IOSR Journal of Business and Management (IOSR-JBM)
e-ISSN: 2278-487X, p-ISSN: 2319-7668. Volume 23, Issue 6. Ser. IV (June 2021), PP 01-04
www.iosrjournals.org

A Study on the Recent Changes in the Indian Banks

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Abstract-
Public Sector Banks (PSBs) are a major type of bank in India, where a majority stake (i.e. more than 50%) is held by the government. The shares of these banks are listed on stock exchanges. There are total of 12 Public Sector Banks alongside 1 state-owned Payments Bank in India. The merger is the process by which two or more companies decide to come together and merge together and created a new company often with a new name rather than remain separately owned and operated.
The merger helps in reducing the weakness and get a competitive edge in the market. In the merger process, the merging companies share information related to debt, resources, technology, and assets, etc. with each other. This study aims to analyse the banks which are involved in merger and the reasons which lead to this merger. This act of merger is the widest rearrangement of banking sector since the nationalisation of 14 banks in July 1969. The amalgamation was announced by Finance Minister of India, Mrs. Nirmala Sitharaman's in August 2019 as a consolidation plan to improve the condition of banking sector of India which is suffering from huge number of bad debts and to have better governance, underwriting, monitoring and introducing leveraged technology to reduce the non- performing assets (NPAs) of PSBs.
Keywords: *Public Sector Banks, Merger*

Date of Submission: 02-06-2021 Date of Acceptance: 15-06-2021

I. Introduction:

The Central Government entered the banking business with the nationalization of the Imperial Bank of India in 1955. A 60% stake was taken by the Reserve Bank of India and the new bank was named State Bank of India. The seven other state banks became subsidiaries of the new bank in 1959 when the *State Bank of India (Subsidiary Banks) Act, 1959* was passed by the Union government.

The next major government intervention in banking took place on 19 July 1969 when the Indira government nationalised an additional 14 major banks. The total deposits in the banks nationalised in 1969 amounted to 50 crores. This move increased the presence of nationalised banks in India, with 84% of the total branches coming under government control.

Merger of banks is a combination of two or more Bank. It means when a bank combines with other bank and purchase its assets and ownership and create new one bank or start with existence of acquirer bank(buyer) bank. it is relevant of acquisition. And acquisition is also known as takeover. Thereis some difference between Merger & Acquisition is that acquisition means take control of majority target bank's ownership. Most of the time stronger bank takeover of weaker bank. But here consolidation is designated as merger and acquisition.

The consolidation of SBI-associated banks started first by State Bank of India merging its subsidiary State Bank of Saurashtra with itself on 13 August 2008. Thereafter it merged State Bank of Indore with itself on August 27, 2010. The remaining subsidiaries, namely the State Bank of Bikaner & Jaipur, State Bank of Hyderabad, State Bank of Mysore, State Bank of Patiala and State Bank of Travancore, and BharatiyaMahila Bank were merged with State Bank of India with effect from 1 April 2017.

Vijaya Bank and Dena Bank were merged into Bank of Baroda in 2018. IDBI Bank was categorised as a private bank with effect from January 2019.

On 30 August 2019, Finance Minister Nirmala Sitharaman announced the government's plan for further consolidation of public sector banks: Indian Bank's merger with Allahabad Bank (anchor bank - Indian Bank); Punjab National Bank's merger with Oriental Bank of Commerce and United Bank (anchor bank - Punjab National Bank); Union Bank of India's merger with Andhra Bank and Corporation Bank (anchor bank -

Union Bank of India); and Canara Bank's merger with Syndicate Bank (anchor bank - Canara Bank). The mergers took effect from 1 April, 2020.

