



## Amalgamation and Mergers of RRBS A Case study of amalgamation of India's first RRB Prathma Bankwith SUPGB

Dr. Renu Sharma

Associate Professor,

Vardhman College Bijnor (UP) India

**Abstract :** The study attempts to study the impact of amalgamation of banks particularly Regional Rural banks at micro level. The study sidelined the arithmetical approach of amalgamation but emphasized upon the real impact over CEO, general manager, officers, employees, customer and other stake holder. If Amalgamation would have been simple numeric, why it is so tough and requires the long gestation period to restore normal working has been studied ?.Why many merger & amalgamation could not achieve synergy rather merged entity became a less productive and poor efficient. Study reached to the concerned responsible persons to know the road maps of amalgamation and its implementation. Every policy implantation has greater challenge at merger stage than period of normal functioning and CEOs, regulators, top officials and customers have to put very challenging efforts.

### 1 INTRODUCTION:

An amalgamation is a **combination of two or more companies into a new entity**. Amalgamation is distinct from a merger because neither company involved survives as a legal entity. Instead, a completely new entity is formed to house the combined assets and liabilities of both companies. Merger became a buzz word in banking and in many other public sectors to get the synergy. **Government of India (GoI) has consolidated 10 Public Sector Banks into 4 banks**. The announcement of this mega-merger was made by Union Finance Minister Nirmala Sitharaman in 2019. However, RBI notified it in the late March through its circular to merge banks in the new financial year (1st April 2020). Earlier one public sector bank New Bank of India was merged with Punjab National Bank in the year 1993 by Government notification. Merger of Private banks to Public sector banks are very common step taken by the central Government to protect the interest of people. RBI the regulator of Indian Banking System allows merger of banks only when one bank became non feasible and other bank has the capacity/ potential to absorb losses of merged bank and to take the advantage of resources/assets /command areas of merged bank. Generally the business objectives of mergers are:

- It helps to lower the *level of competition in the market*.
- To enlarge the market further without expanding the competition.
- The bank gains more assets by the assimilating resources of both banks.
- To have access to more *capital despite investing less amount*.
- Once two banks unite their customer base also becomes double.
- Lastly, it *gives an opportunity to compete across the globe*. Henceforth, the *impact of Merger and Amalgamation* makes a significant change in boosting the productivity banks. Besides, it underpins those banks that seek to grow in the market but do not possess the required resources and capital.

In terms of numbers, highest merger and amalgamation took place in **RRB** to make them efficient and viable .As **RRBs** capital is owned by Central government (50%), State Government (15%) and respective sponsor bank (35%) with common supervisor /regulator NABARD which regulates on behalf of RBI.

The central government first merged all RRBs of one sponsored bank working in one state just to make process smooth. In second phase GOI allowed to merge RRBs of different sponsor bank to RRB of different sponsor bank to achieve the ultimate goal of one state one RRB. It improved the financial strength, capital base and geographical presence of RRB to a significant Level.

Presently 43 RRBs are functional which were 196 in the year 2001.

The study based on the micro analysis of amalgamation process of Prathma Bank (Sponsor bank Syndicate bank) with Sarv UP Gramin Bank ( Sponsor bank Punjab National) Bank) with effect from 01.04.2019.

**2 Challenges before both managements of merged entities:**

The merger and amalgamation appears as win-win situation for both organizations and it is always established by both managements. It is a great perception that amalgamation will always add the capital, assets, liabilities, customer base and staff strength arithmetically but the results of amalgamation in banking could not support the same outcome, an example is merger of 1993 New bank of India with PNB damaged the efficiency parameters of PNB for years together and lot of industrial disputes were arises. Amalgamation of two banks is partially a physical process but a big chemical process in terms dissemination of person and cultures. All the banks working in the world have different culture and differentiated product and created a unique Sales strategy which has to be vanished fully or partially to develop a new culture which can never be suitable for both entities and requires a long gestation period which is a difficult transition phase. Even the customers have to face difficulties due to change in Technology (Interface), Culture and products.

**3 Methodology:**

Study is an attempt to understand the chemical part of changes and reactions of working hands (officers and employees), top Management, IT persons, customers and CEOs (Chairmen of Both entities). The GMs of general administration, HRD, IT, Planning and developments, recovery and credit division were contacted and long deliberations on the subject were made. The views were taken in pre and post amalgamation. The discussions were made with technology partners where outside services were utilized and internal IT chiefs which appears to most suffering persons

**4 ROADMAP FOR AMALGAMATION OF FINANCIAL INSTITUTION:**

All stake holders have to prepare a road map to successfully complete the process of amalgamation. Study will use the example of amalgamation of Prathma bank With Sarve UP Gramin bank (sponsor Bank PNB) effective from 01.04.2019.

