IJCRT.ORG ISSN : 2320-2882

INTERNATIONAL JOURNAL OF CREATIVE RESEARCH THOUGHTS (IJCRT)

An International Open Access, Peer-reviewed, Refereed Journal

Merger of Public Sector Undertaking Banks in India

Jaskaran Singh Madray, BBA, Chandigarh university

Roop Kamal, Assistant Professor, BBA, Chandigarh university

Abstract

Public Sector Undertaking (PSU) banks were 27 in total in India till April 1, 2020, but now with the amalgamation of 10 public sector banks (PSBs) into 4 mega banks, the number decreased to 12 PSBs. The Central government of India came with this move to strengthen Banking sector of the nation. This study aims to analyse the banks involved in this amalgamation, reasons which lead to this merger and possible outcomes for the stakeholders.

Keywords- *Public Sector Banks, Merger*

Introduction

Public Sector Undertaking (PSU) banks or Public Sector Banks (PSBs) are the kinds of banks in India which have majority stake holdings (more than 50%) by the government itself. The shares of these banks are listed on the stock exchanges.

In India at present there are 12 PSBs as a result of the April 1, 2020 bank merger of various small state banks into 4 mega and financially stable banks. The amalgamation occurred of Oriental Bank of Commerce and United Bank of India into Punjab National Bank (PNB); Allahabad Bank into Indian Bank; Syndicate Bank into Canara Bank; and Andhra Bank and Corporation Bank into Union Bank of India.

This merger made Punjab National Bank as the second largest public sector lender after State Bank of India with a business of Rs 17.95 lakh crore and 11,437 branches, Canara Bank as fourth with Rs 15.20 lakh crore business and a network of 10,324 branches, Union Bank of India as fifth in position with Rs 14.59 lakh crore business and 9,609 branches and seventh place took by Indian Bank with Rs 8.08 lakh crore business.

The government of India had allocated Rs 68,855 crore for bank merger plan. In which, Punjab National Bank got 16,091 crore, Union Bank of India received Rs 11,768 crore, Canara Bank got Rs 6,571 crore and Indian Bank got Rs 2,534 crore. Allahabad Bank was provided Rs 2,153 crore, United Bank of India received Rs 1,666 crore, Andhra Bank got Rs 200 crore, Indian Overseas Bank got Rs 4,360 crore and UCO Bank got Rs 2,142 crore.

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 amount of bad debts and to have better governance, underwriting, monitoring and introducing leveraged technology to reduce the non performing assets (NPAs) of PSBs.

The government opt for this plan from the recommendations made by the Narasimham Committee on 23rd April 1998. The committee proposed following suggestions-

1. Formation of 3 to 4 Large Public Banks including State Bank of India at global level.
2. To form a network of national bank branches throughout the country.
3. Operation jurisdiction of local banks need to be restricted in their specific regions.
4. Rural banks (including RRBs) need to play their role in rural and agricultural activities.

These suggestions opened the path for lowering the number of PSBs in the country and widen space for private banks.

Objective of study

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

Literature Review

1. Ishwarya J (2019), A Study on Mergers and Acquisition of Banks and a Case Study on SBI and its Associates, (ISSN: 2394-9333)

A 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 ha e 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.

2. Naveen Kumara, Vidhya VJ and Meghana B Reddy (2019), A Study on the Impact of Pre and Post Bank Merger announcement on Stock Price Movements, (E-ISSN 2348-1269, P- ISSN 2349-5138)

The main objective of the study is to check if there is any relationship between the stock price of the acquired banks and the dates for merger, resulting that in terms of both private and public acquiring banks, the stock price do not get influenced by the merger announcement dates.

3. Ritesh Patel (2019), Wealth Effects of Bank Mergers: Evidence from Shareholder Returns

The study showed that the bidder bank shareholders experiences gain in wealth however the combined bank and target shareholders cannot guarantee profits rather have more chances to get decline in wealth. Alike the voluntary mergers experiences gains but the banks or the firms who are forced to merge experience nominal wealth loss.

4. Goyal, Krishn & Joshi, Vijay. (2011) Mergers in Banking Industry of India: Some emerging issues, Asian Journal of Business and Management Sciences.

This depicts that Indian rural markets have great potentials which are still unexplored and the private 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.

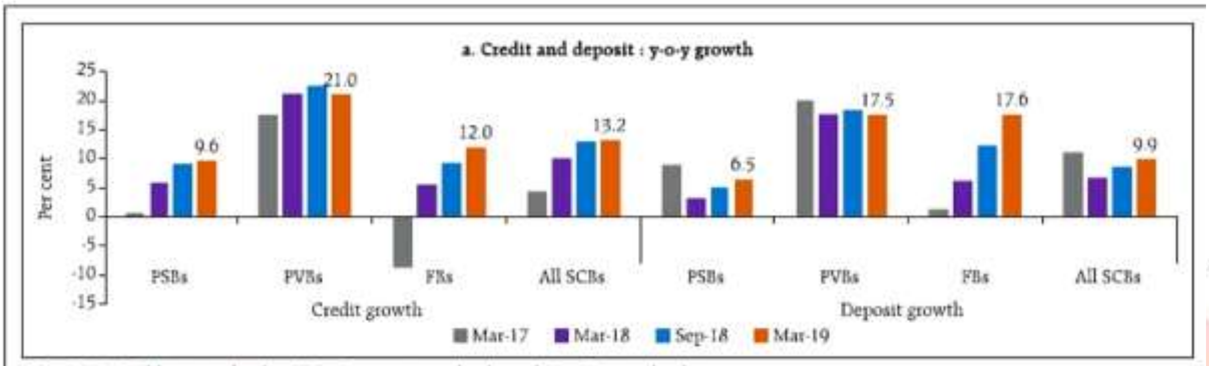
Data Interpretation

1. Increasing disparity between Credit growth and Deposit growth of banks from 2017 to 2019

Credit growth is referred to the increase in the ability to provide loans for the private sectors, individuals and public organisations. With this credit growth, consumers can borrow and spend more and business can borrow and invest. While, deposit growth means year over year change in the deposits made in the banks which are liability of banks to return back.

