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BANK MERGERS AND EFFICIENCY EFFECTS

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ABSTRACT

Purpose: Any economic growth rests on a solid financial foundation. Different financial markets,institutions, middlemen, tools, etc. make up the financial system. Banks are one type of financial intermediary that people have a great deal of trust and faith in. In an economy, the majority of people invest their savings or investments in the banking sector. Therefore, anything that happens in the financial industry has a big effect on their money. Bank mergers have a big impact on different sectors, including banks. The goal of the current study is to examine how bank mergers affect banks' operational efficiency. An attempt has been made to study the efficiency effects of bank mergers.

Objectives: To investigate the consequences of bank mergers and identify their implications on efficiency. The goal of the study is to examine the impact, efficiency impacts, and existing research on the subject.

Design/Methodology/Approach: The study is descriptive in nature and was conducted using secondary sources. Information on various aspects of bank mergers and their effects on bank efficiency was gathered through a variety of research papers and articles.

Findings/Result: Depending on the performance metrics employed, the techniques implemented, and the reason for the transaction, there are varying degrees of efficiency benefits following bank mergers.

Originality/Value: Bank mergers have various implications on different sectors of the economy. The study intends to analyse the efficiency effects of merger of banks.

Paper Type: Descriptive study with Literature Review on Efficiency effects of bank merger

Keywords: Bank mergers, efficiency effects, impact of bank mergers

1.0 INTRODUCTION:

Recent years have seen a wave of mergers in the Indian banking industry. The key benefit of mergers and acquisitions is the synergy that the combined company might experience, which would increase shareholder value. The result is economies of scale, increased revenue possibilities, and potential tax gains.[11]

1.1 OBJECTIVES:

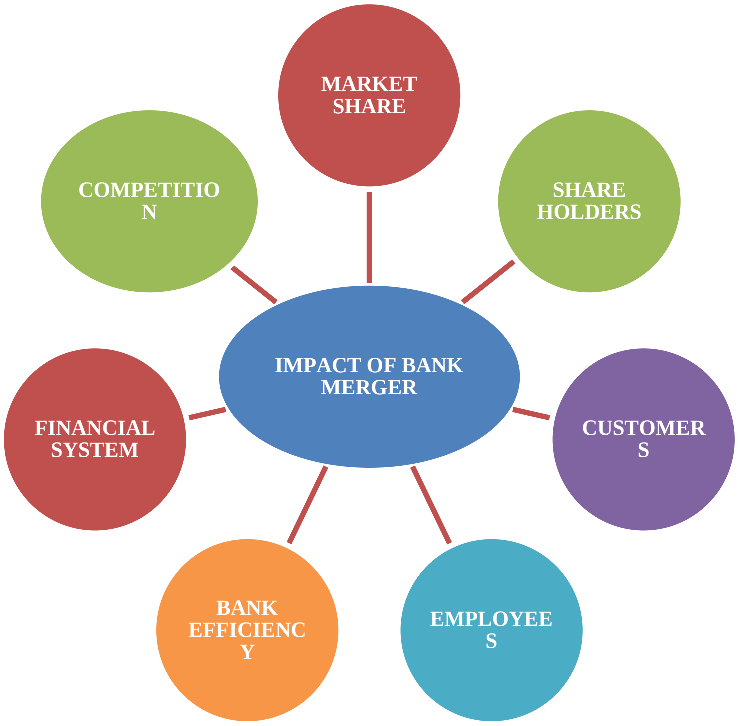
- To study the concept of bank mergers
- To identify the impact of bank mergers
- To analyze efficiency effects of bank mergers
- To study literature relating to the topic

1.2 METHODOLOGY:

The present study is descriptive. Secondary data is collected from journals, articles, and related websites.

1.3 IMPACT OF BANK MERGERS:

Bank Mergers have great impact on various sectors and sections of the economy. Some of the important sections effected by bank merger are:



1. **Bank Efficiency:** Merger have impact on the performance of Merged Banks. During the merger period, they have to undergo a lot of changes, thus, effect on their efficiency level. Later it can have both positive and negative effects depending upon various factors.
2. **Employees:** Employees might feel insecure with the decision of merger. They also need to adjust with the new work environment and culture.
3. **Customers: T**hey get the chance of becoming a part of a big alliance. Loyal customers will be emotionally effected. They need to be carefully managed after merger.
4. **Shareholders:** The merger news in the capital market will have strong impact on shareholders' value. Also the efficiency effect of bank mergers will impact on their returns.
5. **Market Share:** After the merger the merged entities can access to wide market share. They can expand their operations in a larger domain.
6. **Competition:** Mergers are also sought to reduce competition. Thus the merged banks competitive strength will increase if they could manage the merger process effectively.
7. **Financial System:** The economies financial system will be greatly impacted by the merger system. It can yield positive returns when merger results in formation of strong banks. On the other hand, it may have to face negative consequences if merger process transfers inefficiency of weak bank to the strong one.

