectations, etc. These factors have encouraged various Companies to follow the inorganic growth path. Earlier the M & A process in India was stunted owing to overpowering control by promoters of the banks, lack of regulatory guidance, and inactiveness of shareholders. Basically a merger means a joining of two comparable (in size) firms in a way in which the shareholders of the merging entities maintain their proportionate shareholding even after the merger. On the contrary acquisition denotes all cash buy-outs. Pre-closing risk and post-closing risk are the main risks that are mainly associated with any given M & A. [2]These risks may be shared between the shareholders of the acquiring or acquired companies, or may be borne only by the acquiring company. It all depends on the structure of the deal in question. One of the biggest example, in the first decade of 19th century is of the origin of the SBI. In the year 1806, the Bank of Calcutta was established and three years later the Presidency Bank of Bengal came into existence by way of a charter. It was followed by the Presidency Bank of Bombay in 1840 and the Presidency Bank of Madras in 1843. The three banks were merged in 1921 to create an all India Bank called The Imperial Bank of India. By an Act of Parliament, in 1955, for establishing SBI, Imperial Bank of India was nationalised. The HDFC Bank acquired the Time Bank, and six private banks namely Bhagwan Das Bank Ltd (1940), Bharat Bank Ltd (1951), Indo Commercial Bank Ltd (1961), Universal Bank Ltd (1961), Hindustan Commercial Bank Ltd (1986), Nedungadi Bank Ltd (2003) and one well-known nationalized bank NBI (1993) were merged with the PNBank.

[2] Nishith Desai Associates, Mergers & Acquisitions in India, Chp 2, http://www.nishithdesai.com/fileadmin/user_upload/pdfs/Research%20Papers/Mergers___Acquisitions_in_India.pdf

RESEARCH PROBLEM

1. To examine the reforms done, and problems faced by the Indian banking sector after LPG (Liberalization, Privatization, and Globalization).

2. To study the human resource policies practiced by public and private sector banks.

3. To review the financial performance of public, and private banks in India, and to enquire about the areas where public banks lack behind their counterparts.

4. To find out the impact on banking sector as a whole.

HYPOTHESIS

The study presupposes that the Mergers and Acquisitions in the Indian Banking Sector are going to moving from a regime of “large number of small banks” to “small number of large banks”.

LITERATURE REVIEW

Vashisht, A. K. (1987), "Performance Appraisal of Commercial Banks in India", A Ph.D. Thesis submitted to the Department of Commerce and Business Management, Himachal Pradesh University, Shimla - in his doctoral work titled, "Performance Appraisal of Commercial Banks in India", evaluated the survey of public sector banks in connection with six indicators, viz. branch expansion, deposit, credit, priority sector advances, DRI advances, and net profit over the period 1971-83. The researcher has used composite weighted growth index to rank the banks as excellent, good, fair and poor. In order to improve the performance, he has suggested developing marketing strategies for deposit mobilisation, profit planning, and SWOT analysis.

Balachandran, P (1993), "Mergers and Acquisitions of International Banks, The Journal of the Indian Institutes Bankers", October, pp.no. 174-177. - reviews that merger and acquisition could be effected basically in three ways such as Hostile merger, forced merger, and friendly (negotiated) mergers. Mergers could also be intra – country or inter countries i.e. organisation located in two or more countries, but in India all the mergers have been between the organisations located within the country. The main purpose of mergers and acquisition is based on avoiding / reducing competition such as gaining larger share of the global or local market. Spread of risk / diversification. Diversification has built up not only spread risk, but it has also helped to tide over crises to the business group concerned during industrial recession in some industries. Third purpose was synergy / pooling of specialised resources / reduction in cost which have achieved better productivity and profitability due to synergy. Other purpose of M & As was rehabilitation of sick units/ avail of tax concessions. The M &A were bound fail unless the three tests used for weighing concluded a merger deals as the attractiveness text, cost of entry text and the better of test. The health of the public sector banks has been greatly impaired and some radical steps were necessary to restore their health without much delay. It suggested that to give a boost to M & A, the government should enact suitable policy guidelines, reduce the lengthy procedures, and other host a factors viz. FERA Act, MRTP Act, IBR Act and Sales Act were to be tackled before M & A were finalised. This further needs transparent merger laws and reduction in the number of laws to be compiled with in order to meet changing domestic / international business scene and M & As the earliest. The Indian bank and corporate sector may find it rather difficult to face the might of the global giant in the project liberalised environment in the country.

Atma, Prasantha (1996), "Performance of Public Sector Commercial Banks – A Case Study of State Bank Of Hyderabad", PhD Thesis, Osmania University, Hyderabad, pp.no. 1-308. - covered the growth and progress of commercial banking in India. The trends in deposits of State

Bank of Hyderabad over a period of time were analysed, and ratios were calculated to know the bank‟s financial performance. It was concluded that the progress of banking in India has been impressive and the present structure was the outcome of the processes of expansion, reorganisation, and consolidation.

Kannan, K (1998), "Mergers are a Strategic Imperative for the Banks Survival", Business Today, April, pp.no. 71-72. 13. - stated a fact that globally bank borrowings as a percentage of gross domestic products have fallen. Banks cannot survive if they only offer the traditional products, – and by these products we mean mix of loans and deposits. For remaining in the race, banks require diversification into non fund-based activities (bank guarantee, letter of credit and collection of bills and document in banking) and new fund –based activities (retail lending, mutual funds, short-term finance, working capital finance, export credit, structured finance and insurance). Mergers And Acquisitions offers a least and faster diversification option than organic growth. A bank expands the geographic reach of the merged entity and provides a large capital cushion to absorb risks. It duplicates costs as labour rationalization is difficult and could lead to cartels, which limits gains to the customer.

Maiyya, P.V. (1998), "Unless Indian Banks Merge, They will lose Market Share", Business Today, April, pp.no. 73-74. - observed a matter that banks in India were over branched and overstaffed, but the entire market is not covered by them. Without the merger of Indian banks, the banks will lose market share and the risks of mismatch between assets and liabilities will increase. He came to a conclusion that the Government‟s equity stake in the nationalized banks should drop below 51 per cent and total public sector banks merged into three big banks. It suggested that the SBI and its Associates should be merged in one bank. CB, OBOC and BOI should be merged as just one composite bank, and other public sector banks should be merged into one bank.

Bhoi, B.K. (2000), "Mergers and Acquisitions: An Indian Experience", RBI Occasional paper, 2000. - narrated in his papers that the first wave of mergers and acquisitions trend in India roughly coincides with that of the latest wave of international mergers and acquisitions trend in which takeovers were the dominant modes of mergers and acquisitions.

Bhatnagar (2004), "Banking too much on Mergers", The Banking in the new millennium, pp.no. 133-137. 29. - stated in detail in their paper that the long run competitiveness was definite from the endowment to operate lower cost and higher efficiency in the market. In the banking functions, the experts examined that a merger with „right‟ bank could help a bank both to increase its net worth, and to increase its capital adequacy. The force applied to the merger was overwhelming in the corporate sector in the context of globalization. However, size-based mergers need not be the best of strategies, especially in the banking sector. A cost-cut strategy was a better option. Banks" mergers in India may facilitate compliance with the stipulation of reducing in strength the promoters" stake to 40 percent by March 2001. It helps in excellent organisational capabilities, resulting in a sustainable competitive advantage. Mergers and Acquisitions are no substitutes for poor asset quality, lax management, and indifferent to technology up-gradation for HR strategy. The new slogan was the growth of business through people"s growth. The growth of the banking sector brings sustained shareholder – value and customer orientation. In their paper they found that merger was the only one of the alternatives in corporate restructuring, better and more advantageous options to leverage optimum utilisation of corporate resources.

ICFAI Study (2004), "The Indian Banking performance snapshot", Chartered Financial Analyst, October, pp. no. 6-30. - made CAMEL methodology its base. This study contains an analysis of the performance of fifty nine banks whose annual results for 2005-06 were there at the disposal of these persons doing this study. They classified banks into public sector, private, and foreign banks. Category-wise ranks were given , and they were based on the aggregate average of ranks under each group of parameter under CAMEL.

Chanda, Kumar Dalip (2005), "Bank Mergers in India: A critical Analysis", IASSI Quarterly, Vol. XXIII, No. IV, pp.no. 107-123. 37. - came to the conclusion that profitability of the public sector banks has not made much difference to the process of deregulation in India. The Indian banking industry is second to none in the world when considered from the viewpoint of its profitability. The stock prices of the public sector banks were impressive. In addition, it could be said that banks mergers might not always be a blessings for the customers. It might increase the opportunities for monopolistic pricing.Owing to it the customer would earn a lower rate of interest on deposit in a more concentrated banking market. Even then in the age of globalisation, foreign banks were securing entry to the borderless economy of India on the strength of their giant size and diversified banking activities.

Ashutosh, Dash (2005), "The post – merger performance Puzzle: An evaluation of long – term profitability of Indian firms ", The ICFAI Journal of Accounting Research, January 2015, pp.no. 6-22. - made a study about the just-happened changes in the Indian economic scenario, mergers ,and acquisitions, and he gave an explanation that the economic consequences of mergers with the view to resolving the conflict. He found that the modem mergers were primarily encouraged by the firms with above-industry average performance, and it was found that this trend continued to persist overtime. However, there was no proof of influence of mergers on operating profitability, whatever the strategy may be. Apart from all these observation , he came to a conclusion that the popular belief of merger as a means of corporate plus /growth was not always there, and he declares it to be a myth.

RESEARCH METHODOLOGY

Collection of Data:

The research work based on secondary data alone. Public sector and private sector banks and M&A scenario in the pre and post periods of six years have been taken up as radical data in which pre merger and post merger in particular public sector merger and private sector merger in a particular period 2004-2009 are taken up for the analysis.

CHAPTER 2.

HISTORY OF BANKING SECTOR IN INDIA

HISTORY OF BANKING SECTOR IN INDIA

The earliest Bank started was the Bank of Hindostan in 1770 by Alexander and Company of Calcutta which was closed down in 1832. Subsequently, three Presidency Banks were set up – Bank of Bengal in 1809, Bank of Bombay in 1840 and Bank of Madras in 1843. These Presidency Banks were quasi- Government institutions incorporated during the period of 1865-1870 only one Bank (Allahabad Bank) was started. After the establishment of the Indian National Congress, growth of Indian Banking got a boost. With the starting of the 20th Century, there were total 20 banks with total deposits of about Rs. 34 crores; three Presidency Banks with Rs. 16 crore, 9 Indian Banks with Rs. 8 crore and 8 foreign banks with Rs. 10 crore. With the advent of Swadeshi movement in 1906, many new banks sprang up. Between 1900 and 1934, number of Indian Banks rose from 9 to 105 with deposits spiked from Rs. 8 crore to Rs. 82 crore. This same situation occurred with the foreign Banks as well, the number of foreign banks rose as well as the deposits.

No foreign exchange business was undertaken by the Indian Banks. But, excluding some leading banks, a large number of banks with insufficient working funds, which were paying exorbitant interest rates to attract deposits and which were indulging in injudicious advances and speculative investments, close down.[3]

In January 1921, The three Presidency banks were amalgamated into the Imperial Bank of India with deposits over Rs. 70 crore and advances of Rs, 54 crore. Besides, practically all types of commercial banking business except dealing in foreign exchange, the Bank was entrusted with certain central banking functions except issuing of currency. It also functioned as banker to both Government and banks.

The Imperial Bank provided accommodation to most banks in times of need. The Bank faced certain kind of criticisms which included the favouritism of the British business interests. After the establishment of the Reserve Bank of India in April 1935 as the Central Banking Institution, the Bank discontinued to be the banker to the Government. But, instead it continued to conduct Government treasury business.

