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Banking Reform :- Merger and Acquisition of Associates Banks within SBI

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Abstract:

Indian banking sector is the backbone of Indian Economy. We need a very strong and compresensive banking system in India to compete globally. The present Indian Banking System is a result of various reforms and policy changes and the biggest reform which took place on 15 February 2017, when Indian Govt. approved the proposal to merge all the remaining five SBI associate banks alongwith Bhartiya Mahila bank with SBI with effect from 1st April 2017.

The State Bank of India is the largest bank of the country in terms of Balance Sheet, No. of Branches, market capitalization etc. SBI has gone through numerous Phase of changes and transformations. Merger and Acquisition is not new elements for SBI. In past it has acquired State Bank of Saurastra in 2008 and after successful absorption of SBS , State Bank of Indore was merged in 2010. This time SBI was merged all the remaining 05 associates along with Bhartiya Mahila Bank at a single stroke.This is the first stance in indian Economy that more than 02 institutions have been acquired or mergered. This is why it is called Mega Merger.

The paper will study on the long journey of SBI who sucessfully categories among top 50 Banks of the world.The focus of this paper has been placed on motives of this merger and effects of merger has also been discussed which include share value addition, financial position status, announcement effect and HR policy and Employee and lastly impact of this mega merger on other Financials Institutions especially Public Sector Banks.

Keywords: M&A, Associate Banks, Merger effects

I. OBJECTIVES The main objective of this paper is to study the impact of merger of Associate Banks within SBI .

- To study the reasons and motives behind the SBI merger
- To study the consequences of merging Associate Banks with in SBI
- To study the financial position of SBI before and after acquisition
- To study the effect of merger upon shareholders and general public
- To find out the impact of merger on staffs of the merged entity
- To study the impact of merger upon other Banks / F.Is.

II. Research Methodology:

The research is based on

- Data collection
- Feed back and Survey from employee of merged entity
- Business Magazines, News paper
- On line related materials
- Books related to topics

III. INTRODUCTION

Merger can be defined as a mean of unification of two players into single entity. Merger is a process of combining two business entities under common ownership. According to Oxford Dictionary "merger means combing two commercial companies into one" Bank merger is an event of when previously distinct banks are consolidated into one institution (Pilloff and Santomerro, 1999). A merger occurs when an independent bank loses its charter and becomes a part of an existing bank with one headquarter and unified branch network (Dario Farcarelli 2002) Merger occurs by adding the active (bidder) bank assets and Liabilities to the target (Passive) banks balance sheet and acquiring the bidder"s bank name through a series of legal and Administrative measures. Merger between strong bank / financial institutions would make for greater economic and commercial sense and would be case where the whole is greater than the sum of its parts and have "force multiplier effect" While interest in mergers and acquisitions is not new, it has intensified recently as a result of a plethora of mergers and acquisitions in the 1980s. There are several ways to consolidate the banking industry; the most commonly adopted by banks is merger. Merger of two weaker banks or merger of one health Bank with one weak bank can be treated as the faster and less costly way to improve profitability then spurring internal growth (Franz, H. Khan 2007). The main motive behind the merger and acquisition in the banking industry is to achieve economies of scale and scope. Mergers also help in the diversification of the products, which help to reduce the risk.

The Indian banking sector can be divided into two eras, the liberalization era and the post liberalization era. In the pre liberalization era government of India nationalized 14 banks as 19 July 1965 and later on 6 more commercial Banks were nationalized as 15 April 1980. In the year 1993 government merged the new banks of India and Punjab National banks and this was the only merged between nationalized Banks after that the number of Nationalized Banks reduces from 20 to 19. In the post liberalization regime, government had initiated the policy of liberalization and licenses were issued to the private banks which lead to the growth of Indian banking sector. The Indian banking industry shows a sign of improvement in performance and efficiently after the global crises in 2008-2009. In the Indian banking industry having far better position than it was at the time of crises. Government has taken various initiatives to strengthen the financial system. The economic recovery gained strength on the bank of a variety of monetary policy initiatives taken by the RBI. . Bank consolidation of Banks is not a new thought. Narasimham Committee has earlier recommended for merger of Public Sector Banks in his recommendation in 1991. He has recommended three -tier banking structure by merging Public Sector Banks which leads to a count of three large Bank that would have international level, About 8-10 banks are national level, and some are regional level Banks. After the liberation, there are almost 30 Banks including public sector Banks have been merged.