**4.1 ACTION BY REGULATOR:**

- Approving the formation of the new bank as per the GOI Gazette Notification.
- Ratification of the actions and expenses of the new banks from the date of amalgamation and to the date of first Board meeting by the new Bank.
- Ratification of integrated products and services with their prices by the new Board.
- To issue suitable request letter to the central and State Government, RBI NABARD for appointment of their directors on the Board of the new RRB.
- To appoint the new chairman as the disciplinary authority of the new entity.

**4.2 JOBS TO BE DONE BY THE CHAIRMAN OF THE NEW RRB**

- To Suitably inform the Government of India, State Government, the Reserve bank of India, NABARD (both their Central Offices and State Regional Offices), the Head of District Administration (Commissioners, District Collectors, Police authorities, President and CEOs of Zila Panchayats of all districts under its area of operations, SLBC / DLCCs about Government of India Notification and appointment of chairman and taking over charge of the new entity.
- To issue press Notice indicating amalgamation to the clientele with the new name of the Bank, its area of operations, business hours, Soliciting their cooperation and continued support for the new entity.
- To suitably advise all its branches, controlling offices about Government of India Notification having amalgamated the RRBs and about his appointments as chairman of the new entity and date of his taking over charge of the new Bank. The address/telephone numbers of the Head office also to be circulated to all concerned including branches.
- To advise all branches, controlling offices about positioning of General Managers at HO and continuation of present chairman as officers on special Duty for the time being (Subject to directives of the regulator).
- To prepare and display banners at Head office. Direct all branches and controlling offices to display the same till permanent signboards are prepared. (A draft of the banner to be circulated to all branches for the sake of uniformity).
- To instruct branches/controlling Office to continue to use old stationery with the name of the new Bank by putting a rubber stamp, till the old stock is exhausted. (A sample to be circulated for this purpose-both for putting on stationery and normal rubber stamp).
- To send a communication to all branches/controlling office that it is business as usual. The existing norms and systems to continue, unless otherwise, communicated by the Head Office. In the name of amalgamation, branches should not stop doing business or neglect business, housekeeping etc. The branches are to be more active in amalgamation. Besides attending to the business development during banking hours, the branches should be ready for undertaking pre/post amalgamation audit.
- Open a new CSGL account with RBI/Sponsor bank and transfer all assets in the accounts of the earlier Banks in to the new account as on the date of amalgamation. If required, the new Board should provide an approval and delegate power to the Chairman designate to provide indemnity, if required for facilitating such transfer.
- Transfer all minute books of Board meetings of the old bank to the new Bank headquarters.
- Get the minutes of the last Board Meeting/s confirmed by their respective Board of Directors of the dissolved banks through circulation.
- Get such approved minutes of the last Board meeting of the respective Banks ratified by the newly reconstituted Bank.
- Pass a resolution placing on record the service of the retired Directors.
- Prepare a list of action points pending from the respective Board observations of the old Banks and get them followed up by the new Board.

**4.3 ACCOUNTS:**

- Closure of Books by branches as on the date of amalgamation.
- Prepare P&L and for the branches and the Bank.
- Reconcile all the accounts and balance the subsidiaries with the GL.

