An Empirical Study on the Big Consolidations of Indian Banking Industry

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Abstract
India declared a broad consolidation of state-claimed banks that will see 10 of them being merged to frame four greater moneylenders to reinforce a sector battling with a terrible advance cleanup and planned for making loan specialists of worldwide scale that can bolster the economy's flood to $5 trillion by 2024. The government additionally reported administration changes to improve their wellbeing. This was the most recent in a progression of announcements by the government since a week ago as it looks to animate demand and resuscitate the economy. In a different announcement, the government said development had dropped to a six-year low in the quarter to June. The most recent consolidation move will slice the quantity of state-claimed loan specialists to 12 from 27 of every 2017, Sitharaman stated, featuring the banking changes embraced by the Narenda Modi government that have likewise included noteworthy cleaning up of asset reports. This isn't the first occasion when that the possibility of merging state-claimed banks has picked up momentum. In his way breaking 1991 report on banking sector changes, M. Narasimham, a former Reserve Bank of India senator, had recommended mergers to shape a three-level structure with three enormous banks with international nearness at the best, eight to 10 national banks at level two, and countless provincial and nearby banks at the base. Afterward, the P.J. Nayak Committee had additionally recommended that state-run banks ought to either be merged or privatize. To be sure, as per Indian Banking Association information, there have been in any event 49 mergers since 1985. Hence, the present study has been focused to highlight the brief of top vital consolidation on Indian Banking sector and study based on secondary sources of data.

Keywords: Banking Reforms, Three-tier Structure, Mergers & Acquisitions, Nationalisation, Privatization, Voluntary Mergers and Financial System.

Introduction

In Indian banking sector consolidations has become respected pattern all through the nation. Countless open sector bank, private sector bank and different banks are occupied with mergers and acquisitions exercises in India. The Main intention behind consolidation in the banking sector is to reap the advantage of economies of scales. Merger and acquisition have assumed a significant job in the transformation of mechanical sector of India since the Second World War period. During the Second World War period Economic and political conditions offer ascent to compelling consolidation. Mergers can be a huge source of development in any economy however especially in one that is similarly stale and buried in profound vulnerability.

Mergers and acquisitions (M&A) are considered as a moderately quick and productive way to deal with venture into new markets and consolidate new innovations the principle thought process behind utilized system by firms to fortify and continue their position in the commercial center. Mergers and Acquisitions (M&A) have assumed a significant job for corporate rebuilding and the financial administrations industry. We can find many confirmations that their prosperity is in no way, shape or form guaranteed. Weights on the representatives of banks around the globe have been manifold over, section of new players and items with prevalent innovation, globalization of financial markets, changing socioeconomics of customer conduct, consumer pressure for more extensive decision and minimal effort administration, investor riches demands, contracting edges. At present banking system in India is advancing with a blend of bank types serving distinctive segments of the economy. Over the most recent couple of years, the system has seen section of new banks and emergence of new bank types focused to serve specialty segments of the general public. Present research has been cantered on the brief history of big consolidations in Indian Banking Sector.

Research Objectives

The present study has been done with a view to following objectives:

1. To narrate the Indian scenario of bank consolidation.
2. To brief the history of bank consolidations.

Operational Definition

In business, consolidation or amalgamation is the merger and acquisition of many littler organizations into a couple of a lot bigger ones. In the context of financial bookkeeping, consolidation alludes to the aggregation of financial statements of a gathering organization as consolidated financial statements.

Reviews of Related Literature

Behara, Yerram. (2017) have examined a study and it adds to the continuous discussion on mergers and acquisitions in Indian Banking especially with regards to SBI merger on first April 2017. While contending on the issues of combination and intermingling of banks through the M&A cycle, the paper refers to the encounters of mergers in banks hitherto. The creator thinks that solid economy and feeble banking can't coincide. He has alluded to the negative marks of the size with regards to 'too enormous to come up short' insight of the 2008 worldwide downturn.

Goyal et al. (2011) have studied that the universe of rivalry resembles a wilderness where beasts eat more modest ones hence one must be skillful enough to win the contention. There are confirmations that huge endeavors have combined more modest rivals in themselves. This survey article on mergers in banking industry has been lighted from the situation of the Bank of Rajasthan Ltd. furthermore, ICICI Bank Ltd. The point of this paper is to test the thought processes of banks for mergers and securing with uncommon reference to Indian Banking Industry. For this reason test of 17 mergers (post advancement) of Banks is taken. This examination is led based on number of branches, topographical entrance on the lookout and advantages from the merger. Aside from their money related perspectives, this article likewise brings up specific issues from the perspective of Human Resources Management and Organization Behavior for researchers and specialists. This article leaves impressions in transit of additional examinations on mergers and acquisitions from an alternate standpoint.