Merger of SBI with its 5 associates namely State Bank of Bikaner and Jaipur (SBBJ), State Bank of Mysore(SBM), State Bank of Travancore (SBT), State Bank of Hyderabad (SBH), State Bank of Patiala (SBP) and Bharatiya Mahila Bank1 took place on 1 April, 2017.

III. (a) Need for the Study

Since the early 1990s, the structure of the banking sector has significantly changed due to the deregulation and liberalization, accompanied by divestment of public sector banks, entry of foreign banks and merger of many banks in India and in the world. In the post reform period about 25 bank mergers took place in India. These mergers have important implication on the performance and profitability in the banking system. Therefore from the point of view of both managerial and policy interests, it is extremely important to know the impact of these merges on the efficiency levels of banks and their temporal behavior so as to understand how the banking industry has been reacting to these emerging challenges and which banks are performing better than others in this period of transition.

III (b) SBI at glance

On 1st July 1955 State Bank of India came into existence by an Act of Parliament, based on the recommendations of the All India Rural Credit Survey Committee which proposed takeover of IBI and integrating with it the former state owned or state associate banks. Later on, the State Bank of India (Subsidiary Banks) Act was passed in 1959. The Act enabled the State Bank of India to make the seven former State-associated banks as its subsidiaries. The seven associate banks were

- State Bank of Bikaner and Jaipur (SBBJ)
- State Bank of Hyderabad (SBH)
- State Bank of Indore (SBN)
- State Bank of Mysore (SBM)
- State Bank of Patiala (SBP)
- State Bank of Saurashtra (SBS)
- State Bank of Travancore (SBT)

In 2008, State Bank of Saurashtra was merged with SBI. In 2010 State Bank of Indore was merged with SBI. The remaining 5 associate Banks alongwith BMB were merged on 1st April 2017, thus creating a Banking behemoth not only in India but among the top 50 Banks in the world.State Bank of India (SBI) is an Indian multinational, public sector banking and financial services company. It is a government-owned corporation. As of 2018, it had assets of 33.12 trillion (US$460 billion) and more than 24,000 branches, including 191 foreign offices spread across 36 countries, making it the largest banking and financial services company in India by assets.

IV. REASONS OF MERGER

Merger of the Indian Bank especially PSBs has been mooted around three decade ago by the Narashimshan Committee.It is a Government initiative to merge SBI and the associate banks into One single entity.The reason behind merger of Banks are

- To make some large bank of global size
- To strengthen the PSBs
- Cost cutting
- Rationalize the Branch ,staff and improve the financial health

Apart from the above,the main motto of SBI merger was done to increase the productivity of the bank and boost market share exponentially and the move will help to reduce several repetitive costs which helps in increasing the profitability of the bank with great flexibility. The Cost of managing large number of branches will reduce which will increase profitability of bank.

V. BENEFITS OF MERGER

Despite being the second largest population country, no Indian bank is in the list of top 50 world's largest bank. With this merger, visibility at global level is likely to increase.

➢ Larger Entity is better managed and grow rapidly

➢ It is very helpful to the weaker Banks

➢ Large Bank have more diversified portfolio resulting in less volatility in its earning.

➢ Large Bank command higher credit rating

➢ Large bank enjoy scale benefits leading to better diversification of Risk and strong overall financial ratio.

