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The Effect on the Financial Performance of Banks Pre and Post-Merger- A Review of the literature

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Abstract- The Bank plays a important role in the economy of a country. Merger is very common in the field of companies as well as Banking sector. The objective of merger has been changed time to time. There are mega merger has been made in the banking sector within last few years. This paper evaluates the financial performance of Banks pre and post merger. This Study covers a sample of few nationalized Banks and international Banks which were got merge during 2010 -2020. Financial performance checked by using various financial ratios like, Net Profit Margin, ROA, Return on Advances, Debt/Equity ratio, Current Ratio, Quick Ratio and EPS.T-test was applied for before and after merger data. The study revealed that post-merger financial performance has improved in few cases and few Banks did not perform well. Researchers can undertake further studies on merger of banks in the area of current and saving deposits, NPA and dismissal of employees and product of banks, like mutual fund and Insurance.

Keywords: Financial performance, Merger and Acquisition, Bank, Profitability.

Introduction

Banking and Banking Company

According to the Banking Regulation Act, 1949, a banking means the accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise and withdrawn by Cheque, Draft, Order, or otherwise.

According to Sec. 5 of the Banking Regulation Act, 1949, a "banking company" means any company which transacts the business of banking [in India].

The Indian banking sector is a spine of Indian economy. Indian Banking sector has a significant role to play in the economic development of the country. Many reforms have been done in the Banking system of India for the last three decades. There are two types of banks in the banking sector, that is, Scheduled commercial banks and non-scheduled commercial banks. Banks that are registered in Schedule II of the Reserve Bank of India Act, 1934 are known as scheduled banks. Scheduled banks are further divided into three categories i.e., public sector banks, private sector banks, and foreign banks. (Dr. S. Kulothunga Pandian (2020)

All the nationalized banks, State Bank of India and Regional Rural Banks are known as public sector banks. The private sector is of two types, that is, new private sector banks and old private sector banks. Banks working in rural areas are known as regional rural banks. These banks are sponsored by any particular bank, state, and central government. Seeds of the banking sector are sown back in the 18th century during colonial time and the first bank established in India were **General Bank of India and Bank of Hindustan established in 1786 and 1790** respectively. (Dr. S. Kulothunga Pandian (2020)

Merger and Acquisition

Mergers and acquisitions are global business terms used in achieving growth and survival. Merger entails the coming together of two or more firms to become one big firm while acquisition is the takeover or purchase of a small firm by a big firm; which are both pursuing similar motives (Gaughan, 1994; Amedu, 2004; Bello, 2004;Katty, 2005)

According to G Stedman (1993), Merger simply means ‘’ the coming together or amalgamation of two or more companies or firms to form a new and bigger company or firm. Angwin (1970) referred to Acquisition as a takeover.

Mergers and acquisition can be classified into three main types: horizontal, vertical and
conglomerate merges (Avulala. E. 2015).

The main motive of any organization to undertake merger and acquisition is to improve their organization culture (Chavan & Upadhyaya, 2014).

Sai and Vinay (2015) discovered that majority of customers prefer private sector banks over public sector banks because of more emphasis on building customer relationship and modern infrastructure. Public sector banks need to focus upon the reduction of service gaps in order to compete in the global market place (Dhar and Kushwah, 2009)

Merger and acquisition can help the banks to develop, deflate, and change the nature of their business and their position in the market. However, there are few challenges faced by the banks in the process of merger such as over lapping of branches, huge bad loans, dismissal of employees etc.., (Satyanarayana, Raju, &Naidy, 2017)

Effects of a merger of PSB (Public sector banks) in the current scenario

As per the previous records that Indian banking sector has made frisky growth in terms of revenue due to supportive factors, but few banks were not utilize their resources and perform not well. To improve their financial performance few banks were merged with other banks. In spite of this object the merger is to improve banking services, create operational and financial synergy, increase share value, expand the market, control on NPA, arrangement of recapitalization.There are some reasons to need the merger of banks in current scenario-

