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Novelty In Banking Brought By Mergers

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Abstract:

M&As in the banking industry have become a popular way to improve service innovation, capital adequacy, and competitiveness. Through enhanced customer experiences, financial stability, product diversification, and technological integration, these mergers create innovation. This study examines the new aspects that mergers have brought to the banking industry and examines how they affect risk management, customer service, financial innovation, and organizational performance. The research investigates how M&As provide strategic advantages in a changing financial environment and influence the future course of banking by using case studies from countless worldwide and Indian bank mergers.

1. Introduction:

Globalization, digitization, and shifting consumer expectations are driving rapid change in the banking industry. Many banks choose mergers and acquisitions as a strategic path to expansion and modernization in order to handle regulatory obstacles and competitive pressures. In addition to fortifying financial foundations, mergers act as stimulants for operational innovation and creativity. It provides the resilience to deal with new financial developments, technology breakthroughs, risk reduction, and employee and customer satisfaction. This study examines how these consolidation efforts introduce novel aspects to banking technologies, services, market presence, and governance frameworks.

2. Conceptual Framework of Banking Mergers

2.1. Banking:

Banking is the commercial activity of taking deposits from the general public and lending money to people, companies, or governments. Because they facilitate the flow of money and offer a secure location for savings, banks are essential to the financial system. Additionally, they provide services including digital payments, wealth management, capital transfers, and currency exchange.

Fundamentally, banking mobilizes savings and directs them toward beneficial purposes, ensuring the effective distribution of capital and promoting economic growth.

Types of Banking

Banking can be classified into several types based on functions, clientele, and operational scope. Below are the major types:

1. Retail Banking

Retail banking, also called consumer banking, deals directly with individual customers. It includes services like:

- Savings and current accounts
- Personal loans
- Credit and debit cards
- Mortgages
- Mobile and internet banking

Retail banks are customer-facing and are typically what the general public interacts with.

2. Commercial Banking

Commercial banks serve businesses and corporations. Their services include:

- Business loans and credit facilities
- Merchant services
- Treasury and cash management
- Trade finance

These banks help businesses manage their financial operations efficiently.

3. Investment Banking

Investment banking focuses on capital markets and offers services such as:

- Underwriting of stocks and bonds
- Mergers and acquisitions advisory
- Wealth and asset management
- Risk management and derivatives trading

Investment banks play a critical role in raising capital for large companies and governments.

4. Central Banking

Central banks are the monetary authorities of a country. Their key responsibilities include:

- Issuing currency
- Controlling interest rates
- Regulating money supply
- Managing foreign exchange reserves
- Supervising commercial banks

Examples include the Reserve Bank of India (RBI), the Federal Reserve (USA), and the European Central Bank (ECB).

5. Cooperative Banking

These are financial institutions owned and operated by their members, who are also the customers. Cooperative banks are popular in rural and semi-urban areas and focus on:

- Providing affordable credit to farmers and small businesses
- Encouraging savings habits in the community

2.2 Merger

A **merger** is a strategic decision where two or more companies combine to form a single new entity. The goal of a merger is usually to increase market share, reduce operational costs, expand into new markets, or improve overall efficiency. Mergers help businesses grow faster, become more competitive, or survive in challenging economic conditions. Unlike an acquisition, where one company takes over another, a merger typically implies a mutual agreement and an equal partnership between the merging firms.

A bank merger refers to the combination of two or more banking institutions into one, with the aim of achieving operational synergies, increasing market share, and optimizing resource utilization.

Types of Mergers

1. **Horizontal merger:** This type of merger happens when two businesses that are directly competing and operate in the same industry combine. Typically, they provide equivalent goods or services. Example: To increase market domination, two smartphone manufacturing businesses are merging.

Purpose:

- Increase market share
- Reduce competition
- Achieve economies of scale

2. **Vertical Merger:** Two businesses that function at separate phases of the same supply chain can join vertically. For example, a manufacturer combining with a distributor or supplier. For instance, a car manufacturer and a tire supplier are merging.

3. Purpose:

- Improve supply chain coordination
- Reduce production costs
- Gain better control over inputs

4. **Conglomerate Merger:** Businesses from unrelated industries or business activity combine in a conglomerate merger. These companies typically combine in order to diversify their business ventures or financial holdings. For instance, a media corporation and a food production company are merging.

5. Purpose:

- Diversify business risks
- Expand into new markets
- Improve investment potential

6. **Market-Extension Merger:** A market-extension merger is the union of two businesses that provide comparable goods or services in disparate geographic markets. An illustration would be the merger of a South Indian bank with a North Indian bank.

Purpose:

- Expand customer base
- Enter new regions
- Enhance brand reach

7. **Reverse Merger:** In a **reverse merger**, a private company merges with a publicly traded one to bypass the lengthy process of going public through an Initial Public Offering (IPO).

Purpose:

- Quicker access to public markets
- Lower cost and fewer regulatory hurdles

2.3 Objectives of Banking Mergers

1. Enhance Capital Adequacy and Financial Stability: When two financial institutions merge, they combine their capital reserves, which can lead to stronger capital adequacy—the measure of a bank's ability to absorb losses and protect depositors. A larger capital base improves resilience against economic shocks and enhances overall financial stability. This makes the merged entity more compliant with regulatory norms and capable of taking on larger credit exposures while maintaining a healthy risk buffer.

2. Expand Geographic and Customer Reach: Mergers often enable banks to enter new markets and extend their presence into different regions. When two banks operating in separate geographical areas join forces, they gain access to each other's branch networks and customer bases. This geographical diversification helps increase market share, serve a broader audience, and offer more consistent service across a wider area, benefiting both urban and rural customers.