The banking system in India is significantly different from that of other Asian nations because of the country's unique geographic, social, and economic characteristics. India has a large population and land size, a diverse culture, and extreme disparities in income, which are marked among its regions. There are high levels of illiteracy among a large percentage of its population but, at the same time, the country has a large reservoir of managerial and technologically advanced talents. Between about 30 and 35 percent of the population resides in metro and urban

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[3] Vijayaragavan Iyengar, Introduction to Banking, (2007), Chp 1, https://books.google.co.in/books?id=eWLuY_ABdZkC&printsec=frontcover&dq=history+of+banking+in+india&hl=en&sa=X&ved=0ahUKEwje1MqLzMjpAhXF63MBHV4EAZc4FBDoAQg5MAI#v=onepage&q=history%20of%20banking%20in%20india&f=false

cities and the rest is spread in several semi-urban and rural centers. The banking system has three tiers. These are the scheduled commercial banks; the regional rural banks which operate in rural areas not covered by the scheduled banks; and the cooperative and special purpose rural banks. [4]The country's economic policy framework combines socialistic and capitalistic features with a heavy bias towards public sector investment. India has followed the path of growth- led exports rather than the "exponential growth" of other Asian economies, with emphasis on selfreliance through import substitution. Till the end of late 18th century, Banks in India, in the modem sense of the term, weren't there. During the time of the American Civil War, the supply of cotton to Lancashire (The textile hub of UK) stopped from the Americas. At that time some banks were opened, which functioned as entities to finance industry, including speculative trades in cotton. Most of the banks opened in India during that period could not survive and failed because of the high risk which came with large exposure to speculative ventures. It was a disaster for depositors who lost money and therefore lost interest in keeping deposits with banks. These features are reflected in the structure, size, and diversity of the country's banking and financial sector.

The banking system has had to serve the goals of economic policies enunciated in successive five year development plans, particularly concerning equitable income distribution, balanced regional economic growth, and the reduction and elimination of private sector monopolies in trade and industry. In order for the banking industry to serve as an instrument of state policy, it was subjected to various nationalization schemes in different phases. Moreover, the sector has been assigned the role of providing support to other economic sectors such as agriculture, small-scale Indus Commercial banks are categorized as scheduled and non-scheduled banks, but for the purpose of assessment of performance of banks, the Reserve Bank of India categories them as public sector banks, old private sector banks, new private sector banks and foreign banks.

[4] O.P. Chawla, Evolution of Banking System in India since 1900, (2019) https://books.google.co.in/books?id=m_mdDwAAQBAJ&printsec=frontcover&dq=history+of+banking+in+india&hl=en&sa=X&ved=0ahUKEwjzm-P1ysjpAhXiyDgGHYRQBvkQ6AEIKDAA#v=onepage&q=history%20of%20banking%20in%20india&f=false

I. The Pre-Independence Phase

This phase is categorized by the presence of a considerable number of banks in India. Nearly 600 banks were present in India.

The banking system started with the foundation of Bank of Hindustan in the then capital, Calcutta (present-day Kolkata) in 1770. The bank ceased its operations in 1832.

Post Bank of Hindustan, many other banks evolved such as the General Bank of India (1786-1791) and Oudh Commercial Bank (1881-1958), but they did not continue their operations for long.

Oudh Commercial Bank was the first commercial bank of India.

Some banks of the 19th century continue to operate even now establishing themselves as an institution of excellence. For example, Allahabad Bank was established in 1865, and Punjab National Bank was established in 1894. Also, some banks such as Bank of Bengal (est. 1806), Bank of Bombay (est. 1840), Bank of Madras (est. 1843) were merged into one entity. [5]

The new body was called Imperial Bank of India which was later renamed as the State Bank of India. In the year 1935, the Reserve Bank of India was commissioned upon the recommendation of the Hilton Young Commission.

During this phase, due to the failure of the majority of small-sized banks, the confidence of the public was low, and people continued to engage with money lenders and unorganized players.

II. After independence Phase – 1947 to 1991

One of the main features of the period was the nationalization of the bank.

Why was Nationalization Needed?

- The banks primarily catered to large businesses
- Critical sectors such as agriculture, small-scale industries and exports were lagging
- The moneylenders exploited masses

Thus, in the year 1949, the Reserve Bank of India was nationalized. In two decades, fourteen commercial banks were nationalized in July 1969 during the reign of Smt. Indira Gandhi.

[5] Ujjwala Shahi, Banking in India: Past, Present and Future (2013)

In 1975, based on the recommendation of the Narasimham committee, Regional Rural Banks (RRBs) were constituted with an objective of serving the unserved. The primary goal was to reach masses and promote financial inclusion.

Some other specialized banks were also set up to promote the activities that were required for the economy.

For example, NABARD was established in 1982 to support agriculture-related work. Similarly, EXIM bank was built in 1982 for export and import.

National Housing Bank was set up in 1988 for the Housing sector, and SIDBI was established in 1990 for small-scale industries.[6]

Was Nationalization Successful?
Nationalization was a significant step in the banking sector, and it helped improve people's confidence in the system.

Small and critical industries started getting access to capital that helped boost economic growth. Additionally, the move added to the country's growth across the global banking sector.

III. Third phase – The LPG (1991) Era and Beyond
1991 saw a remarkable change in the Indian economy.

The government opened up the economy and invited foreign and private investors to invest in India. This move marked the entry of private players in the banking sector.

The RBI provided banking license to ten private entities of which some of the notable ones survived such as ICICI, HDFC, Axis Bank, IndusInd Bank, and DCB.

In 1998, the Narsimham committee again recommended the entry of more private players. Thus, the RBI provided a license to Kotak Mahindra Bank in 2001 and Yes Bank in 2004.

Nearly after a decade, the third round of licensing took place. The RBI in 2013-14, allowed a license for IDFC bank and Bandhan Bank.

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[6] Rajveer Rawlin, Determinants of Profitability of Listed Commercial Banks in India, Chp 2.2.2 , https://books.google.co.in/books?id=nX_CDwAAQBAJ&pg=PA10&dq=after+independence+phase+in+banking+sector&hl=en&sa=X&ved=0ahUKEwiv07eGz8jpAhXZzDgGHc3CC6YQ6AEIYjAH#v=onepage&q=after%20independence%20phase%20in%20banking%20sector&f=false

The story didn't end here, with an aim to make sure that every Indian gets access to finance, the RBI introduced two new set of banks – Payments bank and small banks, and this marked the fourth phase in the banking industry.

[7]

[7] Rakesh Mohan, Partha Ray, Indian Financial Sector: Structure, Trends and Turns, (2017) https://books.google.co.in/books?id=ZtwaDgAAQBAJ&pg=PA5&dq=third+phase+in+banking+sector&hl=en&sa=X&ved=0ahUKEwjTu9Xtz8jpAhX7yjgGHRXaAs0Q6AEIMzAB#v=onepage&q=third%20phase%20in%20banking%20sector&f=false

Chapter 3.

BANKING SECTOR REFORMS IN INDIA

BANKING SECTOR REFORMS IN INDIA

Banking Sector reforms were initiated to upgrade the operating standard health and financial soundness of the banks. The Government of India setup the Narasimham Committee in 1991, to examine all aspects relating to structure, organization and functioning of the Indian banking system the recommendations of the committee aimed at creating at competitive and efficient banking system. Another committee which is Khan Committee was instituted by RBI in December, 1997 to examine the harmonization of the role and operations of development financial institutions and banks. It submitted its report in 1998. The major recommendations were a gradual more towards universal banking, exploring the possibility of gain full merger as between banks, banks and financial institutions. Then the Verma Committee was established this committee recommended the need for greater use of IT even in the weak public sector banks, restructuring of weak banks but not merging them with strong banks, VRS for at least 25% of the staff. The Banking Sector reforms aimed at improving the policy frame work, financial health and institutional infrastructure, there two phase of the banking reforms. Narasimham Committee provided the blue print for the initial reforms in banking sector following the balance of payment crisis in 1991.[8]

Phase I: Narasimham Committee (1991)

- Deregulation of the interest rate structure.

–Progressive reduction in pre-emptive reserves.

- Liberalization of the branch expansion policy.

- Introduction of prudential norms.

- Decline the emphasis laid on directed credit and phasing out the confessional rate of interest to priority sector.

- Deregulation of the entry norms for private sector banks and foreign banks.

- Permitting public and private sector banks to access the capital market.

- Setting up to asset reconstruction fund.

- Constituting the special debt recovery tribunals.

- Freedom to appoint chief executive and officers of the banks.

- Changes in the institutions of the board.

[8] Anushree A, Reforms in the Banking Sector | India | Bank Management, https://www.economicsdiscussion.net/banking/reforms-in-the-banking-sector-india-bank-management/27075

- Bringing NBFC, under the ambit of regulatory framework.

Phase II: Narasimham Committee II (April 1998)

(I) Capital Adequacy: - Minimum capital to risk asset ratio be increased from the existing 8 percent to 10 percent by 2002. - 100 percent of fixed income portfolio marked to market by 2001. - 5 percent market risk weight for fixed income securities and open foreign exchange position limits. - Commercial risk weight (100%) to government guaranteed.

(Ii) Asset Quality - Banks should aim to reduce gross NPAs to 3% and net NPA to zero percent by 2002. - Directed credit obligations to be decline from 40 percent to 10 percent. - Government guaranteed irregular accounts to be classified as NPAs and provide for. - 90 day overdue norms to be applied for cash based income recognition.

(III) Systems and Methods - Banks to start recruitment from market. - Overstaffing to be dealt with by redeployment and right sizing via VRS. - Public sector banks to be given flexibility in remuneration structure. - Introduce a new technology.

(IV) Industry Structure Only two categories of financial sector players to emerge. Banks and non Bank finance companies. - Mergers to be driven by market and business considerations. - Feeble banks should be converted into narrow banks

-Entry of new private sector banks and foreign banks to continue.

- Banks to be given greater functional autonomy & minimum government Shareholding 33 percent for State Bank of India, 51 percent for other Public Sector Banks.

(V) Regulation and Supervision –

-Board for financial regulation and supervision to be constituted with statutory Powers.

- Greater emphasis on public disclosure as opposed to disclosure to regulators.

- Banking regulation and supervision to be progressively de linked from monetary policy.

(VI) Legal Amendments - Broad range of legal reforms to facilitate recovery of problem loans. - Introduction of laws governing electronic fund transfer. Many of the important recommendations of Narasimham Committee II have been accepted and are under implementation the second generation banking reforms concentrate on strengthening the foundation of the banking system by structure technological up graduation and human resource development.

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[9] Pathak Bharti, ndian Financial System, 5/e, Chp 13, Pg. 461
https://books.google.co.in/books?id=kDVZDwAAQBAJ&pg=PA461&lpg=PA461&dq=Phase+II:+Narasimham+Committee+II+(April+1998)&source=bl&ots=9i5F94F8gg&sig=ACfU3U0KAn28Z-xnJ8jqt0Z82EGssgWWMA&hl=en&sa=X&ved=2ahUKEwiElPHJ0cjpAhUnwTgGHW5ABs0Q6AEwCnoECAgQAQ#v=onepage&q=Phase%20II%3A%20Narasimham%20Committee%20II%20(April%201998)&f=false

Chapter 4.

HISTORICAL PERSPECTIVE OF MERGERS AND ACQUISITION IN INDIAN SECTOR

HISTORICAL PERSPECTIVE OF MERGERS AND ACQUISITION IN INDIAN SECTOR

From 1903 to 1905:

History reveals that most of the mergers which took place in the first phase were considered unsuccessful as they were not efficient enough to attain the required standards, Then in 1903 the financial system of the world was shattered, followed by a stock market collapse in 1904, Even this phase experienced a rather bad experience, It was then that the apex judiciary body issued directions on the anti-competitive mergers. It stated that these mergers could be demerged by implementing the Sherman Act.

From 1916 to 1940:

The mergers and acquisitions process was triggered by the financial boom which came soon after the World War I. The expansions further helped in the various developments in the fields of science and technology. It also saw the emergence of infrastructure firms which provided services for required growth in railroads and transportation by automobiles, The government strategies laid in 1920s made the corporate ambiance supportive enough for firms to work in harmony; Financial institutions like government and private banks also played a significant part in aiding the mergers and acquisitions process. These were also horizontal mergers. But like before this phase also ended with a huge decline in the stock market which was further followed by great depression, From 1965 to 1970 These mergers were characterized by increasing stock and interest rates. During this phase the bidding companies were small in size and fiscal strength than the target companies. These kinds of mergers were sponsored mainly by equities and eliminating the roles of the banks. In 1968, the Attorney General decided to break the multinationals which resulted in the end of merging activities but was shattered decision because of the inefficient performance of the multinationals, but the mergers which became successful and made a mark came up in 1970s.

From 1981 to 1989:

This phase experienced acquisitions of companies which were much bigger in size as compared to the firms in previous phases. Oil and gas, pharmaceuticals, banking etc came up which were nationally or internationally merged. This phase came to an end with the introduction of anti acquisition laws, restructuring of fiscal organizations and the Gulf War.