The basic logic behind this merger is to increase the global competitiveness of the Indian banks. **Now the total Public Sector Banks reduced to 12 from 27 in 2017 in India.**

Public Sector Banks (Government Shareholding %, as of 31 October 2020)

1. State Bank of India (56.92%)
2. Punjab National Bank (85.59%)
3. Bank of Baroda (71.60%)
4. Canara Bank (78.52%)
5. Union Bank of India (89.07%)
6. Punjab & Sind Bank (83.06%)
7. Indian Bank (88.06%)
8. Bank of Maharashtra (92.49%)
9. Bank of India (89.10%)
10. Central Bank of India (92.39%)
11. Indian Overseas Bank (95.84%)
12. UCO Bank (94.44%)

Payments Bank (PB)

- India Post Payments Bank (IPPB) (100%)

NEED FOR MERGER:

In 2018-19, according to Reserve Bank of India, frauds reported by Public Sector Banks (PSBs), during the period from April 1, 2019 to September 30, 2019 is 5,743 involving a total amount of 95,760.49 crores. PSBs have a disproportionate share of 85%, significantly exceeding their relative business share. An initial investigation in these cases has revealed involvement of not only midlevel employees, but also of the senior most management and also due to political interference of decision makers. The banking system is plagued with high levels of NPAs then it is a cause of worry, because it reflects financial distress of borrower clients and inefficiencies in transmission mechanisms.

In 2018, according to reports, India became the 10th largest economies in the world, with the highest bad loan ratio after Italy. This is because Government-controlled lenders are estimated to be holding approximately 90 percent of such non-performing assets. The losses incurred by the four PSBs including Bank of Baroda, IDBI Bank Ltd, Oriental Bank of Commerce and Central Bank of India were Rs. 21,646.38 crore in the year ended March 31, 2018, after which the government planned their merger. These situations had led the government towards merger.

OBJECTIVE OF THE STUDY:

- To study about the Public Sector Banks in India and analyse the conditions which lead to merger of Public sector banks
- To analyse the possible effects of this merger on banking sector of India

II. Literature Review:

Devarajapp S.(2012) analysed financial performance of HDFC Bank Limited and Centurion Bank of Punjab with the help of financial parameters and compared pre-merger and post-merger performance of banks on the basis of last 3-year data and the result of this analysis was that mean value of gross profit had increased and the mean value of equity had increased but there is no change in net profit, return on capital, and operating profit. And concluded that merger effect is helpful for surviving of week Bank by merging into larger banks.

Dr K.A. Goyal & Vijay Joshi (2012) studied case of ICICI Bank Limited to be aware with the growth of ICICI Bank Limited. This Bank amalgamated with Nine Finance entities like SCICL, ITC Classic Finance Ltd., Anagram Finance, Bank of Madura, Bank of Sangali, ICICI Personal Finance Service Ltd & ICICI Capital Service Ltd., Standard of Chartered Grindlays Bank's two branches, and Bank of Rajasthan Ltd. According to them merger and acquisition considered in three phases pre-merger phase, acquisition phase and post-merger phase. And concluded that that there were many issues and challenges for ICICI Bank Limited but it accepted that challenges and became India's largest Private sector bank.

Dr K.A. Goyal & Vijay Joshi (2012) have found in their study there are some rising issue in merger and acquisition in banking sector. Rising issues like employeesreception, brand size, customer perception, communication, Change management strategies, Human Resource Management. They observed the need of merger and acquisition of bank in India. And quested motives behind the merger and acquisition of bank through the study of 17 merged banks that motives and rational are market leadership, Rapid growth, synergy, reduce stress, Economies of scale, enhance revenue. They concluded that small bank has to face many issues and the merger and acquisition is helpful tool for them.

It is founded from Gurubaksh Singh & Sunil Gupta's (2015) paper title "An impact of merger and acquisition on profitability of consolidation banking sector in India". analysed the performance of public and private sector bank with the data of last five year and evaluated pre and post-merger positions of bank through financial parameters like Arithmetic mean, standardization, t-test comma p-value. They found that merger and acquisition have positively impacted on merged Bank.

Dr. Sangita Ghosh(2016) researched on merger between Global Trust Bank and Oriental Bank of Commerce. She analysed liquidity factor, efficiency factor, profitability factor and performance factor of Oriental bank of commerce. And found that after merging bank profitability and efficiency of acquirer bank has improved but there was no change in liquidity position of oriental bank of commerce.