- Large Bank do benefit from economies of scale in term of risk diversification.
- Larger Bank able to maintain strong capital ratio
- Large Bank can manage the challenge of mounting NPAs more effectvely.
- Branch rationalization would be one of the key synergy benefits from the merger
- The merger benefits include getting economies of scale and reduction in the cost of doing business.
- Large bank is better capitalised and have deeper expertise to handle large credits and Large NPAs.
- After mwerger, it can withstand the strong competition from private sector banks and can accumulate more resources to channelize trained manpower across its branches.
- Cost savings on account of treasury operations, audit, technology, etc, would lower cost-to-income ratio in the long term.
- The merged entity will be able to tap into cheaper funds more easily and it will also be able to rationalize the branches all over the country, to cut down the operation costs.
- With this merger SBI will be able to finance more and more mammoth projects that will lead to economic development of the country.
- SBI 's reach and network will multiply, efficiency will likely to increase with the rationalization of branches. Adoption of development of technologies in associate banks will be faster
- Capital adequacy will improve requiring less capital infusion by government.
- Strong presence in nook and corner of the country.
- After amalgamation with closure of duplicated branches, chances of relocating branches in underserved areas.
- The combined entity will have network of over 24000 branches with ATM serving 50 crore customers. Another thing is that it is not going to impact customers. Customers will be getting better facilities or world class facilities.
- Employees will get wider exposure in the changed environment and new opportunities will open up for them.

VI. Challenges and Risk of Bank Merger and acquisition

Consolidation is a Strategic tool and become a global phenomenon, driven by apparent advantages of scale-economics, geographical diversification, lower cost through branch and staff rationalization ,overseas expansion, Market share concentration. It is extremely important to consider the strengths and weaknesses of each PSB before their merger. The process can be smooth if a merger happens between similar institutions with similar culture, but not always as it may lead to job cuts, branch closures, reducing the quality and quantity of services offered to customers. It is not that a large size is always beneficial for the banking system and overall economy. A size beyond this threshold size may have negative consequences for the economy. The exercise of consolidating PSBs should therefore be based on a sound analysis of every PSB, a granular analysis of its assets and liabilities, sector-wise loan exposure, security back-up, common loans among PSBs, etc. A merger might also result into clash of different organisational cultures. It could further lead to conflicts in the area of system ,processes, organizational culture etc. So, merger should be awell thought process.

a)Human Resources:-

One of the most challenging problems which could hinder the consolidation process would be in terms of human resource integration and management as many employees would fear job loss and disparities in the form of regional allegiances, benefits, reduced promotional avenues, new culture, etc. To ensure that the integration of entities is a smooth process, the most important task would be to embark on a human resource strategy that can help address the core concerns of employees, mitigate their anxieties, and create an environment of trust.Employees become concerned about job security and rumors start flying creating an atmosphare of confusion and uncertainty about the change.Roles, behaviors and attitudes of managers affect employees' adjustment to M&A. Multiple waves of anxiety and culture clashes are most common causes of merger failure. HR can anticipate and reduce the impact of cultural clashes. Major stress on merger activity are --- loss of identity, Power status and prestige changes and uncertainty. Gaining Emotional and intellectual buy-in from the staff is not easy and so the employees need to know why merger is happening.

(b). Too big to manage

SBI is going to become the largest bank in India. The merged SBI entity would have 24,000 plus branches, 58,000 ATMs and 2.7 lakh employees. This is going to become another challenge to the top management.

(c). Huge bad loans

This huge portfolio of bad loan makes the bank suffer from bad debts. The five associate banks for instance have stressed loans at a staggering Rs 35,396 crore level. This amount is almost half of SBI's Rs 66,117 crore stressed loans in 2015-16. It would be a huge task to resolve the bad loans given the challenging operating environment.

(d). Overlap of branches

SBI today runs the largest bank in the country in terms of assets as well as branch network. They have branches in every nook and corner of the country. At many places SBI group has more than sufficient branches. For example, in Tirupati, in a single building there is State Bank of India on the first floor and State Bank of Hyderabad on the second floor.