From 1992 till 2000:

This period was stimulated by globalization, upsurge in stock market boom and deregulation policies. Major mergers were seen taking place between telecoms and banking giants out of which most were sponsored by equities. Now there was also experienced a change in the attitude of the industrialists and they started thinking it as a more profitable thing.

From 2001 till now:

Volume of mergers and acquisitions in India in 2007 are grew two fold from 2006 and four times compared to 2005. In 2007, the first two months alone accounted for merger and acquisition deals worth $40 billion in India. Promising economic trends, investments by corporate and revised government policies motivated the participation of many conglomerates to contribute in the acquisition trend_ This has led to a participation of different sector to enter into a merger or acquisition deal. Sector wise, large volumes of mergers and mergers and acquisitions in India have occurred in finance. telecoms. FMCG, construction materials, automotive and metals In the telecoms sector, an increase of stakes by Sing Tel from 26,96 % to 32.8 % in Bharti Telecoms was worth $252 million (Rs. 10.9 billion in Indian currency). In the Foods a controlling stake of Shaw VVallace and Company was acquired by United Breweries Group owned by Vijay Mallya.

In the banking sector, important mergers and acquisitions in India in recent years include the merger between IDBI and its own subsidiary IDBI Bank. Then it was acquisition of centurion bank of Punjab by HDFC bank in 2008 and ICICI bank acquired Bank of Rajasthan in 2010. Considerably influenced by the merger and acquisition trends and they are further interested in Indian markets. The process of mergers and acquisitions has gained substantial importance in today's corporate world. This process is extensively used for restructuring the business organizations. In India, the concept of mergers and acquisitions was initiated by the government bodies. All over the world, in developing as well as developed countries. Number of mergers and acquisitions are recorded every year.

The recent trends suggest that most of the mergers and acquisitions actually led to the decrease in number of public undertakings and increase in number of private enterprises. This happened as many public organizations all over the world, were either merged into or acquired by big private institutions. The reason of this particular Merger and Acquisition Trend was the emergence and rapid growth of Private Equity Funds. Moreover, the regulatory environment of the publicly owned companies and the urge to attain growth of short term earnings were also behind the specific trend of Mergers and acquisitions. Mergers and acquisitions resulting into privatization of the public undertakings took place not only in Europe, but also in North America, China and even in country like Brazil. In Europe this type of Mergers and acquisitions took place significantly, as the market for public-to-private investment was quite strong in Europe. India is arguably the world's most promising emerging market, on its current growth scenario; India is expected to become the world's third largest economy by 2050.[10]

[10] K. Subhashree and M. Kannappan, Merger and Acquisition in Banking Industry, International Journal of Pure and Applied Mathematics Volume 119 No. 17 2018, 1009-1022

Chapter 5.

PUBLIC SECTOR BANK AND ITS CONCEPT

PUBLIC SECTOR BANK AND ITS CONCEPT

With the nationalization of Imperial Bank of India in the year 1921, Public Sector in the banking industry emerged and thus started the creation of State Bank of India in an around 1955 for integrated scheme of rural credit purposed by the All India Rural Credit Survey Committee (1951). There are various kinds of pros and unequalled features of the Bank with one being working as RBI's agent wherever RBI has no branches. It is the single biggest bank in the nation with huge worldwide presence, with a system of 48 abroad workplaces spread more than 28 nations covering constantly zones. One of the targets of building up the SBI was to give broad financial offices in country territories by opening as an initial step 400 branches inside a time of 5 years from July 1, 1955. In 1959, eight banking companies working in previously regal states were obtained by the SBI, which later came to be known as Associate Banks. Afterward, two of the subsidiary banks', viz., the State Bank of Bikaner and Jaipur were merged to form the State Bank of Bikaner and Jaipur, along these lines structure eight banks in the SBI group at that point making banks in the state bank gathering. [11]

The Public sector in the Indian banking got augmented with two rounds of nationalization-first in July 1969 of 14 major private sector banks each with deposits of Rs.50 crore or more, and from that point in April 1980, 6 additional banks with stores of at least Rs. 2 Crore each. It brought about the formation of public sector saving money with a market share of 76.87 percent in stores and 72.92 percent of assets in the financial business toward the finish of March 2003. With the merger of 'New Bank of India' with 'Punjab National Bank' in 1993, the quantity of nationalized banks got 19 and the quantity of public sector banks 27. By Mach 1990, within 30 years the number of public sector banks rose to 41,874 from 6,669 and again to 46,752 by March 30, 2003. The public sector banks along these lines came to involve an overwhelming situation in the Indian banking scene. It is in any case, critical to take note of that there has been a consistent decrease in the share of PSB's in the total assets of SCB's during the latter half - half of 1990s. While their offer was 84.5 percent toward the finish of March 1996, it reduced to 81.7 percent in 1998 and further to 81 percent in 1999.[12]

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[11] R. K. Raul, Jaynal Uddin Ahmed, Public Sector Banks in India: Impact of Financial Sector Reforms, Chp 3, (2005) https://books.google.co.in/books?id=HWdoXW0-sc8C&pg=PA269&dq=public+sector+bank+and+its+concept&hl=en&sa=X&ved=0ahUKEwi_kYSz08jpAhUDSX0KHWLKDGsQ6AEIODAC#v=onepage&q=public%20sector%20bank%20and%20its%20concept&f=false

[12] Ed, Management Association, Information Resources, Banking, Finance, and Accounting: Concepts, Methodologies, Tools, and Applications, https://books.google.co.in/books?id=axiXBQAAQBAJ&pg=PA428&dq=public+sector+bank+and+its+concept&hl=en&sa=X&ved=0ahUKEwi_kYSz08jpAhUDSX0KHWLKDGsQ6AEISTAE#v=onepage&q=public%20sector%20bank%20and%20its%20concept&f=false

Monetary Health

Over some undefined time frame, the monetary strength of PSBs ceaselessly to disintegrate bringing about decrease in their effectiveness. Since such a significant number of commitments, monetary and social, are forced on PSBs, it was figured, that their exhibition ought not be judged just as far as benefits. Since 1969, PSBs started to play a huge and predominant beneficial job to the administration programs in mitigating neediness, work creation and age of new assets for improvement. They have been exceptionally effective in accomplishing their important goal of store furthermore, credit extension. Their investment in need area loaning is exceptionally exemplary: In June 1969, just before nationalization the portion of need area in all out credit of SCBs was insignificant 14 percent (Rs. 504 crore). By March 2002, with the monstrous contribution of PSBs their extraordinary loaning to need area had scaled to Rs. 1,71,185.26 crore. As a percent of net bank credit the same was 43.1 percent as against the ordered 40 percent as far as gainfulness, the SBI bunch has recorded a consistent ascent in net benefits from Rs. 244 crore in 1991-92 to Rs. 2,222 crore in 2000-01 and Rs. 4,512 crore in 2002-03. In the instance of 19 nationalized banks, gainfulness has consistently been low.[13]

During 1992-93 and 1993-94 these banks really presented tremendous misfortunes on the tune of Rs. 3,513 crore and Rs. 4,705 crore :separately. It is conceivable to protect the low productivity by 'alluding to their promise to social commitments forced by the Government: with respect to occurrence opening country branches in huge numbers, financing destitution easing programs at concessional paces of intrigue, need area loaning to the degree of 40 percent colossal NPAs, and so on. Because of their association in social banking and different factors, for example, coordinated speculation, the condition of wellbeing of these banks came up short. The net benefit as a percent of Complete resources became 0.99 percent in 1992-93 and 1.1 percent in 1993-94. Additionally, the net benefit as a percent of Total resources of 19 nationalized banks was 1.71 percent in 1992-93 and 9.8 percent in 1993-94. Preceding change period, gainfulness was not considered as the million goals of PSBs. The arrival on resources of PSBs doesn't contrast negatively and that of banks somewhere else. As per information gave by the Bank to International Settlements (BIS) 1999, return on resources, characterized as benefit before charge moved from 0.08 to 1.07 in Euro zone in 1998 with most nations covering around the 0.5 imprint even on free tax basis.

The Government of India has been making budgetary arrangements a seemingly endless amount of time after year for recapitalization of nationalized banks since 1984-85 their capital base has

[13] Sangeeta Arora, Marketing of Financial Services, (2005) https://books.google.co.in/books?id=mtelA2CEOC0C&pg=PR11&dq=public+sector+bank+and+its+concept&hl=en&sa=X&ved=0ahUKEwi_kYSz08jpAhUDSX0KHWLKDGsQ6AEIYDAH#v=onepage&q=public%20sector%20bank%20and%20its%20concept&f=false

disintegrated. The all out recapitalization of Rs. 2446 Crore occurred from 1985-86 to 2000-01. The Re-capitalisation measure was attempted in three stages. In the stage I, i.e., in the pre-change period from 1984-85 to 1992-93, all the nationalized banks were recapitalized consistently to meet their capital necessities with no preset standard what are more, uncommon protections (interminable at loan cost of 7.75 percent) were distributed to the banks. The yearly exercise in the Phase I period included a distribution of Rs. 4000 crore. Stage II was time of two years, 1993-94 and 1994-95, when banking area changes were being given a major push and recapitalization of all nationalized banks must be agreed need. Under an all around planned recuperation program in general Rs. 10,987 crore were infused as money capital into the banks to reimburse the harm of the past.

Privatization

The banking sector changes looked to improve gainfulness of banks by bringing down pre-feelings and to reinforce the financial framework through organization of capital ampleness standards, notwithstanding pay acknowledgment, resource arrangement and provisioning prerequisites in accordance with the global norms. Rivalry is tried to be advanced through the passage of new private area banks and that's only the tip of the iceberg liberal passage of outside banks. PSBs needed to make part of progress in their work culture and in their innovation and so forth to have the option to contend with the new participants with forceful promoting rehearses.

One approach to fulfill capital adequacy norms for these banks is to approach the capital market to raise value. Until 1991-92, all PSBs are claimed by the Government. After the change procedure was started, the Governments stake was allowed to be diminished to 51 percent. The Committee on Banking Sector Reforms (1998) prescribed that PSBs should get to market to address their issues of capital what's more, for the reason, the base shareholding by the Government/RBI ought to be brought down to 33 percent from the current legal least of 51 percent. Till 2000-01, upwards of 12 PSBs got to capital market and raised a measure of Rs. 64 Crore. The State Bank of India alone raised through open issue over Rs. 2200 Crore bym open issue of value offers and Rs. 1,000 Crore through bond issue in December 1993 and January 1994. The decrease in government stake in PSBs sums to halfway privatization of banks.[14]

Branch Expansion

Indian financial framework is overwhelmingly branch-banking framework. After nationalization of significant banks, for about have a long time there had been monstrous branch extension, principally with the goal of covering the unbanked focuses in provincial and semi-urban focuses, combined with concentrated branch organize in metro urban focuses to support productivity. In the decade that followed 1990 (change period) it was felt that erratic development ought to be contained '.and there ought to be subjective system in branch banking. The Narasimham

[14] Ed., Siddhartha Sarkar, International Journal of Economics and Business Studies: Volume 1, Number 1,

Committee-I suggested that branch permitting be nullified and the matter of opening and shutting branches are left to business judgment of individual banks. This suggestion was halfway executed. In spite of the fact that branch permitting has not been canceled, more noteworthy operational opportunity has been given to singular banks to open certain specific branches just as growing branches in a progressively methodical route in its land saved. Recently, the financial framework has been progressively looking towards innovation based conveyance channels and dynamic decrease of physical branches to the degree conceivable.[15]

A Bank is a monetary foundation which is authorized to get the stores and loan advances to the destitute. The banks additionally perform different capacities as money trade, riches the board, budgetary assistance, safe deposit boxes, etc. The fundamental capacity of a bank separated from accepting deposits and loaning cash to organizations and people includes dispensing installments, protecting cash and putting the assets in protections.

