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MERGER OF PUBLIC SECTOR BANKS IN 2020-AN OVERVIEW

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Abstract

The financial services industry, particularly the banking industry, has undergone significant transformation all over the world since the early 1980s under the impact of technological advances, deregulation and globalisation. An important aspect of this process has been consolidation as a large number of banks have been merged, amalgamated or restructured. The merger of public sector banks (PSBs) involves integration of weaker PSBs with better performing 'anchor' banks. Consolidation of Public Sector Banks (PSBs) are expected to be advantageous for reasons like improved profitability, rationalization of operational costs, improved ability to deal with external shocks, reduced geographical concentration risk, greater capacity to invest in technology and to raise capital from the market.

Key words: Public Sector Banks, Merger and Amalgamation.

Introduction

The financial services industry, particularly the banking industry, has undergone significant transformation all over the world since the early 1980s under the impact of technological advances, deregulation and globalisation. An important aspect of this process has been consolidation as a large number of banks have been merged, amalgamated or restructured. Although the process of consolidation began in the 1980s, it accelerated in the 1990s when macro economic pressures and banking crises forced the banking industry to alter its business strategies and the regulators to deregulate the banking sector at the national level and open up financial markets to foreign competition.

The Indian banking sector has not remained insulate from the global forces driving Merger and amalgamation across the countries. M&A (Merger and amalgamation) activity in the Indian banking sector is not something new as it took place even before the independence. However, economic reforms introduced in the early 1990s brought out a comprehensive change in the business strategy of banks, whereby they resorted to mergers and amalgamations to enhance size and efficiency to gain competitive strength.

At present banking system in India is evolving with a mixture of bank types serving different segments of the economy. In the last few years, the system has seen entry of new banks and emergence new bank types targeted to serve niche segments of the society. However, banking system continues to be dominated by Public Sector Banks (PSBs) which still have more than 70 per cent market share of the banking system assets. At present there are 27 PSBs with varying sizes. State Bank of India, the largest bank, has balance sheet size which is roughly 17 times the size of smallest public sector bank. Most PSBs follow roughly similar business models and many of them are also competing with each other in most market segments they are active in. Further, PSBs have broadly similar organisational structure and human resource policies. It has been argued that India has too many PSBs with similar characteristics and a consolidation among PSBs can result in reaping rich benefits of economies of scale and scope.

Objective of study

1. To study about the PSBs and amalgamation in India
2. To analyse the conditions which lead to merger of Public sector banks
3. To analyse the possible effects of this merger on banking sector of India

Review of literature

Ishwarya J (2019), explained in her study Mergers and Acquisition of SBI and its Associate banks. Merger is a deal between two or more existing companies to combine into an another company and on the other hand, an Acquisition is a corporate action in which a company buys all or almost all ownership stakes of another firm to have authorisation rights and all major control over it. It occurs only when the company buys more than 50% of its equity ownership stocks and other assets. Mergers or acquisitions are done by a company to expand their business, spread their market reach, involve in new areas or to increase their market share.

Goyal, Krishn & Joshi, Vijay (2011), depicts that Mergers in Banking Industry of India, Indian rural markets have great potentials which are still unexplored and the banks are using mergers as a strategic tool like ICICI bank which is amalgamating with local and small banks that are struggling to compete with global competitors.

Research Methodology

The study is descriptive in nature. The source of literature and data is secondary which has been collected from various press releases, government committee reports, research publications, journals and newsletters from various Internet websites regarding the contents of study. The performance reports of banks are taken from Reserve Bank of India (RBI) official website.

Merger of Public Sector Banks

Committees related to Merger of PSBs

The issue of consolidation in PSBs is not a new idea. It has been discussed by various committees. *Narasimham Committee* (1998) recommended a three tier banking structure in India through the establishment of three large banks with international presence, eight to ten national banks and a large number of regional and local banks. In 2004, the *Indian Banking Association (IBA) report* suggested corporatization of PSBs to accelerate the process of consolidation. In 2008, a *Planning Commission Report* also stated that given the fragmented nature of the Indian banking system and the small size of the typical bank, there was a need to encourage but not force consolidation of banks in India. *Leeladhar Committee* (2008) observed that there were adequate legal provisions available which encourage and promote consolidation within the PSBs through the merger and amalgamation route. In 2014, *Nayak Committee* further emphasized the importance of governance in PSBs and thus stated that the decision of a merger or an amalgamation in the PSBs must be through the respective boards of the banks keeping in view the synergies and benefits of merger.

