IMPACT OF MERGER OF PUBLIC SECTOR BANKS ON INDIAN ECONOMY

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Abstract

The financial sector of India is witnessed of big changes in the recent past. It is experiencing the scenario of change known as the consolidation or Merger of Public sector banks. The study focuses on the impact of the upcoming mega merger of 10 public sector banks in to four. The present paper is based on secondary data. The sources of secondary data is published journals, various websites etc. The paper highlights the reasons behind this consolidation of banks and the steps which are being taken by the government to make this merger a success. Business capacity of various banks after the merger will take place has also been discussed in the paper.

Keywords: Bank, merger, impact, reforms

Introduction

An analysis of Indian banking Industry shows that certain factors such as stability, return to shareholders are reasons behind banks taking decisions such as mergers and acquisitions. In some cases strategies of merger and acquisition are taken by banks as strategic tools to stay ahead in competition. Indian Banking industry has undergone a lot of changes since financial sector reforms 1992 were introduced. The deposits and credit have shown a significant rise. Indian banking has shifted from public sector dominated scenario to current structure, where public and private sector banks co-exist. In India, currently 27 Public sector banks which includes 21 nationalised and 6 state bank groups are working. Apart from these 2 banks i.e. IDBI bank and Bhartiya Mahila Bank are also working which are categorised as other public sector banks.

The number of private sector banks in India is 22. Timely reforms are being introduced by the government in order to make the banking industry more competitive and to strengthen the financial system of the country.

Various mergers have already taken place in Indian banking industry like SBI and its associates and Bank of Baroda, Vijaya bank and Dena Bank.

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Recently Finance ministry has announced merger of 10 Public Sector Banks into four entities:

i) Merger of Punjab National Bank with Oriental Bank of Commerce and United Bank, this merger will make PNB as the second largest bank with net worth of 17.94 lakh crore.
ii) Merger of Union Bank of India with Andhra Bank and Corporation Bank, with this merger Union bank will become 5th largest Public sector bank with a net worth of 14.59 lakh crore.
iii) Merger of Indian bank with Allahabad bank making it 7th largest Public Sector Bank with a net worth of 8.08 lakh Crore.
iv) Merger of Canara bank and syndicate bank, making it 4th largest Public sector bank with net worth of 15.2 lakh Crore.

With the above stated mergers India will have 12 public sector banks from 27 in 2017. As per the government, merger was announced in order to accelerate the economic growth of India.

Table No. 1: Details Of Public Sector Banks In India After Mega Merger

Head/ Anchor Bank	Merged Banks	Business Size (Rupees)	PSB Size
Punjab National Bank	Punjab National Bank Oriental Bank of Commerce United Bank of India	17.94 Lakh crore	2nd largest Bank
Canara Bank	Canara Bank Syndicate Bank	15.20 Lakh crore	4th largest Bank
Union Bank of India	Union Bank of India Andhra Bank Corporation Bank	14.59 Lakh crore	5th largest Bank
Indian Bank	Indian Bank Allahabad Bank	8.08 Lakh crore	7th largest Bank
State Bank of India (Merged earlier)		52.65 Lakh crore	1st largest bank
Bank of Baroda (Merged earlier)		16.13 Lakh crore	3rd largest bank

(Source: Ministry of finance, India)

After the merger of these 10 Public Sector entities, Six PSBs will continue to conduct their operations individually to enhance the national presence of banking system. Those banks are:

Table 2: Banks and Business Size

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Bank	Business Size
Bank of India	9.03 Lakh crore (6th Largest Bank)
Central Bank of India	4.68 Lakh crore
Indian Overseas Bank	3.75 Lakh crore
UCO Bank	3.17 Lakh crore
Bank of Maharashtra	2.34 Lakh crore
Punjab & Sind Bank	1.71 Lakh crore

(Source: Ministry of finance, India 2019)

Objectives of the Study

The present research paper focuses on the following objectives:

i) To find out the major reasons behind the mega merger of banks.
ii) To examine the steps taken by Government for merger of banks.
iii) To know about the business capacity of banks after the merger.
iv) To analyse the impact of merger Indian economy.

Research Methodology

The present paper is based on secondary data. The data has been collected from various government sites and reports published in newspaper. The study is based on 2 aspects of data i) Qualitative and ii) Quantitative. The figures have been collected from the articles and reports published in various newspapers.