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[15] A.B. Singh, Public Sector Reforms in India: A Case Study of ONGC, https://books.google.co.in/books?id=MBYNJ1y_aRoC&pg=PA27&dq=public+sector+bank+and+its+concept&hl=en&sa=X&ved=0ahUKEwi_kYSz08jpAhUDSX0KHWLKDGsQ6AEIbzAJ#v=onepage&q=public%20sector%20bank%20and%20its%20concept&f=false

Chapter 6

TYPES OF BANKS

TYPES OF BANKS

Banks are characterized into grouped into four classifications –

- Commercial Banks
- Small Finance Banks
- Payments Banks
- Co-operative Banks[16]

Commercial Banks:

Commercial Banks can be additionally characterized into public sector banks, private sector banks, foreign banks and Regional Rural Banks (RRB). Whereas, cooperative banks are grouped into rural and urban. Aside from these, a genuinely new expansion to the structure has come up is the payments bank.

Small Finance Banks:

This is a specialty banking portion in the nation and is intended to give money related incorporation to segments of the general public that are not served by different banks. The primary clients of small finance banks incorporate micro industries, little and peripheral farmers, sloppy division substances and independent company units. These are authorized under Section 22 of the Banking Regulation Act, 1949 and are administered by the provisions of RBI Act, 1934 and FEMA.

Payments Bank

This is a moderately new model of bank in the Indian Banking industry. It was conceptualized by the RBI and is permitted to acknowledge a limited deposit. The sum is right now constrained to Rs. 1 Lakh for every client. They additionally offer administrations like ATM cards, credit cards, net-banking and mobile banking.[17]

Co-operative Banks:

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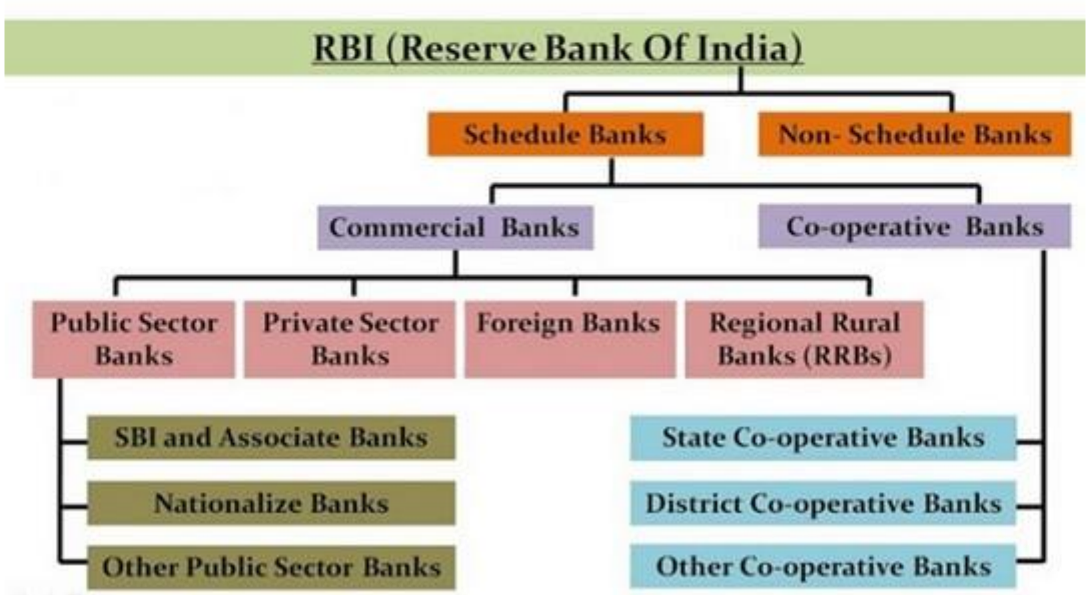
[16] Raj K. Gupta, Banking Law and Practice, Volume 2, (2004)

[17] Different types of banks in India, explained, livemint, last updated 16th Sept, 2015,

https://www.livemint.com/Industry/xTuU1VicSbsCVvspNf1wtK/Different-types-of-banks-in-India-explained.html

Co-operative banks are registered under the Cooperative Societies Act, 1912 and they are controlled by a chosen overseeing council. These work on no-benefit no-misfortune and mainly serve entrepreneurs, small businesses, ventures and independent work in urban territories. In provincial regions, they predominantly account agribusiness based exercises like cultivating, domesticated animals and incubation facilities.

Public sector banks are divided into two groups i.e. Nationalized Banks and State Bank of India and its associates. They are the ones in which the government has a major holding. Among the two groups, there are 19 nationalized banks and 8 State Bank of India associates. Public Sector Banks dominate 75% of deposits and 71% of advances in the banking industry. Public Sector Banks dominate the commercial banking India. These can be further classified into:[18]



Public Sector Banks

As the name suggests, are the nationalised banks and covers more than 75 per cent of the total banking business in the country. Therefore, its evident to say that majority of stakes in these banks are held by the government. In terms of volume, SBI is the largest public sector bank in India and after its merger with its 5 associate banks (as on 1st April 2017) it has got a position among the top 50 banks of the world.

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18 R. K. Raul, Jaynal Uddin Ahmed , Public Sector Banks in India: Impact of Financial Sector Reforms, Chp 3 (2005)

Nationalization alludes to the exchange of public sector assets to be worked or possessed by the state or focal government. In India, the banks which were formerly working under private area were moved to the open segment by the demonstration of nationalization and therefore the nationalized banks appeared. On July 19, 1969, government nationalized 14 banks.

In 1980, 6 more private banks were nationalised.

- “State Bank of Saurashtra was merged with SBI on 13 August 2008.
- State Bank of Indore was acquired by State Bank of India on August 27, 2010.
- The State Bank of Bikaner & Jaipur, State Bank of Hyderabad, State Bank of Mysore, State Bank of Patiala and State Bank of Travancore, and Bharatiya Mahila Bank were merged with State Bank of India with effect from 1 April 2017.
- Vijaya Bank and Dena Bank were merged into Bank of Baroda in 2018.
- IDBI Bank was categorised as a private bank with effect from January 2019.
- In April 2019, Vijaya Bank and Dena Bank were merged with Bank of Baroda
- On 30 August 2019, Union Finance Minister Nirmala Sitaraman announced a merger of six public sector banks (PSBs) with four better performing anchor banks. This merger will be effective from 1 April 2020. The banks are being merged in order to streamline their operation and size, two banks were merged to strengthen the national presence and four were amalgamated to strengthen regional focuses.
- Indian Bank is to be merged with Allahabad Bank (anchor bank – Indian Bank)
- PNB, OBC and United Bank are to be merged (anchor bank – PNB)
- Union Bank of India, Andhra Bank and Corporation Bank are to be merged (anchor bank – Union Bank of India)
- Canara Bank and Syndicate Bank are to be merged (anchor bank – Canara Bank)”[19]

[19] https://economictimes.indiatimes.com/industry/banking/finance/banking/sbi-to-merge-state-bank-of-indore-with-itself/articleshow/4678404.cms?from=mdr Last Updated: Jun 20, 2009,

Reasons for the Nationalization of Banks

• For Social Welfare

• For Developing Banking Habits

• For Expansion of Banking Sector

• For Controlling Private Monopolies

• To Reduce Regional Imbalance

• For Prioritizing Sector Lending

Currently there are following 19 nationalised banks in India as per the RBI website:

- Allahabad Bank
- Andhra Bank
- Bank of Baroda
- Bank of India
- Bank of Maharashtra
- Canara Bank
- Central Bank of India
- Corporation Bank
- Indian Bank
- Indian Overseas Bank
- Oriental Bank of Commerce
- Punjab & Sind Bank
- Punjab National Bank
- Syndicate Bank
- UCO Bank
- Union Bank of India
- United Bank of India[20]

[20] Reserve Bank of India, https://www.rbi.org.in/commonman/English/Scripts/BanksInIndia.aspx

A public sector enterprise is an organisation which is:

Is under the top administrative control of owning public authorities,

Owned by public authorities including Central, State or Local authorities, to the extent of 50% or more,

Is set up for the accomplishment of a clear arrangement of public purpose

Is thusly positioned under an arrangement of public responsibility

Is occupied with a movement of business character.

Private Banks:

These include banks for which significant stake or value is held by private shareholders. All the financial guidelines and guidelines set by the RBI will be pertinent on private sector banks too.

Foreign Bank:

A foreign bank is one that has its central station in an outside nation however works in India as a private substance. These banks are under the commitment to follow the guidelines of its nation of origin just as the nation in which they are working.[21]

Region Rural Banks:

These are like the scheduled commercial banks yet they are set up with the principle goal of giving credit to poorer sections of the general public like agrarian workers, marginal farmers and small enterprises. They for the most part work at territorial levels in various States of India and may have branches in chosen urban territories also. Other significant capacities completed by RRBs incorporate

Giving banking and money related administrations to rustic and semi-urban zones

Government activities like dispensing of wages of MGNREGA laborers, dispersion of benefits, and so forth.

Para-Banking offices like debit cards, credit cards and locker facilities.

[21] Banking, https://www.paisabazaar.com/banking/, last updated: 16th January, 2020

Chapter 7

MAJOR NATIONALIZED BANKS IN INDIA

MAJOR NATIONALIZED BANKS IN INDIA

The major nationalized banks in India are State Bank of India (SBI), Punjab National Bank (PNB), Bank of Baroda (BOB), Canara Bank, Union Bank of India and so on.

The State Bank of India is prevalently known as SBI was framed when the Bank of Madras merged into two other presidency banks - the Bank of Calcutta and the Bank of Bombay in January 1921, to shape the Imperial Bank of India. Afterwards, this was later renamed as the State Bank of India on July 1, 1955, when the Indian Government gained 60% stake in Imperial Bank of India. The State Bank of India is the greatest public sector based bank in India with a piece of the overall industry of 23% as far as resources, aside from holding a portion of 1/fourth in the complete advances and stores markets.

The State Bank of India is excluded under the rundown of nationalized banks as it was at that point a state-claimed money related establishment (state-owned financial institution) in the nation at the hour of its origin. Mumbai, is its headquarters which is the budgetary capital of India. The State Bank of India's Net Sales Turnover for March 2018 remained at Rs 2,20,499.31 crores as against Rs 1,75,518.24 crores during March 2017, up by 25.63%.[22]

Andhra Bank

Andhra Bank is one of the medium-sized public sector bank present in India which began its activities in the year 1923. The Government of India claims 63.97% of the bank's stake as offer capital. It has a system of 2803 branches in the nation. The all out salary of the bank contacted Rs 20,346.60 crore in March 2018. The head office of Andhra Bank is situated in Hyderabad.

Allahabad Bank

The Allahabad Bank was started during 1865, in Allahabad by a gathering of Europeans. It is headquartered in Kolkata. it is one of the most established joint stock bank present in India, withstanding tempestuous occasions since beginning. The bank's business contacted INR 3.8 trillion during 2017-2018. It has in excess of 3245 branches spread the nation over.

22 K. R. Venugopal, Fiscal and Monetary Reforms in India, (2007) https://books.google.co.in/books?id=2Q5cXHzlCaEC&pg=PA171&dq=major+nationalised+banks+in+india&hl=en&sa=X&ved=0ahUKEwibgqGy38jpAhUtyTgGHZL9BwgQ6AEIXzAH#v=onepage&q=major%20nationalised%20banks%20in%20india&f=false

Bank of India

It was in the year 1906, that the Bank of India came into existence when a group of distinguished businesspeople met up to begin a bank. The bank has a system of 5100 branches spread over the length and expansiveness of India as on January 2017. Mumbai is its headquarters. The bank was begun with an underlying settled up capital of Rs 5 million ($75,000) and about 50 employees with one office in Mumbai.[23]

Bank of Maharashtra

Bank of Maharashtra has the biggest system of branches in the territory of Maharashtra. The bank has an expected 15 million clients over the globe. The bank was established in the year 1935 in Pune by V.G. Kale and D.K. Sathe. It got the status of Schedule Bank during 1944. The bank increased self-sufficient (autonomous) status in the year 1998 which has prompted the decrease of impedance of government organization in its inner issues and the dynamic procedure.

Canara Bank

Canara Hindu Permanent Fund was built up by Ammembal Subba Rao Pai in Mangalore during 1906. It was later renamed as Canara Bank Limited in the year 1910 during its joining. It is categorised as the oldest public sector bank. The Government of India nationalized Canara bank during 1969 shaping it as one of the greatest public sector banks solely owned by the government of India in the country.

The bank has a chain of 6639 branches and 10600 ATM's across different areas in India. The Canara Bank built up a universal division abroad nearly in 1976. As for today, the bank has its branches situated in various locations abroad over the globe with the noticeable ones arranged in South Africa, Dubai, New York, Doha, London, Shanghai, Hong Kong, Bahrain, Tanzania, Moscow.