Among bank groups, public sector banks (PSBs) registered a credit growth of 9.6 per cent in March 2019, while deposit growth remained sluggish at 6.5 per cent. Foreign banks' (FBs) credit and deposit growth also improved to 12.0 per cent and 17.6 per cent respectively in March 2019. Private sector banks' (PVBs) credit growth remained strong at 21.0 per cent and deposit growth also continued to be in double digits at 17.5 per cent.

The credit growth based on domestic operations improved marginally to 13.2 per cent in March 2019 from 13.1 per cent in September 2018 for SCBs' and deposit growth also increased from 8.7 per cent in September 2018 to 9.9 per cent in March 2019 in their domestic operations.



Note: PSBs=Public sector banks, PVBs=Private sector banks and FBs=Foreign banks.

2. Increase in Non Performing Assets (NPAs) of PSBs

The data collected from RBI also showed that the gross NPAs of Public Sector banks has risen drastically from Rs 2,79,016 crore as on March 31, 2015, to Rs 6,84,732 crore as on March 31, 2017 and Rs 8,95,601 crore as on March 31, 2018, which paved the road of urgency to comeforth to save the banking sector of India.

3. Report of Narasimham Committee

The 1998 report of Narasimham Committee proposed greater autonomy to public banks which their counterparts have at global level so that they could function with equivalent professionalism. This report suggested changes in role of RBI in banking system and the need for merger of public sector banks to stand strong for international trade and higher future economic development and also favoured the entrance of foreign banks in the country but with certain norms as a par with private banks.

These helped the nation to know the potential of banking system of India and also been effective at global financial crisis in 2007 and at present the essential part of consolidation plan.

4. Indian economy to become $5 trillion economy

Amalgamation of Public sector banks was needed to upgrade economy into a 5 trillion dollar economy because the merger helped to form mega public banks which will enhance the capacity of credit, will strengthen nation presence and global reach and also will increase the operational efficiency which will reduce the cost of lending.

5. Consequences of Bank Merger

Positive-

- The need of recapitalization of banks from government will decrease.
- The service quality and efficiency will get better with merger of small banks into high performing and better operating large banks
- The inculcation of huge capital base from the acquired banks will help acquirer banks to offer more amount of loans to the customers
- Customers will benefit by having more choice in offerings by banks in terms of mutual funds, insurances, loans and deposits.
- Technological advancement can also be seen in new enterprises and regional ventures of banks.

Challenges-

- Customers were familiar of the services in their regional banks but with merger, they can have some issues with new norms and formalities to operate their services in new banks.
- Major challenge would be to handle new human resource and to build new hierarchy at new geographical locations and training of new staff.
- Another challenge is COVID-19 as the merger occurred in a state of lockdown in the country so consumers will be still confused to go where and proper execution of amalgamation would face flaws at ground level.
- The merger have not inculcate trade unions that effects the operations and policy forming of state run banks which can be an issue to gain their confidence else strikes and lockouts could prevail in certain regions.

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 alongwith an effective consolidation plan to control NPAs and increase credit growth of banks.

References

1. Goyal, Krishn & Joshi, Vijay. (2011). Mergers in Banking Industry of India: Some emerging issues, Asian Journal of Business and Management Sciences. 1. 157-165.
2. Ishwarya J (2019), A Study on Mergers and Acquisition of Banks and a Case Study on SBI and its Associates, (ISSN: 2394-9333)
3. Naveen Kumara, Vidhya VJ and Meghana B Reddy (2019), A Study on the Impact of Pre and Post Bank Merger announcement on Stock Price Movements, (E-ISSN 2348-1269, P- ISSN 2349-5138)
4. Ritesh Patel (2019), Wealth Effects of Bank Mergers: Evidence from Shareholder Returns , 22 (1) 86-95
5. https://www.bloombergquint.com/amp/opinion/the-origins-of-the-great-indian-bank-merger
6. https://m.businesstoday.in/lite/story/10-public-sector-banks-to-merge-into-4-today-all-you-need-to-know/1/399792.html
7. https://m.businesstoday.in/lite/story/bad-loans-of-public-sector-banks-stood-at-rs-727-lakh-crore-as-on-h1fy20-nirmala-sitharaman/1/395858.html
8. https://www.moneycontrol.com/news/business/economy/mega-merger-of-psu-banks-to-be-effective-from-today-6-banks-cease-to-exist-5094051.html/amp
9. https://www.niveshmarket.com/bank-merger-in-india/amp/
10. https://m.rbi.org.in/Scripts/PublicationReportDetails.aspx?UrlPage=&ID=931#
11. https://en.m.wikipedia.org/wiki/Narasimham_Committee
12. https://en.m.wikipedia.org/wiki/Public_sector_banks_in_India