1.4 EFFICIENCY EFFECTS OF BANK MERGERS

The fundamental goal of mergers in the banking sector is to make it stronger in terms of capital, efficiency, client reach, cost savings, reduced competition, etc. The efficiency impacts of bank mergers are primarily influenced by their size, strategies, governance, regulatory environment, and capacity to carry out merger procedures. Following are some efficiency effects of bank mergers:

1. Economies of Scale: A combined bank can benefit from economies of scale by eliminating job duplication, branch count, growing client base, and improving technology. This will help banks offer services at reduced costs.

2. Large Capital: The combined banks will have a large capital base, allowing them to serve a sizable portion of the economy.

3. Better Customer Service: Banks can offer better customer service by expanding their branch networks, ATM accessibility, products, and services. Customer Service is an integral part of competitive environment.

4. Technology advancement: Mergers enable technology advancement, which helps the merged bank to provide high-quality and secure services. This again will help them to bring large and trusted customer base.
5. Regulatory Compliance: After growing to be a significant alliance bank, acquire the necessary competence to adhere to regulatory compliance.

1.5 LITERATURE REVIEW

The organization's internal business procedures must be improved in order to increase operational effectiveness and efficiency. Therefore, it is advised that methods like research and development projects be designed for obtaining the best utilisation of an organization's technological and innovative capacities. [12].

Although the Mega Bank Merger decision of the government is a challenging task having are many obstacles in the path, they can produce positive outcomes. The government can now have strong banks with stronger governance and capital management, as well as the ability to compete internationally[15]. The average large bank merger does not appear to result in any cost reductions. The total returns, however, have increased in recent years. Negative returns to bids balance out positive returns to targets.[7]

Table 1: The list of research publications relating to bank merger and financial performance

Sl.No.	Area and Focus of the Research	Outcome of the Research	Reference
1.	The efficiency effects of bank mergers of Vietnamese Banks	They found that the efficiency level remained stable over the period (2008 to 2015). In majority of bank merger cases, efficiency level improved after the merger was not because of acquiring bank's efficiency over its targets. Also, there are mixed results regarding efficiency gains passed on to the public.	**Le, T. (2017)[10]**
2.	Pre & post-merger financial performance: An Indian perspective	Studied long-term profitability of selected Indian Banks, the financial performance of acquiring banks with other banks in the banking industry. In their study they concluded that there is a negative impact of mergers on return on asset, return on equity, net profit ratio, yield on advance, and investment because of underutilization. However, earnings per share, profit per employee, and business per employee have shown increased growth, because of the optimum utilization of human resources.	**Patel, R. (2018)[11]**
3.	Effects of mergers on market power and efficiency	M & A greatly effect on the economic activities of the countries, there are limited systematic evidences to prove their effect on firm productivity and market power. They could find certain evidences for the increased mark-ups after Merger & Acquisitions, but could find only little evidences for plant or firm level productivity	**Blonigen, B. A., & Pierce, J. R. (2016)[4]**
4.	Impact of mergers and acquisitions in the Nigerian banking sector	Companies merge with some financial and non-financial motives. Mergers and Acquisitions do not always result in improving financial performance. Some might experience good performance and some may not. There may be mixed results depending on the performance measures used.	**Aitaa, S. K., & Mabel, O. O. (2023)[2]**
5.	Efficiency effects of bank mergers	They found an improvement in the cost efficiency of consolidating banks. They also found that the profit efficiency of large banks reduces while of small banks increases. Also, merging banks share in the deposit market increases because of competitive interest rates.	**Huizinga, H. P., Nelissen, J., & Vander Vennet, R. (2001)[8]**
6.	Impact of post-	The results showed that procedural, physical, and	**Singh, S. and**