Bengaluru, Karnataka is its headquarters.[24]

Central Bank of India

It was by Sir Sorabji Pochkhanawala, that the Central Bank of India was established during 1911. Then after seven years, the bank established a branch in Hyderabad. In totality, the bank

[23] Sanjeev Joon, Nationalised Banks: Clerical examination, https://books.google.co.in/books?id=LkdvtaMjim0C&pg=PR5&dq=major+nationalised+banks+in+india&hl=en&sa=X&ved=0ahUKEwjcic-f4MjpAhXFR30KHZULBw84ChDoAQg4MAI#v=onepage&q=major%20nationalised%20banks%20in%20india&f=false

[24] M. V. Kamath, A Banking Odyssey, the Story of Canara Bank

has a network of 4715 branches and 5319 ATMs spread the nation over. The bank was instrumental in making the principal Indian exchange bank known as the Central Exchange Bank of India during 1936 which began its tasks in London city. The bank is viewed as the primary business Indian Bank which was totally had and taken care of by Indians. The bank has many satellite workplaces which are spread over the length and expansiveness of the nation.

Central Bank of India's headquarters is situated in Nariman Point, Mumbai.
The bank's deposits declined to Rs 294,838.86 crores in March 2018 from the previous record of Rs 296,671.19 crores during March 2017. The borrowings of the bank stood at Rs 5,706.12 crore as on March 2018.

Corporation Bank

It is headquartered in Mangalore, India. Khan Bahadur Haji Abdullah Haji Kasim Saheb Bahadur started the Corporation Bank as the founding president. The bank started its excursion in 1906, with an underlying seed capital of Rs 5,000. It is probably the most established bank in India. The bank to its differentiation has a structure of 2440 completely robotized Core Banking Solutions (CBS) branches extended across the nation. The bank is one of the noticeable public sector banks in India.

The Corporation bank witnessed a decline in the deposits during March 2018 at Rs 183,315.95 crores as against Rs 220,559.62 crores in March 2017.

Chapter 8

MERGER OF PUBLIC SECTOR BANKS IN INDIA

MERGER OF PUBLIC SECTOR BANKS IN INDIA

The union of SBI-related banks began first by State Bank of India blending its subsidiary State Bank of Saurashtra with itself on 13 August 2008. Thereafter it merged State Bank of Indore with itself on August 27, 2010. The rest of the subsidiaries, to be specific the State Bank of Bikaner and Jaipur, State Bank of Hyderabad, State Bank of Mysore, State Bank of Patiala and State Bank of Travancore, and Bharatiya Mahila Bank were merged with State Bank of India with impact from 1 April 2017.

Vijaya Bank and Dena Bank were merged into Bank of Baroda in 2018. IDBI Bank was classified as a private manage an account with impact from January 2019.

On 30 August 2019, Finance Minister Nirmala Sitharaman declared the administration's arrangement for additional union of open area banks: Indian Bank's merger with Allahabad Bank (grapple bank - Indian Bank); Punjab National Bank's merger with Oriental Bank of Commerce and United Bank (stay bank - Punjab National Bank); Union Bank of India's merger with Andhra Bank and Corporation Bank (grapple bank - Union Bank of India); and Canara Bank's merger with Syndicate Bank (grapple bank - Canara Bank). The mergers produced results from 1 April, 2020.[25]

Public Sector Banks

Public Sector Banks (Government Shareholding %, as of 1st April, 2020)

1. State Bank of India (61.00%)
2. Bank of Baroda (63.74%)
3. Union Bank of India (67.43%)
4. Punjab National Bank (70.22%)
5. Canara Bank (72.55%)
6. Punjab & Sind Bank (79.62%)
7. Indian Bank (81.73%)
8. Bank of Maharashtra (87.01%)
9. Bank of India (87.0535%)
10. Central Bank of India (88.02%)
11. Indian Overseas Bank (91%)

[25] Raj Kapila and Uma Kapila, Economic Developments in India, https://books.google.co.in/books?id=Pg0herSTULMC&pg=PA103&dq=MERGER+OF+PUBLIC+SECTOR+BANKS+IN+INDIA&hl=en&sa=X&ved=0ahUKEwjZyO7q4cjpAhWZWisKHSvaAMoQ6AEIQTAD#v=onepage&q=MERGER%20OF%20PUBLIC%20SECTOR%20BANKS%20IN%20INDIA&f=false

12. UCO Bank (93.29%)[26]

Payments Bank (PB)

- India Post Payments Bank (IPPB) (100%)

Mergers and Acquisitions: Defined

Mergers and Acquisitions are the formal business transactions that involve the purchase of one company by another. This process dates back to the late 19th century. Yet mergers and acquisitions remain intriguing business paradoxes of recent times (Langoford & Brown III, 2004). [27]

Different researchers have defined mergers and acquisitions differently as under:-

According to researchers (Ganghan, 2002), (Chundai Chen & Findlay, 2003 & Jagersma, 2005) ―Mergers are the compression of two or more companies in creation of a new entity or formation of a holding company‖ ―Acquisition is the purchase of shares or assets another company to achieve a managerial influence not necessarily by mutual agreement‖ ―A merger or Amalgamation results in the combination of two or more companies into one, where in the merging entities lose their identities by being absorbed into the merged entity. No fresh investment is made through this process. However, an exchange of shares takes place between the entities involved in such a process. Generally, the company which survives is the buyer, and the buyer retains its identity. On the contrary the seller company is extinguished‖. ―Acquisition on the other hand, is aimed at gaining a controlling interest in the share capital of the acquired company. It can be enforced through an agreement with some persons holding a majority interest in the company, management or through purchasing shares in the open market or purchasing new shares by private treaty or by making a takeover offer to the general body of shareholder‖ (Ramaiya, 1977). [28]

The integration of two organisations is an interactive and gradual process in which individuals of both the sides learn to work together and co-operate in the transfer of resources and capabilities.

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[26] India TV News Desk, BIG BANK MERGER: 10 public sector banks turn into 4. Key points bank customers must know, Last Updated: 1st April, 2020, https://www.indiatvnews.com/business/news-ten-public-sector-banks-merger-today-april-1-rbi-state-bank-of-india-pnb-oriental-bank-of-commerce-coronavirus-lockdown-603331

[27] Paulina Junni, Mergers and acquisitions, (2019), https://www.researchgate.net/publication/333389497_Mergers_and_acquisitions

[28] B. K. Bhoi, Mergers and Acquisitions: An Indian Experience, Reserve Bank of India Occasional Papers Vol. 21, No. 1, Summer, 2000, https://rbidocs.rbi.org.in/rdocs/Publications/Pdfs/18577.pdf

The success of the integration process depends on co-operation as the integration process depends on co-operation and requires the ability to address conflicts and various human resource problems. Transferring and integrating resources during the post mergers and acquisitions integration are difficult because of cultural differences that create conflicts, communication problems, employee resistance, and the turnover of acquired talent and executives (Walsh, 1989; Weber etal 1996; and Lubatkin et al. 1999).

Despite being an important concern, they remain secondary consideration during many M & As transactions. Ashkenas et. Al (1998) wrote ―The tendency to see integration as a unique event in an organisation‘s life is magnified by the fact that acquisition and mergers are often painful and anxiety-producing experiences. They involve job loss, restructured responsibilities, derailed careers, diminished power, and much else also is stressful. No wonders that most managers think of getting over them and not how to make them better the next time‖ Post M & A integration is a complication, touchy and multi – faceted function that combines such things as changes in management, task management and people integration (Maire and collerette, 2011). [29]

According to investor‘s chronicle, ―Usually the first and often only reason chief executives who think they are worth their salt will give to justify a takeover is that it will enhance earnings‖ since profits from the acquired business need only to exceed interest payment to boost earning. As defined by (Pablo, 1994), ―Post M & As integration means new functional activities, organisational structures and cultures of the acquiring and acquired firms. Unless the acquisition is motivated by purely financial reason to lower the cost of capital post – acquisition integration plays an important role in determining the acquisition results‖. (Haspeslagh and Jemison, 1991), Mergers & Acquisitions are among the most convincing methods of corporate restructuring and have, therefore, become an fundamental part of the long-term business procedure of corporates.

The M & A‘s activity has its impact on various assorted groups such as corporate management, shareholders and investors, investment bankers, regulators, stock markets, customers, government and taxation authorities and society at large. Mergers and Acquisitions are two frequently used methods for implementing diversification strategies. A merger takes place when two companies amalgamate their operation, creating in effect, a third company. An acquisition is a situation in which one company buys, and controls another company[30].

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[29] David B. Jemison and Sim B. Sitkin, Acquisitions: The Process Can Be a Problem, Harvard Business Review, https://hbr.org/1986/03/acquisitions-the-process-can-be-a-problem

[30] Tom Allen, An Overview of M&A Valuation Methods - the Right Price, March 03, 2017, https://blog.midaxo.com/project/an-overview-of-mna-valuation-methodologies

Merger

The types of Mergers and their Probable Outcomes:

A) Vertical Mergers –
In this type of merger, the firm purchases one of its suppliers or gets into a merger with one of its customers. The former is a 'backward merger' and the latter may be termed as a 'forward merger'. An acquired firm generally comes under the acquiring firm's corporate area, which is why their most interaction remains at the corporate level in simple sense, a merger between two companies producing different goods or services for one specific finished product is a vertical merger. Example: Merger between Time Warner Incorporated, a major cable operation. And the Turner Corporation, which produces CNN, TBS, and other programming. In the merger, the Federal Trade Commission (FTC) was alarmed by the fact that such a merger would allow Time Warner to monopolize much of the programming on television ultimately, the FTC voted to allow the merger but stipulated that the merger could not act in the interests of anti-competitiveness to the point at which the public good was harmed.

B) Horizontal Mergers - A horizontal merger is when two companies competing in the same market merge or join together. Under this type of merger, one company acquires another whose product or service is closely related or of the same type. This type of merger can either have a very large effect or little to no effect on the market. When two extremely small companies combine, or horizontally merge, the results of the merger are less noticeable. These smaller horizontal mergers are very common. Horizontal mergers may negatively affect the competitive situation in an industry. Therefore, they frequently run afoul of regulatory officials. A horizontal merger often increases the degree of concentration in an industry. Example: This type of merger occurs frequently as a result of larger companies attempting to create more efficient economies of scale. The amalgamation of Daimler-Benz and Chrysler is a popular example of a horizontal merger. [31]

C) Conglomerate Mergers - Conglomerate Mergers involve firms engaged in unrelated types of business activity. Among conglomerate Mergers, three types have been distinguished. Product extension Mergers broadens the product lines of firms. These are Mergers between firms in related business activities and may also be called concentric Mergers. A geographic market extension merger involves two firms whose operations have been conducted in no overlapping geographic areas. The third one referred to as pure conglomerate Mergers involves unconnected or unrelated business activities under a single banner. Conglomerate Mergers have the potential for improved resource allocation in financial conglomerates; managerial and concentric conglomerates have the potential for synergy and transfer of managerial capabilities. Example: if

[31] Rosemary Carlson, What Are Horizontal and Vertical Mergers?, Updated July 29, 2019, https://www.thebalancesmb.com/horizontal-and-vertical-mergers-explained-392846

an auto manufacturer and a motorcycle manufacturer merge, the merger is a concentric one. Although both industries serve the transportation needs of their customers, the two are quite unique in their competitive structures. In concentric mergers there is a tendency to combine some operations, especially departments focused on technology and marketing. This will result in the sharing of expertise between the two firms, which may be resisted by the employees of both firms. The best way to overcome this construction industry. [32]

D) Congeneric Mergers - These mergers happen between entities engaged in the same general industry and somewhat interrelated, but having no common customer-supplier relationship. A company uses this type of merger in order to use same sales and distribution channels their and to reach the customers of both businesses.