1.The number of PSBs are very high,

2. Recapitalisation need will come down,

3. Regulatory burden will come down,

4. The NPAs (Non performing Assets) are very high.

5. Technology up gradation improve,

Literature Review-

Merger and acquisition and its impact on Indian nationalized banks performance

Year	Author(s)	Sample of Study	Methodology	Findings
2018	Ritesh Patel	5 Banks and 10 years period (5 years before and 5 years after merger).	Earnings per share, net profit margin, profit per employee, return on assets, return on equity, yield on advances and yield on investments	In the post-merger period, the profitability of all four banks decreased. The State bank of India also found a mix impact of merger, but the impact is more towards the positive side
2016	Ritesh Patel1 and Dharmesh Shah2	A sample of six banks, which were got, merge during year 2004 to 2010. The selection of six banks year wise are: Oriental Bank of Commerce (2004), Federal Bank (2006), IDBI (2006), Indian Overseas Bank (2007), HDFC Bank (2008) & ICICI Bank (2010). Here, to perform Stock risk-return analysis.	Average abnormal returns(AAR), Cumulative abnormal returns (CAR), Security returns variability (SRV)	It is concluded that after merger stock return was remain positive for 2 banks, negative for 3 banks and average for 1 bank. After merger, unsystematic risk was increased for 2 banks, decreased for 2 banks where as it remains same for 2 banks over both periods
2020	Dr. S. Kulothunga	3 public sector banks, namely, Bank of	Net Profit Ratio, Return on	Results show that mergers increase the performance and

	Pandian	Baroda, State Bank of India, and IDBI Bank. The data collected is of eleven years, from 2000 to 2010	Equity, Return on Assets, Earnings per Share, Profit per Employee	efficiency of banks. The most important factors are to generate higher net profits in post-merger.the decision taken by the management for the merger is justified to the shareholders.
2015	Simranjeet Singh	two merger case (Sangli Bank in 2007 and Bank of Rajasthan in 2010) with ICICI Bank have been taken.	Profitability Standards, in Financial Leverage Standards, Liquidity Standards, Capital Market Standards	It is conclude that, out of total performance ratios of ICICI Bank half of ratios have significantly changed after mergers in both sample cases. While other half of ratios have not significantly changed after merger.
2018	Ekta Saraswat* Dr Abhishek Singh** Dr K.B.Singh***	Pre-merger period of 2008-09 &2009-10 & Post-merger period of 2011-12, 2012-13	ROA.	the merger did not yield significant financial improvement for SBI, as the change in mean was seen as insignificant. It was also observed that volatility increased due to merger.
2018	Pushpitha S , Nikitha V Bharadwaj, Dr.Aruna P	The period considered for this study is from 2015 till 2018 (i.e.,) 3 years	CAMEL parameter, average, ranking (descriptive statistics) and paired t-test	It is concluded that there is no significant difference in the SBI's financial performance pre and post merger. there is not much improvements in the financial condition post-merger when compared

				to its pre-merger.
2016	Veena, K. P., & Patti, S. N.	ICICI	liquidity ratios, leverage ratios, and growth ratios	it was concluded that financial performance of ICICI bank Ltd improved post-merger
2017	Dr. Azeem Ahmad khan,Dr Sarfaraz Javed	punjab national bank (pnb) and nedungadi bank	Profitability, Operational efficiency and Asset utilization, Solvency, Business performance	it has been found that after the merger PNB has sustain its financial performance and has significantly improved after the merger. it leads to the conclusion that after 10 years PNB started getting benefit from the merger

Merger and acquisition and its impact on International banks performance

Merger and Acquisition are playing a important role in Banking sector to improve their financial performance not in India but also across the border. There are so many counties in which Merger and Acquisition has imposed for improve their banking industries financial reputation. There are some review literature on merger and acquisition of overseas banking industries.

Year	Author(s)	Sample of Study	Methodology	Findings
2015	Khong Yeen Lai, Tee Peck Ling, Tan Kok Eng, Low Suet Cheng, and Lim Fung Ting	9 Malaysia local banks during the pre-merger period (year 1999-2001) and the post-merger period (year 2002-2010)	**Data Envelopment Analysis**, T-Value testing, paired sample T-test and financial ratio analysis.	No significant improvement in Malaysia Local banks" overall financial performance for pre-merger and past merger. Most of the banks have no positive improvement and some are remaining unchanged
2017	Magina Shrestha1, Ram Kumar	(6 years period and 8 financial Ratio) Six banks and	Non-Performing Loan (NPL), SR (Spread Ratio),	Merger is beneficial only in the cases where large and stable parties such as