Legal framework for consolidation among PSBs

Trends in Mergers and Amalgamations

Consolidation of banks through M&A's is not a new phenomenon for the Indian banking system, which has been going on for several years. Since the beginning of modern banking in India through the setting up of English Agency House in the 18th century, the most significant merger in the pre-Independence era was that of the three Presidency banks founded in the 19th century in 1935 to form the Imperial Bank of India (renamed as State Bank of India in 1955). In 1959, State Bank of India acquired the state-owned banks of eight former princely States. In order to strengthen the banking system, Travancore Cochin Banking Enquiry Commission (1956) recommended for closure/amalgamation of weak banks. Consequently, through closure/ amalgamations that followed, the number of reporting commercial banks declined from 561 in 1951 to 89 in June 1969.

Merger of banks took place under the direction of the Reserve Bank during the 1960s. During 1961 to 1969, 36 weak banks, both in the public and private sectors, were merged with other stronger banks. There have been several bank amalgamations in India in the post-reform period. In all, there have been 33 M&As since the nationalisation of 14 major banks in 1969, Of these mergers, 25 involved mergers of private sector banks with public sector banks, while in the remaining eight cases, mergers involved private sector banks. Out of 33, 21 M&As took place during the post-reform period with as many as 17 mergers/ amalgamations taking place during 1999 and after Prior to 1999, the amalgamations of banks were primarily triggered by the weak financials of the bank being merged, whereas in the post-1999 period, there have also been mergers between healthy banks, driven by the business and commercial considerations (Leeladhar, 2008).

More recently the process of M&As in the Indian banking sector has been generally market driven. Given the policy objective of mergers, most of the mergers between banks in India have taken place voluntarily for strategic purposes. Given the difficulty of small banks to compete with large banks, which enjoy enormous economies of scale and scope, the Reserve Bank has been encouraging the consolidation process, wherever possible. Most of the amalgamations of private sector banks in the post nationalisation period were induced by the Reserve Bank in the larger public interest, under Section 45 of the Act. In all these cases, the weak or financially distressed banks were amalgamated with the healthy banks.

Table -1

Banks Amalgamated since Nationalisation of Banks in India

S.No.	Name of Transferor Bank/Institution	Name of Transferee Bank/Institution	Date of Amalgamation
1	Bank of Bihar Ltd.	State Bank of India	November 8, 1969
2	National Bank of Lahore Ltd	State Bank of India	February 20, 1970
3	Miraj State Bank Ltd.	Union Bank of India	July 29, 1985
4	Lakshmi Commercial Bank Ltd.	Canara Bank	August 24, 1985
5	Bank of Cochin Ltd.	State Bank of India	August 26, 1985
6	Hindustan Commercial Bank Ltd.	Punjab National Bank	December 19, 1986
7	Traders Bank Ltd.	Bank of Baroda	May 13, 1988
8	United Industrial Bank Ltd.	Allahabad Bank	October 31, 1989
9	Bank of Tamilnadu Ltd.	Indian Overseas Bank	February 20, 1990
10	Bank of Thanjavur Ltd.	Indian Bank	February 20, 1990
11	Parur Central Bank Ltd.	Bank of India	February 20, 1990
12	Purbanchal Bank Ltd.	Central Bank of India	August 29, 1990
13	New Bank of India	Punjab National Bank	September 4, 1993
14	Kashi Nath Seth Bank Ltd.	State Bank of India	January 1, 1996
15	Bari Doab Bank Ltd.	Oriental Bank of Commerce	April 8, 1997
16	Punjab Co-operative Bank Ltd.	Oriental Bank of Commerce	April 8, 1997
17	Bareilly Corporation Bank Ltd.	Bank of Baroda	June 3, 1999
18	Sikkim Bank Ltd.	Union Bank of India	December 22, 1999
19	Times Bank Ltd.	HDFC Bank Ltd.	February 26, 2000