E) Cash Merger - In a typical merger, the merged entity combines the assets of the two companies and grants the shareholders of each original company shares in the new company based on the relative valuations of the two original companies. However, in the case of a 'cash merger', also known as a 'cash-out merger', the shareholders of one entity receives cash in place of shares in the merged entity. This is a common practice in cases where the shareholders of one of the merging entities do not want to be a part of the merged entity. [33]

F) Triangular Merger - A triangular merger is often resorted to for regulatory and tax reasons. As the name suggests, it is a tripartite arrangement in which the target merges with a subsidiary of the acquirer. Based on which entity is the survivor after such merger, a triangular merger may be forward (when the target merges into the subsidiary and the subsidiary survives), or reverse (when the subsidiary merges into the target and the target survives)

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[32] Conglomerate Merger, https://efinancemanagement.com/mergers-and-acquisitions/conglomerate-merger

[33] Gurminder Kaur, Corporate Mergers and Acquisition, https://books.google.co.in/books?id=uAIwXXz1SJoC&pg=PA24&dq=Congeneric+Mergers&hl=en&sa=X&ved=0ahUKEwjbnb-l58jpAhXJYisKHRmzCScQ6AEIMTAB#v=onepage&q=Congeneric%20Mergers&f=false

The succession of two or more companies which can be amalgamated together either by way of amalgamation or absorption58 is called a merger. This act of bringing together of two or more companies, is usually done with the act of giving various stockholders of one company securities in the attaining company in exchange for the surrender of their stock. The following are the types of Mergers:

- HORIZONTAL MERGERS OR ACQUISITIONS

The combining of two or more companies or banks that have similar products or services in relation to technology, production line, distribution channels, or customer base is called horizontal merger. Such mergers are formed to achieve economies of scale, and it resulted in dropping the number of competitors in the industry.

- CONCENTRIC MERGERS OR ACQUISITIONS

It is a combination of two or more firms somewhat selected to each other in terms of customer functions, groups, production processes, or technologies used. An example of concentric merger is of the motor manufacturer who also decides to manufacture firm machinery.

- VERTICAL MERGERS OR ACQUISITIONS

Vertical mergers connote the combining of two or more organizations for enabling an organization into either supplying products or providing services required to produce its present products or services or into distributing or selling its own products and services or it is a merger that occur with the amalgamation of two companies working in the same industry but at different stages of production or distribution system. If a company takes over its supplier or the producers of raw material, it can bring about backward integration of its activities. On the contrary, forward integration may also result if a company arrives at a decision to take over the retailer or customer company. These mergers offer means for total integration of those business firms that strive for owning every phase of the production schedule along with the marketing network. [34]

- CONGLOMERATE MERGERS OR ACQUISITIONS

It is combination of two or more banks or firms unrelated to each other. Rather than concentrating on having a common threed running through their organisation, top management who pursue this strategy are chiefly concerned with the rate of return. This is a merger which happens upon the combination of two companies which are operating in the same industry but at different stages of production or distribution system.

- FRIENDLY MERGERS AND ACQUISITIONS

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[34] Mergers And Acquisitions, Ministry of Corporate Affairs, http://www.mca.gov.in/MinistryV2/mergers+and+acquisitions.html

For accomplishing it, the stockholders and management of both organizations agree that the combination will benefit both firms, and then they work in unison for ensuring its success.

- HOSTILE MERGERS AND ACQUISITIONS

Such mergers and acquisitions result when the organizations to be acquired (also sometimes called the target company) shows reluctance towards the attempts related to its acquisition. [35]

- DEMERGER

The act of splitting off a part of an existing company to become a new company, which operates completely separate from the original company. Shareholders of the original company are usually given an equivalent stake of ownership in the new company. A demerger is often done to help each of the segments operate more smoothly, as they can focus on a more specific task. It is a basically opposite of merger.

- REVERSE MERGER

Reverse merger is that merger, where private sector can bypass the lengthy and complex process of going public sector. A reverse merger (also known as reverse takeover or reverse IPO) is a way for private sector to go public, typically through a simpler, shorter and less expensive process. [36]

- DISINVESTMENT

It means to sell of certain assets. It also refers to reduction of capital expenditure, which can expedite the re-allocation of resources to mere productive areas within an organisation or government –funded project known as "divestiture".

- TAKEOVER/ACQUISITION

Takeover is that process when an acquirer takes over the control of the targeted Company. Takeover is also known as an acquisition. Popularly this type of acquisition is undertaken for achieving supremacy in the market. This takeover may be friendly or hostile.

- FRIENDLY TAKEOVER

In a type of take-over, one company takes over the management of the targeted company with the permission of the board of the director of that Company.

- HOSTILE TAKEOVER

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[35] Friendly Takeover, https://corporatefinanceinstitute.com/resources/knowledge/deals/friendly-takeover/

[36] Amalgamation, merger or demerger of a company, https://www.pwc.com/sk/en/pwc-legal/amalgamation-merger-or-demerger-of-a-company.html

Hostile takeover is that takeover where one Company takes over the management of the targeted Company without its knowledge and against the wishes of its management.

- JOINT VENTURE (JV)

A joint venture is that process which is created by two or more Companies for undertaking any financial activity together. The parties agree to contribute equity for creating a new entity and sharing the revenues, expenses, and control of the Company. It may be a project-based joint venture or functional based joint venture.

- PROJECT-BASED JOINT VENTURE

The joint venture entered into by the Companies for achieving a specific task is called a project-based joint venture.

- FUNCTIONAL-BASED JOINT VENTURE

The joint venture entered into by the Companies for acquiring mutual benefit is known as functional-based joint venture.

- STRATEGIC ALLIANCE

Any agreement between two or more parties to collaborate with each other, for accomplishing a few objectives while continuing to remain independent organizations is known as a strategic alliance.

FRANCHISING

Franchising may be defined as an arrangement where one party (franchiser) gives another party (franchisee) the right to use trade name as well as certain business systems and process to produce and market a good service according to certain specifications. The franchisee usually pays a one-time franchisee fee plus a percentage of sales revenue as royalty and gains. [37]

- SLUMP SALE

Slump sale defines the transfer of one or more Company owing to the sale of lump sum consideration without values being assigned to the individual assets and liabilities in such sales. If a Company sells or disposes of the whole or substantially the whole of its undertaking for a predetermined lump sum attention, then it results in a slump sale.

In olden days, Indian economy was a highly regulated. The economy was controlled in a centralized way by government participation and intervention despite the fact that the participation of the government was overwhelming. Thus we can say that the Indian economy was a closed economy owing to the fact that economic forces such as demand and supply were

[37] Gurbaksh Singh, An Analytical Study Of Mergers And Acquisitions Of Banking Sector In India. A Thesis.

not allowed to have a full-fledged liberty to rule the market. Scope of realignments, and everything was controlled was not there so much. The scope and mode of corporate restructuring were very limited under such conditions due to restrictive government policies and rigid regulatory framework. These restrictions were there in force, practically, for over twenty years. These, however, became incongruous with the prevalent economic system in keeping pace with the global economic developments if the objective of faster economic growth were to be achieved.

The government had to review its total policy framework, and under the economic liberalization measures, it had to remove the aforesaid restrictions by omitting the relevant sections and provisions related to restrictions. The real advent of the economy started with the Industrial Policy, 1991 whereby 'continuity with change' was stressed and main thrust was on relaxations in industrial licensing, foreign investments, and transfer of foreign technology etc. Economic liberalization being in force, globalization and opening up of economies, the Indian corporate sector started restructuring for measuring up to the opportunities and challenges of competition. [38]

The economic and liberalization reforms, have transformed the business 12 scenario everywhere in the world. The integration of national economy with 'market oriented globalized economy' has been the most significant development. The multilateral trade agenda and the World Trade Organization (WTO) have been making easy and free flow of technology, capital and expertise across the globe. A restructuring wave is sweeping the corporate sector the world over, and this wave is taking within its fold both big and small entities, comprising old economy businesses, conglomerates and new economy companies and even the infrastructure and service sector. Companies are coming together as never before, and they relate to banking to oil exploration and telecommunication to power generation, petrochemicals to aviation. Not only has this new industry like e-commerce and biotechnology exploded, but it has transformed old industries. With the increasing competition and with the economy globalisation of the economy, the corporate restructuring activities are expected to take place at a much larger scale than at any time previously. Corporate restructuring plays a major role in enabling enterprises for acquiring economies of scale, global competitiveness, right size, and a host of other benefits including reduction of cost of operations and administration.

The most recent decade has seen numerous positive improvements in the Indian banking division. The policy makers, which involve the Reserve Bank of India (RBI), Ministry of Finance and related government and money related division administrative elements, have put forth a few striking attempts to improve guideline in the division. The part presently contrasts well and banking divisions in the area on measurements like development, gainfulness and non-performing resources (NPAs). A couple of banks have set up a remarkable reputation of innovation, development and worth creation. This is reflected in their market valuation. In any case, improved guidelines, development, development and worth creation in the segment stay restricted to a little part of it. The expense of banking intermediation in India is higher and bank

[38] Slump, Bombay Chartered Accountant's Society, https://www.bcasonline.org/Referencer2015-16/Other%20Laws/Company%20Law/slump%20_sale.htm

entrance is far lower than in different markets. India's banking industry must fortify itself fundamentally on the off chance that it needs to help the modem and lively economy which India tries to be. While the onus for this change lies fundamentally with bank administrations, an empowering arrangement what's more, administrative system will likewise be basic to their prosperity.

Like all business elements, banks need to defend against dangers, as well as adventure accessible open doors demonstrated by existing and anticipated patterns. M&As in the financial area have been on the ascent in the ongoing past, both all around and in India. In this scenery of rising worldwide and Indian patterns in the financial segment, this exploration work lights up the key issues encompassing M&As in this part with the emphasis on India. It looks for to clarify the thought processes behind some M&As that have happened in India post-2000, examine the advantages and expenses to the two gatherings included and the ramifications for the consolidated substance [39]

The International banking situation has indicated significant strife in the recent years as far as mergers and acquisitions. Deregulation has been the principle driver, through three significant courses - destroying of interest rate controls, evacuation of hindrances among banks and other money related middle people, and bringing down of passage hindrances. It has lead to disintermediation, financial specialists requesting better yields, value rivalry, diminished edges, falling spreads and rivalry across geologies driving banks to search for better approaches to support incomes. Union has been a huge vital instrument for this and has gotten an around the world marvel, driven by evident preferences of scale-economies, land expansion, and lower costs through branch and staff defense, cross-outskirt development and piece of the pie focus. The new Basel II standards have likewise driven banks to consider M&As. India has a broad financial system, in both urban and provincial zones. All huge Indian banks are nationalized, and all Indian money related organizations are in the open area. The Reserve Bank of India is the focal financial organization. It is the sole expert for giving monetary orders also, the administrative body for banking tasks in India. It oversees furthermore, oversees trade control and banking guidelines, and regulates the administration's money related approach. It is additionally liable for allowing licenses for new bank offices. 36 outside banks work in India with full financial licenses.[40]

[39] The Macro Story, An India Economic Strategy, to 2035, https://www.dfat.gov.au/geo/india/ies/chapter-1.html
[40] Gill Marcus, Issues for consideration in mergers and takeovers from a regulatory perspective, https://www.bis.org/review/r000721b.pdf

Chapter 9

MERGER OF BANKS DURING THE 1960s

MERGER OF BANKS DURING THE 1960s

Mergers of banks occurred in India during the 1960s under the course of the Reserve Bank of India. From 566 revealing business banks (of which non-booked banks were 474) toward the finish of 1951, the number boiled down to 292 (of which 210 were non-planned) at end 1961, to 100 (27 non-planned) toward the finish of 1966; and to 85 (14 nonscheduled) before the finish of 1969. The quantity of bank workplaces expanded forcefully during this period: From 4151 out of 1951 to 5012 of every 1961, to 6593 of every 1966 and to 9005 out of 1969. The branch workplaces of planned business banks expanded over this period while those of non-planned business banks declined.

Unviable banks were gotten rid of, as suggested by the Travancore Cochin Banking Inquiry Commission (1956). This implied either conclusion or amalgamation with other, generally solid banks. This procedure was quickened when two planned banks bombed in 1960. The 1960 scene was basically an activity for safeguarding banking dependability.