Rajoria, Krati. (2018) have investigated and debated around merger of PSBs to unite them into 6 super banks has equipped, with the ongoing merger of SBI with 5 other partner banks, The paper puts forth a defense for union of PSBs so as to decrease NPAs, increment effectiveness and improve hazard expansion. The creator takes a gander at whether bank solidification improves bank strength and settles the banking system. The paper is isolated into five sections. Part I is the Introduction; Part II manages the rising NPA issue in Public Sector Banks and distinguishes the explanations behind the equivalent; Part III Traces the historical backdrop of the banking system solidification; Part IV investigations the reasonableness of the combination of banks; Part V accommodates recommendations and end. The paper finishes up with creator putting forth a successful defense for union. While many issues, for example, bury alia human asset, assessing business and performance of the two banks, geological cutoff points and 'too enormous to come up short' approach of the government should be returned to, solidification of banks appears to be impending and an exit plan in any event somewhat to manage the NPA menace.

A Preamble to Bank Consolidation

Albeit late, both the Indian Government and the Management of Banks have understood the potential consequences of collaboration impacts that could be accomplished after union in the banking business. The explanations behind this might be many differing from bank to bank however the exceptionally essential hidden explanation that would profit Indian Economy is to move from a condition of huge number of little banks to a condition of not many number of huge banks.

Before moving further into the upsides and downsides of consolidation, let us first observe the phases of developments in Indian Banking system.

1. 1786 – 1969: Initial period of banking when many little banks were set up
2. 1969 – 1991: Nationalization, Regularization and Growth
3. 1991 onwards: The Indian banking industry after change measures began after 1991 has gotten very full grown in its flexibly, item reach and its topographical reach.

Despite the fact that not at standard with the worldwide principles, gradually but rather definitely it is moving towards having spotless, solid and straightforward accounting reports. Additionally there are three sort of proprietorship designs in Indian banking system. The state possessed, the secretly managed and the old private area network ruled banks. Starting at now the strength of PSU banks in India isn't at all at wanted levels. These banks have been losing their piece of the pie. NPA's are ascending at a disturbing level. The portion of their stores tumbled to 71% in 2016 from 77% in 2012.Capital proportions are not in the slightest degree engaging. Due to fragmented nature of Indian Banking system, banks can't contend internationally, they face trouble in store assembly, credit disbursal and investment. Thus the government is likewise not any more ready to infuse capital into the dark opening.

Equity financial specialists in old private area banks have understood that the well established management on the board isn't all well-suited and proficient in understanding the worldwide viewpoint. Simultaneously the new age private Banks are more shrewd and intense and pushing forward at an awesome movement. As India gets ready for serious occasions, more banks are intending to join for upper hand. The Raghu Ram Rajan Committee has additionally recommended to support combination in PSU Banks. The Government has additionally made its watch out that the activity for union needs to originate from the management of banks and the government will assume a strong job. The advantages that accumulate through union are:

- A solidified banking structure would be a positive development in the long haul.
- A huge bank appreciates scale benefits prompting better broadening of dangers and solid by and large productivity.
- A greater bank would likewise function admirably in accomplishing monetary incorporation, a key goal of government.
- Cash rich firms utilize the procurement course to buyout a set up major part in another market and afterward expand upon the current stage.
- Many distinctive banks are battling for a similar market space offering same items at practically same edges which energizes mal-selling, phony and illicit offers, and making a wreck in the psyches of clients. Union will really decrease rivalry among banks.
- Those banks who have an exceptionally restricted presence in the rustic territories can expand their essence by purchasing out provincial banks.
- Weak banks who have exceptionally helpless accounting reports can converge with a superior and greater bank as opposed to continuing for liquidation or a condition of bankruptcy.
- Organic development takes a very long time in present day financial dimensions. Dynamic firms incline toward securing course to fill rapidly in size and topographical reach.

A portion of the instances of late union arrangements that happened as of late in India are referred to for better understanding. The greatest merger that happened as of late is merger of Associate banks of SBI (SBBJ, SBP, SBM, SBT, SBH and Bhartiya Mahila Bank) into SBI. After this merger SBI currently remains among the main 50 banks in world. SBI has now 23% piece of the pie in the business. At first there will be a few difficulties in the short run and it will shoot up the expense on the grounds that many workers will be migrated, many ATMs will be moved and many branches will be reconsolidated. However, the drawn out advantages will far exceed the momentary difficulties.