- Get the branches and bank audited as per guidelines
  - Provide for all expenses payable including arrears payable and expenses payable. Indicate all prepaid expenses.
- 4.4 OPERATING ACCOUNTS OF THE BANK/BRANCHES
- Get the clearing house membership transferred in the name of new bank from the dissolved Banks. This will require Board's approval and resolution. This should be done by the chairman right on the first day and ratification of the Board could be sought subsequently.
  - Get the old accounts transferred in to a new account opened with higher financing agencies like RBI/NABARD/SIDBI/NHB and other, if any. This also requires Board approval and resolution. This also could be attended and ratification of the Board could be obtained subsequently.
  - Merge all the existing accounts of each of the amalgamated Banks in to new consolidated accounts with such Banks as required by the changed operational requirements.
  - To advise all the Banks where the earlier Banks were maintaining accounts about constitution of new bank in terms of GOI Notification and about the authorized signatories, who will operate the accounts.
  - Centralize CRR/SLR/Non-SLR accounts of the amalgamated Banks at HO of the new Bank including transfer of share capital, Reserves, and share Capital deposit accounts.
- 4.5 REGULATIONS
- Applying for a license to Head Office with RBI- needs Board approval.
  - Request to RBI for allotment of BSR Uniform Code for offices and branches with the new bank name.
  - Issue of license/s and other Offices to be taken up with the RBI
  - Apply for new PAN, TAN and GST number etc.
  - Consolidate the DTL of the Bank and ensure SLR and CRR maintenance.
- 4.6 APPROVAL AND RATIFIACATION BY THE NEW BOARD
- Approving the formation of the new bank as per the GOI Gazette Notification.
  - Ratification of the actions and expenses of the new banks from the date of amalgamation and to the date of first Board meeting by the new Bank.
  - Ratification of integrated products and services with their prices by the new Board.
  - To appoint the new chairman as the disciplinary authority of the new entity.
  - Passing a resolution transferring all assets, interests and rights of the old Banks acquired by its activities (both staff and clients) in the name of new bank and intimating the same to the registrars and lien registering authorities for change of lien in the name of the new entity. Issuing a public notification to this extent for the notice of all concerned.
  - To adopt staff service regulations.
  - To adopt recruitment and promotion rules as per GOI Gazette Notification.
- 4.7 BUILDING STAFF CONFIDENCE
- Address the employees of the Bank through a communication immediately and through group meetings of branches at the earliest. In his letter, the chairman /CEO should seek the cooperation of employees and appeal for maintaining highest standard of customer's service and simultaneously assuring them about their welfare and career progression opportunities.
  - Interaction of higher authorities with the staff with merged bank
  - Iron out new problem areas, if any with the mutual discussion with staff incorporating their suggestions.
- 4.8 INTEGRATING PRODUCTS/SERVICES AND THEIR PRICING
- Bring commonality in the product features and pricing of deposits and loan products and service offered/to be offered by the new entity. Get it ratified by the new Board.
  - Issue Press Notification seeking customers support and patronage.
  - Circulate the new product features/revised products and pricing among all branches, to be prominently displayed in each of the branch premises of the new entity.
  - Print common stationery for revised products.
  - Effective rate of interest on deposits advances from the date of amalgamation.
- 4.9 RECONCILIATION OF ACCOUNTS
- Request for a statement of account as on the date of merger for all the accounts of the old Banks with various branches (sponsor bank as well as other Banks) and reconcile the same, with the books of erstwhile Banks.
- 4.10 ADMINISTRATION AND PREMISES ACTIVITIES
- Preparation of the list of inventories items branch/office-wise and acquiring them for the new entity and preparation of consolidated physical and financial inventory,
  - Preparation and painting of new inventory numbers on all assets of the new Bank.
  - Displaying the New Board with logo by all branches from a single date.
  - Intimating the change of names to all the offices and Banks.
  - Transferring the ownership of all the vehicles in the name of new Bank, with the respective RTOs.
  - Preparation and circulation of list of offices and officers and telephone/contact numbers of offices and officers for use by all concerned.

- Getting the policies in respect of all the insured items, in respect of theft, cash in premises, and in transit and remittance in the name of new entity and requesting insurance authorities to consider both their claims and devolvments in respect of erstwhile Banks (Prathma bank) in the name of new Bank (PUPGB).
- Getting the rights in respect of loans issued against insurance policies/KVP/NSC in the name of new Bank.
- Getting the lease agreements changed in the name of the new Bank and getting such lease expiring within three months renewed forthwith.

#### 4.11 STATIONERY & PRINTING

- Physical verification and reconciliation of stationery items with the records and confirmation thereof to Head Office.
- Balancing of security items in respect of old Banks as on the date of amalgamation with the record.
- Estimation of requirements of the new entity for the next one year,
- Printing and purchase of new stationery for the Bank with new logo and legend.

#### 4.12 COMPUTERIZATION

- Registering a new e-mail ID for the Bank.
- Standardization and unification of computer software for banking operations in the new Bank.
- Consolidation of computer software and platforms.
- Designing and launching of website for the new Bank.
- Contacting and communicating to vendors, service providers and suppliers.
- IT Programmes - Present soft-ware to continue for time being and process for migration to single platform to be started including issuance of new IFSC, IMPS system ,UPI and mobile banking, internet Banking RTGS, NEFT etc.
- Training to end users of RRBs being amalgamated.
- Network up gradation keeping in view the proposed new (here Finacle 10) migration.

#### 4.13 STAFF MATTERS/ISSUES

- Providing new personal ID number to all staff members.
- Transfer the service records of staff to the new HO.
- Incorporating the new Bank's name in the old GPA or providing a new GPA to all the holders based on the legal opinion.
- Fixation of inter-se seniority.
- Removing anomalies in pay and allowances, system and procedures relating to staff.
- Bringing uniformity in pay, perks and allowances to all the staff members.
- Effecting recoveries from the salaries of staff as per standing instructions with the old Banks.
- Enforcing a centralized salary system in to operation at the earliest.
- Devising a common PAR (performance Appraisal Report) and operationalizing its implementations.
- Disciplinary cases: Enquiries and proceedings to continue. Punishment: To be taken by the new DA (Disciplinary authority) after approval by the Board.
- Provident Fund: To continue.
- Gratuity: To continue. To provide for deficit in gratuity fund, if any based on actuarial report.
- Delegation of Powers: to authorize to sanction HR expenditures like TA/Leave/Medical Bills etc.
- To recognize trade unions based on amalgamated status.
- To review the status of conciliation proceedings, if any.