The complexities involved in mergers of public sector banking are rarely discussed. In the early 1990s when the National Bank ofIndia was merged with Punjab National Bank, problems of personnel integration cropped up. After this experiment, public sector bank mergers were not contemplated. On the other hand, there were private banks mergers since about the late 1990s for diverse reasons including building up financial strength, capturing larger portion of the growing retail business and securing better regional presence. “In most emerging markets, banking sector assets comprise well over 80 per cent oftotal financial sector assets, whereas these figures are much lower in the developed economies. Furthermore, deposits as a share of total bank liabilities have declined since 1990 in many developed countries, while in developing countries public deposits continue to be dominant in banks. In India, the share of banking assets in total financial sector assets is around 75 per cent, as of end-March 2005. There is, no doubt, merit in recognizing the importance of diversification in the institutional and instrument-specific aspects offinancial intermediation in the interests of wider choice, competition and stability. However, the dominant role of banks in financial intermediation in emerging economies and particularly in India will continue in the medium-term; and the banks will continue to be “special” for a long time. In this regard, it is useful to emphasize the dominance of banks in the developing countries in promoting non-bank financial intermediaries and services including in development of debt-markets. Even where role of banks is apparently diminishing in emerging markets, substantively, they continue to play a leading role in nonbanking financing activities, including the development of financial markets.[41]

[41] VIII. Competition And Consolidation, Publications, https://www.rbi.org.in/scripts/publicationsview.aspx?id=10495, Sept. 04, 2005

Mergers of ICICI Bank and Bank of Madura, as well as HDFC Bank and Times Bank are important examples. These mergers, mooted by the merging banks in the first instance and approved by the authorities, were not entirely for reasons of banking stability as such. There were also mergers of private banks with public sector banks, the prominent among them being the mergers of Benares State Bank with Bank of Baroda in 2002; Nedungadi Bank with Punjab National Bank in 2003; and, more recently, Global Trust Bank with Oriental Bank of Commerce. But these mergers were at the initiative of the authorities, undertaken for preserving banking stability.

The merger of ICICI with ICICI Bank and the reverse merger of IDBI Bank with IDBI served multiple objectives. First, the institutions were strengthened financially. Second, they helped to avoid the complex processes of restructuring the weaker of the units and to foster financial stability. Finally, they have opened the possibilities of actively promoting universal banking. The above examples of mergers have been facilitated to a large extent by banking sector reforms that helped relax some of the restrictions on asset portfolio distribution. Also, to an extent the advances in information technology have given banks the incentive to consolidate to scale up operations. However, they are not meant, at least in the short term, to cut costs, improve efficiency or raise profits. Implied is the argument that efficiency and profits would be assured once the economies of scale operating[42].

On the other hand, mergers could lead to charging of higher fees for the services rendered, especially if there is no 'effective' competition or if smaller banks exhibit ‘herd behaviour' in imitating the bigger entities. Unfortunately, there is little of published empirical literature on the impact of mergers in banking in India. The general literature on the subject views the impact from two angles: One based on accounting data and the other based on stock price reaction. Till almost the mid-1990s, studies in the US suggested that mergers based on former did not lead to significant gains either in efficiency or cost saving. More recently, however, empirical data supported the view that banks significantly improve their profit and operational efficiency following mergers. Studies that use stock market data did not show gains from consolidation. They, in fact, suggested that bidders often suffer negative returns partly because of high offer prices and partly because markets revise downward their expectations from the merger.

[42] Justin Paul, Bank of Madura Merger with ICICI Bank: An Analysis, https://www.academia.edu/6657575/Bank_of_Madura_Merger_with_ICICI_Bank

Chapter 10

RATIONALE AND PURPOSE

Rationale Behind:

In the current setting of worldwide monetary market coordination, Indian banks looking for global nearness by abusing the economies of scale what's more, if possible of scope is an engaging contention. In any case, this by itself can't be a decent ground for consolidation. Banking strength is significantly more significant. What is additionally significant is that it ought to not bring down the quantity of banks to levels that wreck rivalry. The recommendation that banks would be "too huge to even think about failing' is old fashioned as the 1990s monetary emergencies experience appears. The inquiry concerning the ideal number of banks in the nation, and the related issues of their capital ampleness and their ability to help universalisation of banking are matters to be yet settled.

There is no official view about the ideal number of banks in a nation. The Banking Commission suggested in 1972 that national banks be redesigned into a few all-India banks and six other substances, each spend significant time in creating administrations in a wide district. This was not sought after however there is requirement for serious research on the issue, before one takes a critical view about the quantity of Indian banks that could have worldwide nearness and could seek worldwide financial business. While such a view have clearly been in light of their budgetary quality that by itself would not be sufficient. Great inner administration systems and straightforwardness rehearses should be likewise set up. Other than the specialists should oppose the allurement of taking a proactive position in figuring out which Indian bank ought to have worldwide nearness. Rather they ought to permit banks to develop into worldwide substances on their own interior powerful driving forces.[43]

The issue however could become complex if foreign banks are allowed to buy out Indian banks. The RBI has done well to be transparent by going in for public views on ownership and governance. One only hopes that political considerations do not influence the final view on the matter.

Purpose:

A figure of 27 PSBs for 110 crore people is not a large number. Mergers will create monopolistic structures and the huge entities will dictate terms to customers. Even if all the PSBs are merged into one bank, it can certainly not match some foreign banking entities. Mergers will not create synergies but will definitely lead to chaos due to non integration of human resources. As rightly stated, leveraging union power to get better compensation would serve the employees of the

[43]Banks Merger in India: Is it good for Indian Economy?

https://www.mbauniverse.com/group-discussion/topic/business-economy/banks-merger-in-india

SBI's associate banks better than simply opposing any merger. Executives, officers and staffin new private banks are now getting more salary and incentive than the staff of SBI group banks and other PSBs. Instead of opposing the merger of associate banks with the parent bank, the employees must welcome the merger to derive economies of scale. A giant SBI that is going to be created following the merger can be a global player. The capacity to pay of such a giant bank will be enhanced.

[44]

Performance:

Indian banks have compared favourably on growth, asset quality and profitability with other regional banks over the last few years. The banking index has grown at a compounded annual rate of over 51 per cent since April 2001 as compared to a 27 per cent growth in the market index for the same period. Policy makers have made some notable changes in policy and regulation to help strengthen the sector. These changes include strengthening prudential norms, enhancing the payments system and integrating regulations between commercial and co-operative banks. However, the cost of intermediation remains high and bank penetration is limited to only a few customer segments and geographies. While bank lending has been a significant driver of GDP growth and employment, periodic instances of the "failure" of some weak banks have often threatened the stability of the system. Structural weaknesses such as a fragmented industry structure, restrictions on capital availability and deployment, lack of institutional support infrastructure, restrictive labour laws, weak corporate governance and ineffective regulations beyond Scheduled Commercial Banks (SCBs), unless addressed, could seriously weaken the health ofthe sector. Further, the inability of bank managements (with some notable exceptions) to improve capital allocation, increase the productivity of their service platforms and improve the performance ethic in their organizations could seriously affect future performance[45].

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[44] Thenmozhi Arukutty, Challenges And Opportunities In Indian Banking Sector: A Selective Study, International Journal of Current Research and Modern Education (IJCRME, https://zenodo.org/record/1211719#.XsiCjWgzZPZ

[45] Kumar B,Muniraju M, Banking Sector Reforms In India: The Rationale And Efficacy, http://ndl.iitkgp.ac.in/document/L2pRWjRIY1E0QVFuN1NQdlFsN2JmRk1heG9DN3AyQno3WndGZzRyQXlmTT0

An Overview Of Bank Mergers And Acquisitions

M &A in India has been scanned with special reference to trends in the banking industry with a historic perspective. Apart from it this study shows the progress and evolution of the government policies vis-a-vis M & As in banking sector over a period of time.

1.12.1 BANKING REFORMS

Indian Banking has evolved through four phase in the post-independence era. The phase has categories as follow:-

1.12.1(i) FOUNDATION PHASE: The first phase was up to the time of the _nationalisation of banks in the year 1969, and this phase prior to 1969 formed the foundation phase. Focus was on laying of a foundation for sound banking system during this period. This matter needed the setting up of required legal framework for consolidating the banking system. The SBI in 1955 was the first step in this direction. Thereafter, the princely State Banks were converted into associate banks of the SBI. The role of the banking sector4 in the Indian economy was redefined. The banking system earlier was catering to the needs of the government, individuals, and select traders. Later on the role of it was extended to meet the needs of entire economy. Included in the list of the customers were small industrialists and agriculturists. [46]

1.12.1(ii) EXPANSION PHASE This phase also called the expansion phase started in mid-1960. This phase gained momentum only after the nationalisation of 14 banks in July 1969. This was the phase of _mass banking‘. For making banking services available to masses earnest efforts were undertaken. The number of branches was increased at a rapid speed. Many nationalized banks were persuaded emphatically for opening branches in rural and semi-urban area. Thus, the banks emerged as important instruments of socioeconomic change. This fast expansion created certain problems despite the fact that the reach increased geographically.

1.12.1(iii) CONSOLIDATION PHASE This phase also known as the consolidation phase started having problems arising out of rapid expansion of banks. This phase started in 1985. Reserve Bank of India took some steps for helping them. Some relaxation in control was started. The expansion process of branches was slowed down. Instructions for toning up internal management were issued to various banks. More focus was on house-keeping, client service, productivity and profitability was emphasized.

1.12.1(iv) REFORM PHASE In 1991 India faced a macro-economic crisis as a process of this crisis started in India. The fund of foreign exchange reserves touched its nadir. The country‘s being termed as a defaulter in payments seemed a reasonable possibility. Growth of economy was at a very low rate. The Government of India was set on a path of liberalisation and globalisation of Indian economy. The process of reform had to start from financial sector reforms

[46] K. Subhashree and M. Kannappan, Merger and Acquisition in Banking Industry, https://pdfs.semanticscholar.org/9401/e9ac27035da534783abd7b2567c66a9c909e.pdf

for obvious reasons. From 1947 to 1990, considerable widening of the banking system was planned, because it is the most important constituent of financial sector. However, at the end of 1990, there was a general consensus that the banking system did not become sound enough as it should have been. This was a cause for serious concern on account of poor financial conditions of commercial banks, most of which were in public sector. Some of these banks had become unprofitable, and they were under capitalised with high level of non-performing assets. The recommendations of the committee became the basis of financial sector and banking sector reforms. M. Narismham also headed the second committee. One more Committee headed by Mr. Khan submitted its report on harmonisation of the operations of Development Financial Institution with operations of banks.

Chapter 11

RECENT ADVANCEMENTS AND IMPACT ON BANKING SECTOR

RECENT ADVANCEMENTS AND IMPACT ON BANKING SECTOR

The largest ever merger in the public sector banking space in India has taken place on Wednesday April 1, 2020 when six Public Sector Banks were merged into four large banks in a bid to make them globally competitive. Customers, including depositors of the merging banks, will now be treated as customers of the banks in which they have merged.

Following the consolidation, there are now seven large public sector banks (PSBs), and five smaller ones. There were as many as 27 PSBs in 2017. The total number of public sector banks in the country have come down from 18 to 12 from April 1, 2020.

Merger and Acquisition of Banks in India and its effects has become a favourite topic of Group Discussion in FMS Delhi, IIMs, MDI, XLRI among others. Apart from other B-schools, FMS Delhi also placed this topic in the final selection round in 2018.

The Banks' merger dated April 1, 2020 has resulted in the creation of seven large PSBs with scale and national reach, with each amalgamated entity having business of over Rs 8 lakh crore and it has helped to create banks with scale comparable to global banks and capable of competing effectively in India and globally.
[47]

As per the mega consolidation plan, Oriental Bank of Commerce and United Bank of India have merged into Punjab National Bank (PNB); Syndicate Bank into Canara Bank; Andhra Bank and Corporation Bank into Union Bank of India; and Allahabad Bank into Indian Bank.

The exercise assumes significance as it has taken place at a time when the entire country is under the grip of COVID-19 outbreak. It has triggered 21-day lockdown to contain the spread of the deadly virus. Experts are of the opinion that merger at this point of time may not be remain a very smooth and seamless transition. However, heads of the anchor banks have exuded confidence and do not find any problem as the process has gone as per the plan with certain modification in implementation.

The four anchor banks -- PNB, Canara Bank, Union Bank and Indian Bank -- have postponed some part of the implementation and processes due to the lockdown for example like loan process which were proposed to be followed earlier.

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[47] Merger of 10 PSU banks into 4 effective from today; 6 banks cease to exist, https://www.business-standard.com/article/finance/merger-of-10-psu-banks-into-4-effective-from-today-6-banks-cease-to-exist-120040100210_1.html

In addition, consolidation would also provide impetus to merged entities by increasing their ability to support larger ticket-size lending and have competitive operations by virtue of greater financial capacity.