Another model is the merger of Centurion Bank of Punjab with HDFC Bank in 2008.It likewise gave gigantic scope economies and improved appropriation organization of branches. It made HDFC biggest as far as number of branches in private area around then. Kotak Bank's buyouts of ING VYASA Bank, ICICI buyout of Bank of Rajasthan Ltd are barely any more instances of combination that happened as of late.

Indian Scenario of Bank Consolidation

There have been two sorts of bank consolidation in India. One and most clear has been wilful merger of banks driven by the requirement for cooperative energy, development and operational effectiveness in operations. Late merger of ING Vysya Bank with Kotak Mahindra Bank is a case of this sort of consolidation. ING Vysya Bank had a more grounded nearness in South India while Kotak had an all-inclusive establishment in the West and North India. The merger made a huge financial institution with a dish India nearness. This sort of deliberate merger driven by cooperative energy and clear economic rationale has been fairly basic in the private banks segment. Different instances of this sort of merger might be acquisition of Bank of Madura in 2001 and Sangli Bank in 2007 by ICICI Bank, acquisition of Centurion Bank of Punjab by HDFC Bank in 2008, and so on. The Reserve Bank has been given powers under Section 44A of Banking Regulation Act 1949 to endorse such willful mergers. The Reserve Bank has been very strong of deliberate mergers of banks which have the possibility of making an incentive for those banks. Be that as it may, such models are not many in open sector banks circle. Late merger of State Bank of Saurashtra and State Bank of Indore into State Bank of India might be viewed as fundamentally merger among bunch organizations. The main case of merger of two PSBs is merger of New Bank of India with Punjab National Bank in 1993. In any case, this was not an intentional merger.

The other sort of merger of banks has been from the point of view of resolution of a feeble bank. Section 45 of Banking Regulation Act 1949 enables the Reserve Bank to make a plan of amalgamation of a bank with another bank on the off chance that it is to the investors' advantage or in light of a legitimate concern for in general banking system. The operation of the powerless bank might be held under ban for a specific timeframe to guarantee smooth implementation of the plan. Many private sector banks have been merged with other private sector banks or the PSBs under this component. The merger of Global Trust Bank with Oriental Bank of Commerce in 2004 was a case of this sort of merger. Prior route back in 1960s, post Palai Central Bank's disappointment, there were a few such mergers guided by the Reserve Bank. Since the beginning of changes, there have been around 32 mergers/ amalgamations in the banking sector. Before 1999, the greater parts of the mergers were driven by resolution of frail banks under Section 45 of Banking Regulation Act 1949. Be that as it may, after 1999, there has been expanding pattern of intentional mergers under Section 44A of Banking Regulation Act 1949. As noted above, a large portion of these Sections 44A mergers were among private sector banks. PSBs have skirted this pattern regardless of the way that there may have been abundant chances of making an incentive through key mergers and acquisitions among two PSBs.

History of Bank Consolidations

Mergers of banks started in India during the 1960s so as to rescue the more fragile banks and ensure the customer premiums. From that point onward, in post-liberalization period the journey to make an Indian bank that would be in the association of worldwide mammoths had been continuing since 1990. Proceeding onward the way of making one of the biggest worldwide banks, the government had endorsed the merger of five partner banks with SBI in February 2017. Later in March, the Cabinet endorsed merger of BMB too.

Merger & Nationalization during the Period from 1961-1969

The period is called pre-nationalization period in light of the fact that in 1969 the government nationalized 14 private banks. As many as 46 mergers occurred for the most part of private sector banks so as to resuscitate the ineffectively performing banks which end up being a serious effective move for the failing to meet expectations banks.

The Period from 1969-1991

The period was called post-nationalization period. It saw six private banks being nationalized in 1980. Right now mergers occurred for the most part among open and private sector banks. The post-liberalization period extends from 1991-2015 saw major economic changes started by Government of India. Many new approaches were surrounded. More noteworthy FDI and remote investment was permitted which saw resurgence in Indian Banking. As many as 22 mergers occurred - some to spare more fragile banks and some for synergic business development.

Bank Mergers (1993-2004)

The merger of Oriental Bank of Commerce with Global Trust bank in 2004 spared the last after its total assets had cleared off and furthermore gave OBC a million contributors and an OK advertise in South India. Mergers of Punjab National Bank (PNB) with the then dissolved New Bank of India (NBI) in 1993-94 and that of Benaras State bank Ltd with Bank of Baroda in 2002 likewise end up being life putting something aside for the more fragile bank.