3. Integrate Technology and Digital Services: Merging banks often upgrade their IT infrastructure by integrating digital platforms, mobile banking, cybersecurity systems, and data analytics. The combination allows for shared investment in advanced technology, leading to improved efficiency, faster services, and better customer experience. It also supports a shift toward paperless banking and the adoption of innovative digital financial solutions.

4. Reduce Non-Performing Assets (NPAs) through Consolidated Risk Management: Mergers allow for a more comprehensive and unified approach to risk management. By combining expertise, systems, and policies, the merged entity can more effectively monitor credit quality and implement stronger recovery mechanisms. A larger and more diversified loan portfolio also reduces the overall impact of bad loans, helping bring down the ratio of NPAs and improving financial health.

5. Drive Innovation through Knowledge and Resource Pooling: When organizations merge, they bring together a diverse set of skills, ideas, and resources. This pooling creates opportunities for innovation by encouraging cross-functional collaboration and learning. With access to a wider talent base and greater financial resources, the merged entity can invest more confidently in new products, services, and technologies—fostering a culture of continuous improvement and creativity.

3. Novelty Introduced Through Mergers

3.1 Technological Integration and Digital Banking: When banks merge, they usually combine their technological infrastructure, which includes IT platforms, security protocols, and digital banking tools like mobile apps and online portals. This integration not only reduces duplication but also improves the digital experience for customers. Additionally, incorporating fintech advancements helps in offering more personalized and efficient services.

3.2 Product Diversification: Mergers provide opportunities to broaden the range of financial services and products. By leveraging combined resources and customer insights, banks can design offerings that meet the diverse needs of various customer groups, from retail to corporate clients, enhancing market reach and competitiveness.

3.3 Operational Efficiency and Process Innovation: Bank consolidations often lead to the adoption of technologies like robotic process automation (RPA) and artificial intelligence (AI), which simplify workflows and enhance productivity. Unified operations support faster decision-making, cost reduction, and improved service delivery.

3.4 Cultural and Human Capital Synergies: A merger brings together professionals with varied skills, experiences, and leadership styles. This diversity can lead to more dynamic workplace environments, foster innovative thinking, and promote collaborative cultures that support organizational transformation.

3.5 Financial Innovation and Risk Management: With greater financial strength post-merger, banks are better positioned to invest in complex financial instruments and advanced risk management systems. This allows them to create new revenue streams while maintaining a stronger grip on credit, market, and operational risks.

4. Case Studies Illustrating Novelty in Banking Through Mergers

4.1 SBI and Associate Banks (India): The 2017 merger of the State Bank of India with its associate banks was a major move toward consolidation in the Indian banking sector. This integration allowed for the standardization of banking services across all branches, offering customers a consistent experience. A significant technological outcome of this merger was the launch and scaling of the YONO (You Only Need One) platform, a digital banking app that combined banking, investment, and shopping services in one interface, streamlining digital access for millions.

4.2 ICICI Bank and Bank of Madura (India): When ICICI Bank merged with the Bank of Madura in 2001, it not only expanded its footprint into rural and semi-urban areas but also laid the groundwork for adopting digital banking tools early on. This strategic move allowed ICICI Bank to introduce digital services like online banking and mobile banking to a broader customer base, including those in less urbanized regions, effectively setting the stage for a digital transformation in inclusive banking.

4.3 Lloyds TSB and HBOS (UK): Following the 2008 financial crisis, the merger between Lloyds TSB and Halifax Bank of Scotland (HBOS) played a crucial role in stabilizing the UK banking sector. The combined entity helped restore customer confidence and introduced innovative mortgage solutions tailored to changing market needs. The merger facilitated better risk management and more competitive loan offerings at a time of economic uncertainty.

4.4 BB&T and SunTrust (USA): The merger of BB&T and SunTrust in 2019 led to the formation of Truist Financial Corporation. This newly created bank prioritized digital transformation by investing heavily in modern banking platforms and customer engagement tools. Truist also emphasized a strong value-driven culture that promoted financial inclusion, community support, and personalized services, distinguishing it in a competitive U.S. banking market.

5. Challenges in Realizing Novelty Through Mergers

Mergers in the banking sector can face several challenges that may obstruct progress if not addressed effectively.

One major concern is integration risk, where aligning systems, operations, and processes from two different organizations can be complex and disruptive.

Cultural differences between merging entities can also create internal friction, affecting employee morale and collaboration.

Additionally, customer attrition may occur if clients feel neglected or dissatisfied during the transition, leading to a potential loss of business.

Finally, navigating regulatory requirements across jurisdictions can be time-consuming and complicated, delaying innovation and resource deployment.

If these issues aren't carefully handled, they can slow down or even derail the intended benefits of the merger.

6. Policy and Regulatory Support for Innovative Mergers

Regulatory bodies play an active role in supporting innovation within the banking and financial sectors. They do this by offering **financial incentives**, such as digital innovation grants, which help institutions invest in new technologies. To encourage consolidation that can lead to efficiency and innovation, they may also provide **accelerated approval processes for mergers**. Additionally, many regulators establish **collaborative**

environments with fintech firms, allowing traditional banks to adopt emerging technologies more smoothly. **Regulatory sandboxes** are another key tool—they provide a controlled space for institutions to test new products and services with limited risk, helping foster creativity while ensuring compliance with legal standards.

7. Future Outlook

Platform-based financing, embedded services, ESG principles, and super-app ecosystems will all be included into future banking structures. Because of their size and strength of resources, merged banks are better positioned to spearhead this change.

8. Conclusion

Banking mergers serve as strategic enablers of novelty, transforming service delivery, innovation, and institutional governance. Success depends on integration strategy, innovation focus, and leadership commitment.

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