Last year, Dena Bank and Vijaya Bank were merged with Bank of Baroda. Prior to this, the government had merged five associate banks of SBI and Bharatiya Mahila Bank with the public sector bank. These were State Bank of Patiala, State Bank of Bikaner and Jaipur, State Bank of Mysore, State Bank of Travancore and State Bank of Hyderabad effective April 2017. [48]

It is the ceaseless want for development that keeps each business house running and attempting new roads for development. This craving for development has expanded the merger and obtaining exercises no matter how you look at it and the Indian Banks also didn't remain reserved from this influx of mergers and acquisitions (M&A). At first, banks were merged to spare non-performing banks or non-productive banks however as time advanced the framework developed as well. As of late mergers and acquisitions have additionally been made on grounds of business development, benefit and authoritative structure. There were 27 public sector banks in 2017. In 2018, the Government of India reported the merger of Vijaya Bank and Dena Bank into Bank of Baroda to make the nation's third biggest lender. In August 2019, in the greatest consolidation exercise in the banking arena, the Government declared four significant mergers of public sector banks, cutting down their absolute number to 12 from 27.

Punjab National Bank becomes 2nd Largest Bank: Oriental Bank of Commerce and United Bank merger into Punjab National Bank has created a bank with ₹17.95 lakh crore business and 11,437 branches.

4th Largest Bank – Merger of Canara Bank & Syndicate Bank: The merger of Syndicate Bank with Canara Bank has created the fourth largest public sector bank with ₹15.20 lakh crore business and a branch network of 10,324.

5th Largest Bank: Merger of Andhra Bank and Corporation Bank with Union Bank of India has created India's fifth largest public sector bank with ₹14.59 lakh crore business and 9,609 branches.

7th Largest Bank: The merger of Allahabad Bank with Indian Bank has created the seventh largest public sector bank with ₹8.08 lakh crore business having strong branch networks in the south, north and east of the country

[48] Mega bank merger marks new dawn for Indian banking space: Finance Ministry, timesofIndia, https://timesofindia.indiatimes.com/business/india-business/mega-bank-merger-marks-new-dawn-for-indian-banking-space-finance-ministry/articleshow/74935553.cms

India has 12 Banks Now
The biggest overhaul in public sector banks has left India with only 12 banks now instead of 18 before the Merger. According to the Government this decision of making large entities will make the Indian banks capable of meeting the higher funding needs of the economy and will help in acquiring the global scale.
[49]

Banking order (Largest to Smallest)	Business in Lakhs of crore Rupees	Market Share
State Bank of India	52.1	22.5
PNB+OBC+United Bank	17.9	7.7
HDFC Bank	17.5	7.6
Bank of Baroda	16.1	7
Canara + Syndicate Bank	15.2	6.6
Union+Andhta+Corporation Bank	14.6	6.3
ICICI Bank	12.7	5.5
Axis Bank	10.6	4.6
Bank of India	9.0	3.9
Indian + Allahabad Bank	8.1	3.5[50]

Fruitful Result of Banks' Merger
As per studies conducted, 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.

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[49] Mega PSU banks merger comes into effect from today onwards; 6 banks cease to exist, The Statesman, https://www.thestatesman.com/business/mega-psu-banks-merger-comes-effect-today-onwards-6-banks-cease-exist-1502872495.html

[50] Times of India, *ToI dt Aug 31, 2019*

Chapter 12

ADVANTAGES AND DISADVANTAGES OF BANK MERGERS

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[51]
- 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

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[51] Potluri Keshav, Recent Bank Mergers In India And Impact On Economy: A Brief Essay, https://www.researchgate.net/publication/339127849_RECENT_BANK_MERGERS_IN_INDIA_AND_IMPACT_ON_ECONOMY_A_BRIEF_ESSAY

- 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.

- Bad Loans/NPAs are one of the biggest problems of our banking system which is creating hindrance in the growth of the economy as a whole. NPAs have been increasing at an alarming rate which has jeopardized the financial system of the country. YES BANK (private sector bank) fiasco is known to everyone. Had RBI not stepped in, YES BANK would have crashed and put the entire economy at halt. By merging comparatively weaker banks with the stronger banks, the Government has made effort to make sure that the weaker bank is not wiped out from the market because of the bad loans/NPAs. By merging the banks, the legal cost and other ancillary costs will comparatively come down as it is seen that the same borrower has taken loan from a number of banks. Every year banks spend hefty amounts in the recovery of the bad loans, by bringing such cost down banks can save significantly. It has also been seen that there are instances of reckless funding. Mergers of banks will also keep a check on this by sharp monitoring and thus reducing the NPAs.

- By merging banks, the banks will become bigger and better as it will be catering a large segment of customers as compared to its current position. Services will be available conveniently to customers through a single bank rather than by approaching different banks. Big customer base will help the banks to have good profitability as the merged bank will enjoy synergies. The merged banks will have the better business portfolio, asset quality, improved market capitalization, risk appetite and risk management strategies. There will be very less chances that the banks will fail. Post merger the public banks will be in a better position to face competition from the private players in the market. The merged banks will enjoy economies of scale and reduction in the cost of doing business. Post merger the banks will be in the better position to finance mammoth projects which earlier they could not finance independently thus making the funding process for those projects quick and easy.

- Even after so many years Indian Banks have failed to have a global presence. There are several reasons for the same including the size of the balance sheet, inadequacy in the operations, not meeting the international banking standards etc. Post merger not only the banks will have the global presence but also will be able to be a prime part of the International banking system. In the pre- merger era RBI had to manage a comparatively large number of banks thus making it a cumbersome task. Now with comparatively fewer banks to manage, RBI will be able to implement the banking standards followed by the developed economies and thus bringing Indian banks in line with the banks having International presence. Currently, the State Bank of India is in the list of top 50 banks globally.

- The post-merger era will bring down the operational cost significantly. Cost saving on account of treasury operations, audits, controls, technology, management will help banks to bring the overheads down. Merging will help the banks to pool the resources and use them in an effective and efficient manner. The mergers will result in rationalization of branches, roles and functions getting reduced. However, the Finance Minister has confirmed that there will be no retrenchments and the employees will only benefit with the mergers.

[52]

[52] Ayush Verma, Analysis of Impact of Mega Merger of Public Sector Banks, https://blog.ipleaders.in/analysis-impact-mega-merger-public-sector-banks/ (Last updated: April 14, 2020)

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.

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After discussing at stretch about the benefits of the mega merger activity happening in the banking space, there are few apprehensions/ disadvantages that have cropped up which have been listed below:

- Various **internal conflicts** and disputes may arise with regard to promotion and other potential issues. Different banks have different ideologies and people with different backgrounds which give rise to conflicts. People have apprehensions that they will lose their jobs even though those apprehensions have been put to rest by the respected Finance Minister.

- Merger will no doubt result in benefits which are manifolds but technical execution will be a tedious task in itself. Different banks use different software platforms so aligning them with the merged bank will be a tough nut to crack. Financial consolidation along with other financial matters will have to be pondered upon.

- It is said that when the bank becomes oversized, it becomes tough to manage its functioning and in case the bank starts to fall then the entire economy is jeopardized. Although we all are aware of the quote "TOO BIG TO FALL", in case any big bank/financial institution collapses the entire economy faces the music.

- In the short run, not only consolidation of PSBs (public sector banks) may divert a significant proportion of management and employee bandwidth away from growth but it may hurt credit growth, stall recoveries and gift market share to private banks. State Bank of India had reported a sharp drop in loan off take after its associate banks were merged. After the merger of SBI and its associates, the SBI management had said that since a large part of energy was invested by its staff into the merger process, monitoring of credit and lending took a back seat. It is clear that the benefits of the mega merger of these ten public sector banks would accrue only beyond two-three years.

- According to the experts, even though the government has allocated additional capital and is pushing for co-lending, there will be a slowdown in loan growth as witnessed in

[53] Dr. Sadaf Taj, An Investigation Of Mergers In Indian Banking Sector Post Government's Announcement Of Mega Merger In 2019 For Public Sector Banks, EPRA International Journal of Research and Development (IJRD), https://eprajournals.com/jpanel/upload/711pm_17.Dr.%20Sadaf%20Taj-3708-1.pdf

earlier mergers as well which cannot be good at a time when liquidity flow is severely constrained.

Chapter 13
IMPACT ON PUBLIC

IMPACT ON PUBLIC

Here is how you are likely to be impacted by this move:

1. Get ready to change your cheque books as the various banks get merged. While the existing cheque books may remain valid for some time, ultimately they will be replaced with the cheque books of the merged entity.

The next-gen PSBs:

Anchor bank	**Amalgamating Bank**
Punjab National Bank	Oriental bank of commerce, United Bank of India
Canara Bank	Syndicate Bank
Union Bank of India	Andhra Bank, Corporation Bank
Indian Bank	Allahabad Bank[54]

2. You would have given your bank account numbers and IFSC codes for various financial transactions -- auto credit of dividends via ECS, auto-credit of salary, auto debit of various bills/charges etc. Unless these accounts are seamlessly merged into the financial system of the new merged bank, you would be required to change the details of your bank given for these purposes. A couple of years, when five associate banks of State Bank of India (SBI) were merged, IFSC codes and names of 1,300 branches were changed. The banking behemoth has changed the names and IFSC codes of branches located in major cities such as Mumbai, New Delhi, Bengaluru, Chennai, Hyderabad, Kolkata and Lucknow. Those who had auto-debits running with these banks like systematic investment plans (SIPs) in mutual funds were impacted. This could be an issue that accountholders of the banks that will be merged now might face.

3. Credit/debit cards issued by the merging banks may have to be exchanged for those of the merged entity although the former are likely to remain valid for the interim period to ensure no

[54] How the mega bank mergers will impact you?, Last Updated: Mar 31, 2020, https://economictimes.indiatimes.com/wealth/personal-finance-news/how-the-mega-bank-mergers-will-impact-you/articleshow/70910265.cms?from=mdr

disruption in services.

4. Paperwork and keeping financial trail of fixed deposits made will increase a bit as these will be transferred into the merged bank.

5. It is, however, not clear what will happen to the interest rates of those who have loans running with these banks as the MCLR rates are different for different banks.

6. Shareholders of the the publicly listed banks will be impacted. How much the respective shareholders will be impacted will be known once the swap ratios are announced

6. A plus point is that the branch network would become larger so access to bank branches would become easier provided the merged entity does not shut down all branches of merging banks. The combined entity of Punjab National Bank, Oriental Bank of Commerce, and United Bank of India will become the second largest PSU bank in the country with the second largest bank branch network with 11,437 branches. PNB will be the anchor bank. In the case of the consolidated Indian Bank and Allahabad Bank entity, it will be the seventh largest PSB. Canara and Syndicate Bank will also be merged to become the fourth largest bank. Indian Bank and Allahabad Bank merged. The consolidated Indian Bank and Allahabad Bank will become the seventh largest bank.

7. There is a section of accountholders who will not impacted by these mergers. Sitharaman said that Bank of India, Central Bank of India will continue as is. Indian Overseas Bank, UCO Bank, Bank of Maharashtra and Punjab and Sindh Bank will also continue to operate as is.

CONCLUSION AND SUGGESTIONS

Indian PSBs have long been burdened with the responsibility of development banking through mobilizing deposits at the countryside and providing finance to agriculture and small scale industries at subsidized rates. It is time to marry the social responsibility of these banks with proper commercial orientation so that they can survive and prosper in an environment of high growth, competition and risks. For some PSBs today, this implies the need for mergers. For a bank that has the capacity to grow in terms of its intrinsic comparative advantage but is constrained due to the problems of inter-regional penetration, merger with a similar bank (in terms of comparative advantage and portfolio) will provide an avenue to grow optimally. Similarly, a bank of the size and experience of SBI can aspire to become a universal bank by acquiring smaller banks with lucrative retail and wholesale portfolio and through strategic alliances with investment banks, insurance companies and asset management firms. For others, there are other strategic configurations that are optimal. Given the current distribution of assets and portfolio performance of the PSBs, most of them belong to the residual category. The process of M&A will be socially beneficial and value adding if PSBs are privatised before placing merger bids. Since bank privatisation is not immediately on the anvil, one may have to resort to relatively more distortionary means like partial privatisation and restructuring the incentives of the bank management.

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