	merger and acquisition activities on the financial performance of banks	sociocultural environments' tactics and policies played a significant role in the post-merger and acquisition process. Informant descriptions are massive and essential to enhancing the Bank's performance and capacities.	**Das, S. (2018)[16]**
7.	An Analysis of the Impact of Mergers and Acquisitions on Commercial Banks Performance in Nigeria	Found that there is a strong correlation between commercial banks' pre- and post-merger/acquisition capital bases, levels of profitability, and earnings per share. Through mergers and acquisitions, commercial banks have seen an increase in capitalization as seen by changes in share ownership, rising service costs, and shifting interest rates on bank loans.	**Adebayo, O., & Olalekan, O. (2012)[1]**
8.	Bank Performance And Merger And Acquisitions During The 2008 Global Financial Crisis	Found that local GAAP-based monitoring of banks' M&A is positively correlated with accounting performance while IFRS-based monitoring of banks' M&A is negatively correlated with bank performance in terms of higher quality financial reporting. In terms of bank performance, including return assets, return equity, and other operational profit, the findings imply that there is no discernible difference between non-M&A and M&A groups	**AKGÜN, A. İ. (2019, May)[3]**
9.	Analytical Study of Behavioral Finance In Bank Merger: Impact of Digitalization	Found that mergers have a detrimental impact on return on value, return on resources, net benefit percentage, yield on advance, and yield on venture. The Earnings per Share, Profit per Worker, and Business per Representative, to name a few, have however shown a favourable pattern and have improved since the merger. Actually, effective HR use has increased business per employee and benefit per representative.	**Gupta, S., Kadyan, S., & Bhasin, N. K. (2021)[5]**
10.	Pre-evaluating technical efficiency gains from possible mergers and acquisitions: evidence from Japanese regional banks	Potential M&As involving smaller banks fared better than those involving larger institutions. Furthermore, their findings suggest that while larger banks seem to benefit from merging with nearby banks, small regional banks may gain efficiency when they merge with nearby banks	**Halkos, G. E., Matousek, R., & Tzeremes, N. G. (2016)[6]**
11.	The overall gains from large bank mergers	The bidder banks often have higher profits than target banks and other banks in their sectors. When a company with a strong operating history announces an acquisition, the market reacts favourably. Additionally, they discovered that the stock market has a more favourable perception of acquisitions where there is a greater degree of market overlap and, hence, a bigger possibility for cost savings	**Houston, J. F., &Ryngaert, M. D. (1994)[7]**
12.	The effect of mergers and acquisitions on financial performance of	Found that mergers and acquisitions increased the value of the merged or acquiring banks to their shareholders in Kenya. The analysis also showed that increasing profitability was the primary driver of bank mergers and acquisitions.	**Joash, G. O., & Njangiru, M. J. (2015)[9]**

	banks		
13.	The impact of PSB merger on Private Sector Banks	Examined the effects of the Mega PSB merger on the efficiency level of India's leading Private Sector Bank- HDFC Bank and discovered that while net profit was lower in the merger year, HDFC Bank has been doing well in recent years.	**Poojari Jayashree Muddu, D. C. (2023)[14]**
14.	Mega Bank Merger 2019	Found that it is preferable to have a small number of banks with a strong capital basis, superior service, the most up-to-date and secure technology, and better governance for efficient capital management and choices than a big number of banks with identical goals that are in direct competition with one another. Mergers will help the government to get the above mentioned benefits	**Poojari Jayashree Muddu, D. C. (2023)[15]**

1.6 FINDINGS:

- According to authors, small and medium banks should be promoted in future acquisitions to enjoy efficiency gains. Le, T. (2017)[10]
- Highlighted the need for comparing the effects with the motive of transaction. Aitaa, S. K., & Mabel, O. O. (2023)[2]
- Mergers and Acquisitions are socially beneficial as they have positive effect on the cost efficiency. Huizinga, H. P., Nelissen, J., & Vander Vennet, R. (2001)[8]
- The study recommended that management-instituted policies and strategies, such as the credit policy, be reviewed in order to improve internal and external operations Singh, S. and Das, S. (2018)[14]
- The logistical framework support should be improved, and a more thorough approach to integrated marketing communications mix should be implemented in order to promote the Bank's existing and newly added products in order to increase market share. Singh, S. and Das, S. (2018)[16]
- Based on the results of the study, it can be said that the merger and acquisition strategy dramatically improved banks' overall performances and greatly aided the expansion of the real estate industry for sustainable development. Adebayo, O., & Olalekan, O. (2012)[1]
- Following the merger, all banks' assets, equity, investments, and advances increased; yet, due to underutilization, each bank's individual yield decreased. Gupta, S., Kadyan, S., & Bhasin, N. K. (2021)[5]
- Before beginning the merger or acquisition process, the researcher advised doing exhaustive feasibility assessments. Regarding potential areas for more study, it was suggested that the effects of mergers and acquisitions in other economic sectors be determined in order to compare them to the consequences of the same processes in the banking sector. Joash, G. O., & Njangiru, M. J. (2015)[9]

1.7 CONCLUSION:

As a result of mergers, cost and profit efficiency has increased. The market responds favorably when an organization with a solid track record announces an acquisition. Increased bank efficiency is not usually the outcome of bank mergers. Failure may occur if integration issues, cultural differences, regulatory obstacles, client relationships, and human resources management prevent them from achieving the desired goals. The effects of bank mergers on efficiency can vary depending upon by a number of variables. Although cost reductions and increased efficiency are possible, successful mergers necessitate careful planning, efficient implementation, and consideration of the larger economic and legal context.

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