#### 4.14 INSPECTION & CONTROL SYSTEM

- Standardization of returns to be submitted by the branches.
- Rationalization of branch returns.
- Bringing in uniformity in norms for inspection and gradation of branches.
- Providing common compliance and closure guidelines.
- Bringing uniformity in conduct, compliance and closure of revenue audit in the new Bank.
- Providing compliance to pending NABARD INSPECTION, MANAGEMENT AUDIT AND LPAR by the Bank and list branches and monitoring thereof with a time frame for compliance.
- Preparation of common manual of instructions.
- Preparation of common instructions on operational matters.

#### 4.15 LEGAL ISSUES

- Ongoing Court Cases/Taxation/other litigation.
- Transfer of Consumer Court Cases.
- Transfer of Suit Filed by the Employees.
- Transfer of these cases in the name of new entity. Chairman to delegate powers with the approval of the Board.

#### 4.16 OTHER ISSUES

- Preparation of new specimen signature cards of officers-scanning and circulation among branches.
- Brining in force a consolidated HO account for the new Bank.
- Consolidation of all G-SEC in the name of new Bank.
- Classification of Securities: held for trading and held for maturity.
- Providing amortization on securities, if required.



- Follow-up of overdue investment for realization.
- Diarizing of dates of maturity and interest payment in respect of all securities.
- Transferring the physical non-SLR securities in to demat form.
- Opening and operationalizing single demat account for the Bank.
- Follow-up of non performing investment. (including follow-up for DRT/BIFR cases)
- Review in compliance of exposure norms and IRAC norms.
- Bringing in all CRR accounts in to one CRR account with the RBI.
- Consolidating remittances of DICGC premium.
- Consolidation of borrowing from NABARD.
- Executing a new Memorandum of General Agreement with NABARD for borrowing.
- Consolidation of borrowing and repayment schedules of NABARD, SIDBI, NHB, institution-wise.
- Reconciliation of DDs issued with sponsor Bank and other Banks.
- Reconciliation of Head Office account.
- Reconciliation of inter-branch account.
- Balancing of Books of on a regular basis and review thereof.
- Consolidation of MOU executed with the Sponsor Bank (only in case of RRBs): To consolidate MOUs of all banks into one. To draw a new MOU for the new Bank.
- Reservation Policy: To be guided by the directives issued by the GOI from time to time.
- Delegation of powers for deposits, advances, compromise, write-off and other operational matters from the date of amalgamation.
- Position of LCs/guarantees issued.
- Inter-branch transactions to continue for the time being as presently in force but upgrade to new branches.
- Guidelines issued by Competition Commission of India (CCI) must be Adhered.

## 5 CONCLUSION:

The amalgamation process is not a simple adding of the books of two separate banks on the order of regulator /government. The boards of both banks proposed to be merged should take all precautions regarding, operational guidelines, prevailing regulations, by laws, accounting system and dealing of bank with outside world while passing the final resolution for merger as both existing boards will be defunct and new board of new entity will emerged. The Chairman /CEO of both banks sit together amicably and egoless to make out the plans for transit period. The CEO of new emerged bank has to repeatedly address the issues of technology, staff, pending reconciliation of account books. The CEO, top management and senior level management should make intense contact with customers of merged /amalgamated bank to address their issue of transit face and to develop their confidence in new entity (bank).

## REFERENCES

- [1] <https://financialservices.gov.in/annual-report> Related notifications of Government of India Ministry of Finance Dept of DFS were deeply referred.
- [2] <https://www.nabard.org/auth/writereaddata/tender/2011185736RBI%20Guidelines.pdf>.
- [3] Agarwal Chirag and Sachdeva Ruchit university of Delhi.
- [4] Anderibom, Samuila, & Obute (2015), "The Effect of Mergers and Acquisitions on the Performance of Commercial Banks in Nigeria: Evidenced from United Bank for Africa (UBA) plc". International Journal of Education and Research,3(4).
- [5] M Jayadev (2012) Merger in Indian Banking
- [6] Bhatti, U and Hanif. M. 2010. Validity of Capital Assets Pricing Model. Evidence from KSE-Pakistan. European Journal of Economics, Finance and Administrative Science, 3 (20)