Findings of the study:

The present study has been done keeping in mind four major parameters, namely:

I) Reasons behind the merger

II) Steps taken by government for the merger

III) Business capacity of the banks after the merger

IV) Impact which the merger is likely to pose on the Indian economy.

Therefore the major findings of the study are:

I) **Reasons behind the Merger of Banks**: According to annual reports published by banks, Finance ministry has stated that only 14 Public sector banks Out of 27 showcased profit and growth in the 4th quarter of 2018-19 which made it mandatory for government to introduce this merger, which is aimed to be completed by 1st April 2020. Under Bank Consolidation plan, mergers have earlier been introduced also such as:

i) Merger of SBI and its Associated

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ii) Merger of Bank of Baroda with Vijaya Bank and Dena Bank.

But this merger makes it different from the earlier ones due to following points:

i) The objective behind introduction of this merger is that the government wants India to be a USD 5 trillion economy.
ii) The government targets to provide loans to the weaker sections of society with the help of the merger
iii) The government has an objective of reviving the non-banking financial companies.
iv) Financial Inclusion is to be achieved with this merger
v) To outweigh the mounting bad loans on banks during past years.
vi) To enhance the credit creation capacity of the banks
vii) To reduce the lending cost of banks
viii) To improve the ability of banks to raise resources from market.

II) Steps Taken By Government for Mega Merger

1. Capital Infusion: Government is planning to infuse a huge amount of Rs. 55,250 crore as capital infusion to PSBs in order to create a bank of global scale. The detailed capital infusion can be studied as:

Table 3: Banks and Capital Infusion

Bank	**Capital Infusion**
Punjab National Bank	Rs 16,000 crore
Union Bank of India	Rs 11,700 crore
Bank of Baroda	Rs 7,000 crore
Indian Bank	Rs 2,500 crore
Indian Overseas Bank	Rs 3,800 crore
Central Bank of India	Rs 3,300 crore
UCO Bank	Rs 2,100 crore
United Bank of India	Rs 1,600 crore
Punjab and Sind Bank	Rs 750 crore

(Source: Ministry of finance, India 2019)

2. Constitution of a Board Committee: To enhance the accountability of management to the board of banks, government is planning to constitute a board Committee which will look after the performance of managers and other officers having ranks of general managers and above.

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3. Freedom to recruit officers: Banks have been provided with complete freedom to recruit officers from market at market linked compensation so that they can attract the best talent from market.
4. Increase in terms of directors: Government is also planning to increase the engagement of non-official directors and In order to increase the effectiveness, government plans to increase the length of terms of directors who are already working in management committees of boards.
5. Reduction in no. of committees/ Rationalisation of committees.

III) Business Capacity Of Banks After Amalgamation

The business capacity of the banks after the mega merger can be listed with the help of following tables:

PNB + Oriental Bank of Commerce + United Bank

	PNB	OBC	United Bank of India	Amalgamated bank
Total business (in crore ₹)	11,82,224	4,04,194	2,08,106	**17,94,526**
Gross advances (in crore ₹)	5,06,194	1,71,549	73,123	7,50,867
Deposits (in crore ₹)	6,76,030	2,32,645	1,34,983	10,43,659
CASA ratio	42.16%	29.40%	**51.45%**	**40.52%**
Domestic branches	6,992	2,390	2,055	**11,437**
PCR	61.72%	56.53%	51.17%	59.59%
CET-I ratio	6.21%	9.86%	10.14%	**7.46%**
CRAR ratio	9.73%	12.73%	13.00%	10.77%
Net NPA ratio	6.55%	5.93%	8.67%	6.61%
Employees	65,116	21,729	13,804	1,00,649

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Canara Bank + Syndicate Bank

	Canara Bank	Syndicate Bank	Amalgamated bank
Total business (in crore ₹)	10,43,249	4,77,046	**15,20,295**
Gross advances (in crore ₹)	4,44,216	2,17,149	6,61,365
Deposits (in crore ₹)	5,99,033	2,59,897	8,58,930
CASA ratio	29.18%	32.58%	30.21%
Domestic branches	6,310	4,032	**10,342**
PCR	41.48%	48.83%	44.32%
CET-I ratio	8.31%	9.31%	**8.62%**
CRAR ratio	11.90%	14.23%	**12.63%**
Net NPA ratio	5.37%	6.16%	5.62%
Employees	58,350	31,535	89,885