	Thapa2 and Ram Kumar Phuyal3	financial institutions are considered as sample to undertake this study along with 120 respondents for secondary and primary data respectively.	Net Profit Margin (NPM), Return on Assets (ROA), Return on Equity (ROE), Earning per Share (EPS)	commercial banks are involved and the financial performance of bidder BFIs improves after merger but the changes are not significant.
2016	Daniya Adeiza Abdulazeez* and Onotu Suleiman and Abdulrahaman Yahaya	4 banks and 6 year period From 2002 to 2008	Descriptive and T-test statistics were used to analyze the data obtained from the annual reports and accounts of the sampled banks via SPSS.	There is an improved performance on the part of selected commercial banks due to merger and acquisition.
2013	Sani, John1 & Alani, G. O.2	Based on secondary data from eight banks over a six-year of 2002 to 2008 pre and post recapitalisation periods.	pre-tax profit margin, return on total assets, net interest income on loans and advances, on earnings per share, dividend per share, return on equity.	The recapitalisation had a significant effect on net income on loans and advances and return on equity. It does not have a significant effect on pre-tax profit margin, return on total assets, earnings per share and dividend per share for the period investigated.
2018	Hiyam Sujud	Audi-Saradar Group during the pre-merger period (2000-2003) and the post-merger period (2004-2007), second, paired sample t-test	return on assets, return on equity, earnings per share, (return on assets (ROA), the return on equity (ROE) ratios	After merger of banks does not affect significantly the profitability of Lebanese bank. Merging does not affect significantly return on assets and return on equity.

2011	Boniface Muita Ndung'u	16 commercial banks that have undergone mergers between 1999 and 2005.	The study used mainly secondary data from the NSE, CBK, published facts and figures and reports for the period in study. The data was analyzed on the basis of the mean. The t-test was computed to test the null hypothesis.	Increase in the profitability of the banks after merger and also increase in solvency and capital adequacy of the banks after merger.
2016	OKOYE, Lawrence Uchenna & others	A period of nine (9) years before and nine (9) after the 2005 banking sector recapitalization exercise. Data on the variables were analyzed	return on assets (ROA), bank assets ratio (BAR) and capital adequacy ratio (CAR). ROA	The study finds that there is non-significant negative difference in the performance of return on asset in the pre- and post merger and acquisition periods. mergers and acquisitions have significant impact on banking sector performance in Nigeria

Conclusion- This paper provides a view on the effect of financial performance of Banks pre and post Merger.. The study is based on Indian nationalized bank and overseas Banks also. This study is also given effect of merger on banks performance and utilization of assets capacity. Some studies concluded that after merger SBI did not significant improve its financial performance. Some other studies examine that SBI found a mix impact towards positive side of merger.

Some other studies argues that In case of merger of ICICI Bank , out of total performance ratio half of ratios have significantly changed after merger and half of ratios have not significantly changed after merger. other study conclude that ICICI Bank does not able to utilize its assets and capital in proper manner which leads to decrease

EVA after merger but IDBI Bank has utilized its capital and assets efficiently which leads to highest increase in EVA.

As per the result of other overseas studies that mergers and acquisitions have significant impact on banking sector performance in Nigeria, and no significant improvement in Malaysia Local banks" overall financial performance of pre-merger and past merger. other studies revealed that After merger of banks does not affect significantly the profitability of Lebanese bank

Hence this study is conclude that performance of Banks after merger was remain positive and negative both . It means merger does not show any great changes in terms of its Capital adequacy, Asset Quality & utilization , Management Efficiency, Earnings Quality, Liquidity position.

The Objectives of mergers of Banks in current scenario is totally different from the past mergers. It reflect in the merger of Public sector Banks on or after 2017 In India. Researchers can undertake further studies on merger of banks in the area of current and Saving deposits, NPA and dismissal of employees and product of banks like mutual fund and Insurance. Analysis of Financial performance of banks after recent merger is also a area of future research. Merger will improve financial performance of banking sector, but it reflect in long run. If we want to see the positive impact of merger immediately, this is not right. Gradually merger will increase the performance of banks in the positive manner. It would not be wrong to say that the positive effect of merger will be shown after 4-5 years of merger. Government has taken the decision of merger of banks for reduce recapitalization, reduce NPA and increase its controlling power on PSB. As a developing country merger plays an important role to improve financial performance of banking sector and survival of weak banks.

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