IMPACT OF MERGERS IN THE BANKING INDUSTRY

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Abstract: The government owns majority stakes in 21 lenders, which account for more than two-thirds of banking assets in Aisa's third biggest economy. The Proposed merger follows a similar more by the government in February last year when it merged State Bank of India (SBI) with us five subsidiary banks, helping the country's largest lender by assets increase its scale and cut expenses through synergies. The government announced its plan to merge three public sector banks, (PSB) to create the third largest lender of the country, as port of efforts to clean up the country's banking system. The merger will help improve operational efficiency and customer services.

Index Terms- Banking System, Merger**.**

I. Introduction

The USA market saw a merger boom in 1996 in Europe too, with the merger between the Swiss banks UBS and SBC which has led to the creating of one of the largest banks in the world. 1998 saw the creation if the world's largest financial group - city group formed by the merger between Citi bank and traveler.

For almost 100 years mergers and acquisitions have been used as a strategic management instrument in many enterprise company mergers and acquisitions reached their peak in the twenty-first century with this trend gradually spreading too Asia. The economic environment of the banking industry is changing rapidly and competition is increasing drastically commercial banks face the problems of changes in customer habit and varied financial products offered by the competitors.

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The merger would involve synergies in the branch net work, low-cost deposit and subsidiaries.

The government proposed to merger of three banks – Bank of Baroda, Vijaya Bank and Dena Bank – aimed at creating the country's third biggest lendor.

The boards of the three banks will now consider the proposal.

Parameters	Bank of Baroda	Vijaya Bank	Dena Bank	Merged Entity
Total Business (Rs. Cr)	1029810	279575	172940	1482325
Deposits (Rs. Cr)	581485	157325	103020	841830
Grass advance (Rs. Cr)	448330	122350	69920	640600
Employees	56360	15875	13440	85675
Branches (Domestic)	5502	2130	1858	9490
Deposit (Branch Rs.Cr)	106	74	55	89
Advance (Branch Rs.Cr)	81	57	388	68
ROA (%)	0.29	0.32	-2:43	-0.02
CET1Capital ratio (%)	9.27	10.35	8.15	9.32
CRAR Capital ratio (%)	12.13	13.91	10	12.25
Net NPA %	5.4	4.1	11.04	5.71
CASA Ratio	35.52	24.91	39.8	34.06

The combined entry will have a strong presence across the nation with more than 34% of low cost deposits, a capital buffer of nearly 12%,and a business book of Rs.14.82 lakh crore. Bank of Baroda is the biggest of the three with Rs.10.29 lakh crore of total business, followed by Vijayabank at Rs.2.79 lakh crore, "The government has suggested this to the banks to consider these proposals, and hopefully shortly the board will meet and after adequate consultation will take a decision Finance Minister - ArunJaitley.

II COMBINED ENTITY BUSINESS OF THREE BANKS

Name of Bank	(Rs. Lakh Crore)
Bank of Baroda	10.29

Vijaya Bank	2.79
Dena Bank	1.72
Total	**14.80**

2.1 Top Banks Compare to merged

Parameters	SBI	ICICI	Merged Entity (Rs. Crore)
Total Income	2,65,100	72,386	74,592
Net Profit	-6,547	6,777	-3,628
Gross NPA	2,23,427	54,063	80,367
CAR %	12.6	18.42	12.25
Total Advances	19,90,172	5,16,289	6,40,592

Source: Individual Banks

2.2 Consolidation achieving scale and reducing synergy

1. The amalgamation of bank would be the third largest bank in India.
2. Strong competitive bank with economics of scale
3. Synergies for network, low-cost deposits and subsidiaries
4. Positioned for substantial rising
5. Customer base
6. Market reach
7. Operational efficiency
8. Wider bouquet of products and services for customers.
9. Employees interests to be protected brand equity to be preserved all three banks on finance CBS platform
10. Capital support will be ensured.

2.3 Table showing the merger list of PSU Banks

Acquire Banks	Bank to be merged	Staff Count (Approx)	Asset Count (Crores) (Approx)
PNB	Oriented Bank Allahabad Bank Corporation Bank Indian Bank	1,50,000	2,60,000
Bank of Baroda	Vijaya Bank Dena Bank	85,675	6,40,600
Bank of India	Andhra Bank Bank of Maharashtra	94,000	10,90,000
Canara Bank	UCO Bank, Syndicate bank, Indian Overseas Bank	1,40,000	13,82,000
Union Bank of India	IDBI, Central Bank of India	1,04,000	11,80,000

III IMPACT OF PSU BANK MERGERS

The merger of PSU Banks has its share of merits and demerits

The addition of staff and network is the effect that can be easily gauged from the impending merger move.