March 2019 financials

Indian Bank + Allahabad Bank

	Indian Bank	Allahabad Bank	Amalgamated bank
Total business (in crore ₹)	4,29,972	3,77,887	**8,07,859**
Gross advances (in crore ₹)	1,87,896	1,63,552	3,51,448
Deposits (in crore ₹)	2,42,076	2,14,335	4,56,411
CASA ratio	34.71%	**49.49%**	**41.65%**
Domestic branches	2,875	3,229	6,104
PCR	49.13%	74.15%	66.21%
CET-I ratio	10.96%	9.65%	**10.36%**
CRAR ratio	13.21%	12.51%	**12.89%**
Net NPA ratio	3.75%	5.22%	**4.39%**
Employees	19,604	23,210	42,814

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Union Bank + Andhra Bank + Corporation Bank

	Union Bank	Andhra Bank	Corporation Bank	Amalgamated bank
Total business (in crore ₹)	7,41,307	3,98,511	3,19,616	**14,59,434**
Gross advances (in crore ₹)	3,25,392	1,78,690	1,35,048	6,39,130
Deposits (in crore ₹)	4,15,915	2,19,821	1,84,568	8,20,304
CASA ratio	36.10%	31.39%	31.59%	33.82%
Domestic branches	4,292	2,885	2,432	**9,609**
PCR	58.27%	68.62%	66.60%	63.07%
CET-I ratio	8.02%	8.43%	10.39%	**8.63%**
CRAR ratio	11.78%	13.69%	12.30%	**12.39%**
Net NPA ratio	6.85%	5.73%	5.71%	6.30%
Employees	37,262	20,346	17,776	75,384

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IV) Impact of Mega Merger on Indian Economy

As we have discussed in the study about the mega merger in banking sector, the future of financial services and financial markets will be entirely changed. With the merger of 27 public sector banks (including the country's second largest bank PNB) in 12 banks, every individual who has saving account, Recurring account, fixed deposit or linked with bank in any other manner, is likely to be impacted. Furthermore the impact of Mega merger will be different for different class of people, as it will impact businesses in one way and households in another way.

Impacts of merger on Indian Economy:

a. It is the call for the business units, investors, households and other customers of the banks, to get ready to change their passbooks and Chequebooks. It can be used for the short time duration after merger but after it will be of no use. Ultimately it will be replaced with the cheque books of merged entity.
b. In the era of E commerce, a person would have been given his bank details including account number, IFSC codes and CVV codes etc. for the various financial transactions such as auto credit of salary, auto debit of bills, insurance premiums and other claims. But now the entire scenario will be changed, as a person will require changing the details of linked bank accounts. A couple of years ago when the associated banks of SBI were merged, the IFSC codes and other details of more than 1300 banks were changed. Those people who had auto debit and credit system in the bank accounts were impacted.

c. The impact can be on the credit, debit and smart card issued by the merging banks. It can be exchanged for those with the merged entity, although the former cards can be valid for fixed time period.
d. Furthermore, borrowers are looking for the change in interest rates. There are numerous people who have taken long term loans from the bank. These loan bear different interest rates because MCLR (Marginal cost of funds based lending rate) is varies for bank to bank. According to the report published by economic time the rates will decreases.
e. Along with the all these, there will be a major impact upon the shareholders of these public sector banks. It is not yet clear that how shareholders will be allotted with the shares because SWAP rates are not announced yet.
f. Moreover in the series of impacts, the positive aspect is that the branch network of anchor banks would become larger. The merged bank will not shut down all branches of merging banks. For example the combined entity of Punjab National Bank, United bank of India and Oriental Bank of Commerce will bank the second largest bank in the country with more than 11437 branches.

Conclusion and Suggestions

The merger of banks will have certain merits and demerits. On one hand, the banks were earlier small in size but after the merger size of banks will increase on other hand, this merger can hit the economy by reducing the number of job opportunities in banks. The strategy of consolidating the banks was formed in order to combat the problem of NPAs, bad loans etc. It has undoubtedly increased the size of banking business but it has also reduced the buying capacity of people in the economy. It will be a thing to see whether it is able to fulfil or scatter the India's dream of becoming a $ 5 trillion economy. But, in order to be successful in the step, the Government should absorb and replicate the best practices of the merged banks and flexibility should be allowed to the banks to recruit their staff and fix their remuneration. The boards of the banks should further be allowed to rationalize their number of committees and The banks should also increase the duration of terms of their boards of directors so that the business can be effectively managed.

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