20	Bank of Madura Ltd.	ICICI Bank Ltd.	March 10, 2001
21	ICICI Ltd.	ICICI Bank Ltd.	May 3, 2002
22	Benares State Bank Ltd.	Bank of Baroda	June 20, 2002
23	Nedungadi Bank Ltd.	Punjab National Bank	February 1, 2003
24	South Gujarat Local Area Bank Ltd.	Bank of Baroda	June 25, 2004
25	Global Trust Bank Ltd.	Oriental Bank of Commerce	August 14, 2004
26	IDBI Bank Ltd.	IDBI Ltd	April 2, 2005
27	Bank of Punjab Ltd.	Centurion Bank Ltd.	October 1, 2005
28	Ganesh Bank of Kurundwad Ltd.	Federal Bank Ltd.	September 2, 2006
29	United Western Bank Ltd.	IDBI Ltd.	October 3, 2006
30	Bharat Overseas Bank Ltd.	Indian Overseas Bank	March 31, 2007
31	Sangli Bank Ltd.	ICICI Bank Ltd.	April 19, 2007
32	Lord Krishna Bank Ltd.	Centurion Bank of Punjab Ltd.	August 29, 2007
33	Centurion Bank of Punjab Ltd.	HDFC Bank Ltd.	May 23, 2008

Source: Report on Trend and Progress, RBI, Various Issues.

Recent merger of public sector banks

The merger of public sector banks (PSBs) involves integration of six weaker PSBs with four better performing 'anchor' banks. Andhra Bank and Corporation Bank were merged with Union Bank while Oriental Bank of Commerce and United Bank were merged with Punjab National Bank. Syndicate Bank has been merged with Canara Bank, while Allahabad Bank with Indian Bank. The mergers took effect from 1.4.2020. Dena bank and Vijaya bank were merged with Bank of Baroda in 2019.

Punjab National Bank (PNB) has become the country's second-largest bank, with business size of Rs 17.94 lakh crore, after SBI which has the business of over Rs 52 lakh crore. 2nd largest branch network in India, with 11,437 branches.

Table-2

Amalgamation of Punjab National Bank

S.No.	Particulars	PNB	OBC	United Bank of India	Amalgamated bank
1	Total business (in crore ₹)	11,82,224	4,04,194	2,08,106	17,94,526
2	Gross advances (in crore ₹)	5,06,194	1,71,549	73,123	7,50,867
3	Deposits (in crore ₹)	6,76,030	2,32,645	1,34,983	10,43,659
4	CASA ratio	42.16%	29.40%	51.45%	40.52%
5	Domestic branches	6,992	2,390	2,055	11,437
6	PCR	61.72%	56.53%	51.17%	59.59%
7	CET-I ratio	6.21%	9.86%	10.14%	7.46%
8	CRAR ratio	9.73%	12.73%	13.00%	10.77%
9	Net NPA ratio	6.55%	5.93%	8.67%	6.61%
10	Employees	65,116	21,729	13,804	1,00,649

Source: ministry of finance, March 2019

Canara Bank has become the fourth-largest public sector bank of the country. After the merger, the combined business is Rs 15.20 lakh crore and a lower gross NPA ratio of 8.77%. 3rd largest branch network in India, with 10,342 branches.

Table-3

Amalgamation of Canara Bank

S.No.	Particulars	Canara Bank	Syndicate Bank	Amalgamated bank
1	Total business (in crore ₹)	10,43,249	4,77,046	15,20,295
2	Gross advances (in crore ₹)	4,44,216	2,17,149	6,61,365
3	Deposits (in crore ₹)	5,99,033	2,59,897	8,58,930
4	CASA ratio	29.18%	32.58%	30.21%
5	Domestic branches	6,310	4,032	10,342
6	PCR	41.48%	48.83%	44.32%
7	CET-I ratio	8.31%	9.31%	8.62%
8	CRAR ratio	11.90%	14.23%	12.63%
9	Net NPA ratio	5.37%	6.16%	5.62%
10	Employees	58,350	31,535	89,885

Source: ministry of finance, March 2019

Union Bank of India post-merger has become 5th largest PSB. The combined business base of the merged bank is Rs 14.59 lakh crore. Union Bank has a high Net NPA ratio of 6.85%.4th largest branch network in India, with 9,609 branches.