Prof.Ritesh Patel(2014) examined finance and stock return of selected banks to know the effect after merger and concluded that merger and acquisition has positively impacted on Indian banks and told that some public sector banks is more advantageous rather than private sector bank.

Parveen Kumari (2014) revealed in her paper merger and acquisition of bank as strategic approach and told that the aim of the merger and acquisition of bank is increase credit creation and make progressive. According to gathered post-merger data she concluded that Number of branches & ATM, Net Profit, Deposit, Net Worth have increased.

Prof. Ritesh Patel &Dr. Dharmesh Shah (2016) compared the financial performance of before and after merger of banks through Economic Value-added approach and through others financial parameters like mean score of net profit margin, return on net worth, return on assets, return on long term fund, interest earned and total assets. And told that it is not necessary that EVA approach is common for all other bank. They concluded that financial performance of bank may be improved after merger. But if past financial data are examined before merger, it can make merger fruitful.

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.

MERITS OF BANKING MERGER:

- After these mergers, the lending capacity of the Public Sector Banks will increase and their balance sheet would also be strong.
- These big banks would also be able to compete globally and increase their operational efficiency by reducing their cost of lending.
- India needs investment in huge quantities to turned India into a 5 trillion economy. If banks have sufficient money to fund big projects than the economic development of the country would speed up.
- The merger would help in better management of banking capital.

So, after the merger of the 10 PSBs in the four major banks seems a good step in ensuring the availability of the money for the investment purpose in the country.

DEMERITS OF BANKING MERGER:

- 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 prominent.

FINDINGS:

- Punjab National Bank (PNB) will take over **Oriental Bank of Commerce and United Bank of India** as an anchor bank. It will 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**.**Punjab National Bank** (PNB) has unveiled a new logo as it merges with United Bank of India and OBC with it, with effect from April 1. The new logo will bear distinct signages of all the three public sector lenders.
- Canara Bank will take over **Syndicate Bank,** and it will be the **fourth-largest public sector bank** of the country. After the merger, the combined business will be Rs 15.20 lakh crore. With lower gross NPA ratio of 8.77%, Canara Bank will get about Rs 6,500 crore capital from the government.
- **Union Bank of India** will see itself taking over **Andhra Bank and Corporation Bank.** Post-merger it will become **5th largest PSB.** The combined business base of the merged bank will be Rs 14.59 lakh crore. Union Bank has a high Net NPA ratio of 6.85%. The government will provide Rs 11,700 crore to Union Bank for the merger process.

➢ **Indian Bank** will merge with **Allahabad Bank,** and the combined business will be **Rs 8.07 lakh crore**. Post-merger it will become **7th largest PSB.** Indian Bank had a net NPA ratio of 3.75%. Bank will get Rs 2,500 crore worth capital from the government to complete the merger.

Post the mega-merger, the **six PSBs that will remain independent** are as follows:

1. Indian Overseas Bank,
2. UCO Bank,
3. Bank of Maharashtra,
4. Punjab and Sind Bank
5. Bank of India, and
6. Central Bank of India.

➢ Last year, the government had merged **Dena Bank** and **Vijaya Bank** with **Bank of Baroda,** creating the **third-largest bank** by loans in the country.

III. Conclusion:

The banking industry (PSB) has been undergoing major Mergers and Acquisitions in the recent years for achievement of consolidation of banks. Not only does an acquisition give your bank more capital to work with when it comes to lending and investments, but it also provides a broader geographic perspective in which to operate. The merger has led to an unprecedented increase in bank concentration at the market level and may affect the competition within the Banking sector. The sudden escalate in NPAs and bad-loans of country has hampered its position all over the world. The Government should strongly scrutinize the on- going Anti-Competitive Combinations and abuse of dominance in banking sector. At present it is necessary for the government to incorporate necessary merger provisions concerning Public sector Banks as well as private banking companies.

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