VII. FINANCIAL ANALYSIS

The Quarter that was – The Starting Point:

SBI + ABs + BMB	31st March 2017 (Solo)	31st March 2017 (ABs)	1st April 2017 (Merged)
Total Deposits	20,44,751	5,40,569	25,85,320
CASA Ratio (%)	45.58	40.10	44.40
Gross Advances	16,27,273	3,25,234	19,52,507
Mkt. Share - Deposits (%)	18.13	5.04	23.17
Mkt. Share - Advances (%)	17.11	4.15	21.26
Number of branches	17,170	6,847	24,017
Total Staff	2,09,572	70,231	2,79,803
No. of customers (in lakhs)	3,375	829	4,204

Rs. in Crores

SBI + ABs + BMB (Asset Quality Ratios)	31st March 2017 (Solo)	31st March 2017 (ABs)	1st April 2017 (Merged)
Gross NPA Ratio (%)	6.90	20.15	9.11
Net NPA Ratio (%)	3.71	12.99	5.19
Provision Coverage Ratio (%)	65.95	52.18	61.53
Slippage Ratio (%)	2.59	17.87	5.78
Credit Cost (%)	2.14	5.77	2.90

SBI + ABs + BMB	31st March 2017 (Solo)	1st April 2017 (Merged)
CET 1 (%)	9.82	9.41
Tier 1 (%)	10.35	10.05
CAR (%)	13.11	12.85
GoI Shareholding (%)	61.23	60.75

SBI + ABs + BMB (Financial Ratios)	31st March 2017 (Solo)	31st March 2017 (ABs)	1st April 2017 (Merged)
Cost to income Ratio (%)	47.75	57.66	49.54
Cost of Deposits (%)	5.79	6.31	5.84
Yield on Advances (%)	9.42	8.98	9.32
NIM (Domestic) (%)	3.11	2.35	2.93

Source : SBI Press Release

VIII. FINDINGS

- The gross NPA ratio rose to 9.97%of gross advances in the April to June quarter, compared to 6.90% for the solo entity on March 31, 2017.
- SBI had reported a net profit of ` 867.32 crore in the same quarter of last fiscal.
- The scope of bank has risen to a large extent with its positive consequences and by overcoming the negative consequences.
- SBI's associate's performance was going in a destructive way where the merger helped the bank to overcome the deficiencies and gave a chance to rise in their transactional status.
- The NPA (Non Performing Asset) ratio of SBI has also rose with the merger where it needed some time to overcome the issue.
- The merger also leads to cut down the operations cost.

IX. CONCLUSIONS

The union cabinet has approved the merger of SBI, the country's largest lender, and its associate banks- a move which is expected to bring the state-owned entity at peer with global lender. The merged entity will have an asset base of about Rs. 37 lakh crore, with nearly 24,000 branches and about 58,700 ATMs across the country. The merger is seen as win-win for both SBI and its associate banks. There are several economic and strategic advantage to the merged entity. However, the new entity is not free from challenges. It must gear up to face new challenges that are to come. The move of Merger of SBI with its associated bank has a greater positive impact on the macroeconomic The bank is listed as one of the top 50 largest banks in the world which is a pride for our Indian Economy. Merger provides Better internal control and system processes on all the merged banks . However, profitability of the bank after merger has fallen by approximately Rs. 3000 crore. This was mainly because of accumulated losses of associate banks which were shown in balance sheet of the amalgamated entity whose effects in long run will vanish and they will start making profit in coming years. It is a good idea to promote mergers like this for other Public sector banks. Govt. has on several occasions said India needs 5-6 banks of global size and scale and further consolidation in the banking sector will be done at the appropriate time. The government, enthused by the success of SBI merger, is anounced another such proposal in the public sector banking space by merging Vijya Bank and Dena Bank in Bank of Baroda with a goal to create 4-5 global sized lenders. Consolidation is a must but decision in this regard should be based on commercially prudent parameters.Several critical issues which are to be handled carefully to make a merger successful. These are valuation of target bank loan portfolio, valuation of equity, integration of IT platforms, and issues of human resource management. Banks are optimistic about realizing the merger gains such as exploration of new markets and reduction in operating expenses. The exercise of consolidating PSBs should be therefore based on a sound analysis of every PSB.

X.References

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