Table-4

Amalgamation of Union Bank

Source: ministry of finance, March 2019

S.No.	Particulars	Union Bank	Andhra Bank	Corporation Bank	Amalgamated bank
1	Total business (in crore ₹)	7,41,307	3,98,511	3,19,616	14,59,434
2	Gross advances (in crore ₹)	3,25,392	1,78,690	1,35,048	6,39,130
3	Deposits (in crore ₹)	4,15,915	2,19,821	1,84,568	8,20,304
4	CASA ratio	36.10%	31.39%	31.59%	33.82%
5	Domestic branches	4,292	2,885	2,432	9,609
6	PCR	58.27%	68.62%	66.60%	63.07%
7	CET-I ratio	8.02%	8.43%	10.39%	8.63%
8	CRAR ratio	11.78%	13.69%	12.30%	12.39%
9	Net NPA ratio	6.85%	5.73%	5.71%	6.30%
10	Employees	37,262	20,346	17,776	75,384

Indian Bank has assets of Rs 8.07 lakh crore post-merger becoming 7th largest PSB. Indian Bank had a net NPA ratio of 3.75%.

Table-5

Amalgamation of Indian Bank

S.No.	Particulars	Indian Bank	Allahabad Bank	Amalgamated bank
1	Total business (in crore ₹)	4,29,972	3,77,887	8,07,859
2	Gross advances (in crore ₹)	1,87,896	1,63,552	3,51,448
3	Deposits (in crore ₹)	2,42,076	2,14,335	4,56,411
4	CASA ratio	34.71%	49.49%	41.65%
5	Domestic branches	2,875	3,229	6,104
6	PCR	49.13%	74.15%	66.21%
7	CET-I ratio	10.96%	9.65%	10.36%
8	CRAR ratio	13.21%	12.51%	12.89%
9	Net NPA ratio	3.75%	5.22%	4.39%
10	Employees	19,604	23,210	42,814

Source: ministry of finance, March 2019

Analysis

The following data has been summarized from RBI's Financial Stability Report released in January 2021.

Credit growth of all banks, which had declined to 5.7% by March 2020, plummeted further to 5.0% by September 2020. For PSBs, credit growth zoomed from 3.0% in March 2020 to 4.6% in September 2020.

The other business component or deposit growth of all banks was buoyant at 10.3% driven by precautionary savings. PSBs recorded a growth of 9.6%, among the highest in the last five years.

On the earnings front, PSBs net interest income (NII) grew at a much higher rate of 16.2% in September 2020 (13.0% in March 2020). Net interest margin (NIM) jumped up in September 2020. However, growth in Other Operating Income (OOI) plummeted to 1.2% from 29.2% in March 2020.

Earnings before provisions and taxes (EBPT) of PSBs grew by 17.6%. Return on assets (RoA) and return on equity (RoE) improved substantially with the recovery in RoE of PSBs being particularly noteworthy after languishing at sub-zero and near zero levels for the past four years. Falling interest rates led to cost of funds declining.

So profits parameters have recorded significantly optimistic growth for the merged PSBs in the Financial Year 2021.

Merits of Merger

- A large capital base would help the acquirer banks to offer a large loan amount
- Service delivery can get improved
- Recapitalization need from the government to reduce
- Customers will have a wide array of products like mutual funds and insurance to choose from, in additional to the traditional loans and deposits
- Technological up gradation can be considered

Demerits of Merger

- Bank officials and unions of PSBs were against the merger and the government should not have went forward with the step.
- It would be tough to manage issues pertaining to human resource.
- Few large inter-linked banks can expose the broader economy to enhanced financial risks
- The local identity of small banks won't be that big.
- Customers are expected to get harrassed initially. This in reality has materialized and the banks are working on this.

Conclusion

The analysis and interpretation of the gathered data and literature shows that the merger of public sector banks was a needed action made by the government of India to strengthen the banking system of the country and this will lead India to have a global reach and greater presence for international trade along with an effective consolidation plan to control NPAs and increase credit growth of banks.

Consolidation of Public Sector Banks (PSBs) are expected to be advantageous for reasons like improved profitability, rationalization of operational costs, improved ability to deal with external shocks, reduced geographical concentration risk, greater capacity to invest in technology and to raise capital from the market. But there could be challenges of resistance from trade unions, integration of human resources, technological systems, accounting practices etc. India needs a mix of efficiently run PSBs, small finance banks, Payment Banks and Private banks to achieve growth and development along with social justice.

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