Bank Mergers & Consolidation 2008-2010

SBI first merged State Bank of Saurashtra with itself in 2008. After two years in 2010, State Bank of Indore was merged with it. The leading body of SBI prior affirmed the merger plan under which SBBJ investors got 28 portions of SBI (Re.1 each) for each 10 offers (Rs10 each) held. Additionally, SBM and SBT investors got 22 portions of SBI for each 10 offers.

Post the merger, the SBI was in the process to rationalize its branch arrange by migrating a portion of the branches to amplify reach. This, as indicated by SBI helped the bank enhance its operations and improve gainfulness. SBI had affirmed separate plans of acquisition for State Bank of Patiala and State Bank of Hyderabad. There was no proposition for any offer swap or money outgo as they were completely claimed by the SBI.

Consolidation of Banks (2015-2017)

This stage saw five partners of SBI and Bhartiya Mahila Bank getting merged in SBI. The vision was to have solid banks as opposed to having enormous number of banks. This came about in SBI being one among the 50 biggest banks on the planet. Association Cabinet chose to merge all the staying five partner banks of State Bank Group with State Bank of India in 2017. After the Parliament passed the merger Bill, the backup banks stopped to exist and the State Bank of India (Subsidiary Banks) Act, 1959 and the State Bank of Hyderabad Act, 1956 were revoked.

Five partners and the Bharatiya Mahila Bank turned into the piece of State Bank of India (SBI) starting April 1, 2017. This has put State Bank of India among the main 50 banks on the planet. The five partner banks that were merged into State Bank of India were-State Bank of Bikaner and Jaipur (SBBJ), State Bank of Hyderabad (SBH), State Bank of Mysore (SBM), State Bank of Patiala (SBP) and State Bank of Travancore (SBT). The other two Associate Banks to be specific State Bank of Indore and State Bank of Saurashtra had just been merged with State Bank of India. After the merger, the all customer base of SBI expanded to 37 crore with a branch system of around 24,000 and around 60,000 ATMs the nation over.

Merger of Banks 2018

The government had merged Dena Bank and Vijaya Bank with Bank of Baroda, making the third-biggest bank by advances in the nation in 2018.

Mega Merger of Banks 2019

With the mega merger declare on August 30, 2019, ten open sectors banks will be diminished into four enormous banks. The four arrangements of banks are to be made out of Canara Bank and Syndicate Bank merger; Indian Bank and Allahabad Bank merger; Union Bank of India, Andhra Bank and Corporation Bank merger; and the bank to be made after merger of Punjab National Bank, Oriental Bank of Commerce and United Bank of India.

Table 1 Year-wise Bank Consolidation in Indian Banking Sector

Year	Name of the Acquired Bank	Name of the Bank Merged into
1985	Canara Bank	Lakshmi Commercial Bank
1993	Punjab National Bank	New Bank of India
1994	Bank of India	Bank of Karad
1999	Union Bank of India	Sikkim Bank
2000	HDFC Bank	Times Bank
2001	ICICI Bank	Bank of Madura
2008	HDFC Bank	Centurion Bank of Punjab
2010	ICICI Bank	Bank of Rajasthan
2014	Kotak Mahindra Bank	ING Vyasa Bank
2017	SBI	All the 5 Associates of SBI
2017	SBI	Bhartiya Mahila Bank (BMB)
2019	Bank of Baroda	Vijaya Bank and Dena Bank
2019	Punjab National Bank	PNB, Oriental Bank of Commerce and United Bank of India
2019	Canara Bank	Canara Bank and Syndicate Bank
2019	Union Bank	Union Bank, Andhra Bank and Corporate Bank
2019	Indian Bank	Indian Bank and Allahabad Bank

Source: www.bankexamstoday.com/

Conclusion

In the coming years while a merger among moderately solid banks is likely, feeble banks are relied upon to contract in their size. PNB, BOB, BOI, CANARA Bank are being viewed as the lead banks to blend different banks with themselves in the coming years. The greater part of the union arrangements have been effective and productive in accomplishing the ideal targets yet combination in itself doesn’t ensure achievement except if it is combined with acceptable administration and capital changes in the banking business.

There is tremendous scope for consolidation among Banks. Consolidation will bring effectiveness and cooperative energy of operations and will guarantee that Indian banking sector is equipped for meeting credit demand of our developing economy. Be that as it may, the consolidation should be a well-aligned procedure dependent on sound economic rationale. A hurried top-down methodology which doesn’t sufficiently consider cooperative energies in the plans of action and similarity in the business societies and innovation foundation of the merging banks may not be maintainable over the long haul. What’s more, finally, consolidation doesn’t mean just merger of banks; consolidation additionally implies focussing on picked organizations as it were.

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