3.1 Merits of merger

a. A large capital base would help the acquirer to offer a large loan amount
b. Service delivery can get improved
c. Recapitalization need from the government to reduce
d. Customers will have a wide array of products like mutual funds and insurance to choose from in additional to the traditional loans and deposits.
e. Technological up gradation on the cards.

3.2 Demerits

a. It would be tough to manage issues perfectively to human resource
b. Few large inter-linked banks can expose the broader economy to enhanced financial risk
c. The local identify of small banks won’t be than prominet.

IV Merger of PSBs is not a good idea

Banks	Net profit to total income		Net profit to total deposits		Net profit to interest income		Net profit to total assets		Net profit to total net worth	
	Pre-merger	Post-merger (5 years)	Pre-merger	Post-merger (5 years)	Pre-merger	Post-merger (5 years)	Pre-merger	Post-merger (5 years)	Pre-merger	Post-merger (5 years)
SBI	10.88	7.49	25.61	13.99	13.27	8.6	0.94	0.64	17.88	10.2
IOB	6.22	5.37	0.72	0.59	7.26	5.87	0.65	1	20.33	-1.03
BOB	8.15	12.48	0.96	1.16	9.16	14.76	0.77	0.98	13.39	17.35
PNB	7.55	12.6	12.6	1.02	1.23	8.52	14.36	1.04	20.93	19
IDBI	8.2	7.98	7.98	26.18	0.91	9.94	8.9	0.66	7.54	13.02
OBC	9.6	9.12	1.39	1.39	0.92	10.8	10.22	0.81	16.99	14.03

Source : Money control &Dept of Banking Supervision, compiled by Jagadeeshwaran&Basavaraj. IPE Journal of Governance & Public Policy, vol.8(1), 2018 pp.6

While all banks reduced their presence in rural and semi-urban, non-profitable centres post-liberalisation, SBI, post-merger, closed 5,000 branches, thus effectively guillotining the plan to reach the unbanked poor.

Regulator-driven financial inclusion efforts of 2005, board-monitored measures, and Jan Dhan have supplemented the financial inclusion agenda. India Post Bank is the new institution aimed at taking banking services to the doorsteps of the least banked.

The RBI’s Financial Stability Report has estimated healthy economic growth of over 7.5 per cent for 2018, it has warned against complacency. And, this comes despite legal and regulatory measures to stem the NPA (non-performing asset) rot in banking through ‘market-based resolution plan for insolvency’ (IBC), putting 11 banks under surveillance via prompt corrective action plan, and continuing efforts to de-stress the sector.

The government, however, has put together another merger, even before the results of the PCA were known.

Of the three banks - Bank of Baroda, Vijaya Bank and Dena Bank - slated for merger, BoB is on the plate for the second time in the merger exercise. As at the end of 2017-18, BoB was the biggest with a total income of ₹50,306 crore, a net loss of ₹2,432 crore and net NPA of 5.5 per cent.

Vijaya Bank comes next, with a total income of ₹14,190 crore, a net profit of ₹727 crore, and net NPA of 4.4 per cent. And, Dena Bank recorded a total income of ₹10,096 crore, a net loss of ₹1,923 crore, and a net NPA of 11.95 per cent.

4.1 Profitability ratios

Results of a study by Jagadeeswaran et al on the pre- and post-merger comparisons of profitability with the year of merger as base year in the case of SBI, IOB, BoB, PNB, IDBI and OBC reveal that net profit to total income, net profit to interest income, net profit to total assets and net profit to net worth declined for all except PNB and BoB. The exception was partly due to the period of merger, when the capital regulations post-Basel did not hit them. Banking is all about financial intermediation.

People are at the epicentre, both in front and behind the counters. The culture of the institutions is intertwined with the culture of the regions. Human resource and cultural issues have impeded the success of mergers across periods and nations.

It is, therefore, important that the big banks think twice before turning into unwieldy conglomerates. Basic banking and customer services cannot be compromised.

The government would do well to start development banks to fund infrastructure projects and, thereby, relieve PSBs of this task. Experience has demonstrated that PSBs are not right channel for the job as it involves their funding long-term projects with short term resources.

Universal banking did enough damage with banks selling more third-party products, eyeing hefty commissions, instead of focussing on core banking operations.

4.2 Looking ahead

While past accomplishments are no guarantee to future success, past failures can serve as good foundation for enduring success. To improve its own stock, the government would do well to concentrate on improving governance in PSBs, pledge not to interfere in loan sanctions, and move a resolution in Parliament that no party would indulge in loan write-offs either for the farm or other sectors unless the areas are affected by severe natural calamities.

Further, higher capital allocation with or without Basel-III cannot prevent bank failures triggered by systems, people and processes. Both demonetisation and GST had hit not just the MSMEs but also resulted in the lengthening of processing time.

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