IRJMETS
e-ISSN: 2582-5208
International Research Journal of Modernization in Engineering Technology and Science
(Peer-Reviewed, Open Access, Fully Refereed International Journal)
Volume:06/Issue:07/July-2024 Impact Factor- 7.868 www.irjmets.com

AN OVERVIEW OF MERGERS AND ACQUISITIONS IN THE INDIAN BANKING SECTOR

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ABSTRACT

Today's competitive world is like a jungle where the giants gobble up the smaller ones and therefore one has to be fit enough to overcome such challenges. There are instances that large enterprises have taken over their smaller competitors. Different Indian sectors that have resorted to Mergers and Acquisitions (M&As) in recent times include telecom, pharmaceuticals, finance, fast moving consumer goods (FMCG), construction materials, automobile industry and steel industry. With the increasing number of Indian companies opting for M&As, India is now one of the leading nations in the world in terms of M&As. Like all business entities, banks also want to safeguard against risks and exploit available opportunities arising out of existing and expected trends. A phenomenal growth in M&As in the banking sector, both globally and in India, has been witnessed in the recent past. In this backdrop of emerging global and Indian trends, this article highlights the key issues relating to trends and reasons of M&As in the banking sector, with special reference to Indian banks.

Keywords: Mergers And Acquisitions, Indian Banking Sector.

I. INTRODUCTION

The seeds of Indian banking system were sown way back in the 18th century when efforts were made to institute the General Bank of India in 1786 and Bank of Hindustan in 1790. Later, under the charter of British East India Company, some more banks like Bank of Bengal, Bank of Bombay and the Bank of Madras were established. In 1921, these three banks were merged to form the Imperial Bank of India, which later became the State Bank of India. During the first two decades of 20th century many other banks were established. Renowned among them are Bank of India, Bank of Baroda, Canara Bank, Corporation Bank, Indian Bank and Central Bank of India. Each of the stated banks are still surviving and catering to the country's financial needs.

The development of banking sector in India can be divided into three phases viz. Initial phase (since inception of Indian banking system in 1786 till 1969, the year of bank nationalization, when many small banks were set up), pre-liberalization phase (from 1969 prior to 1991) and post-liberalization phase (since 1991 onwards). In 1969, 14 largest commercial banks were nationalized by the Government of India to get more control over credit delivery. It was followed by a second dose of nationalization of six more commercial banks in 1980.

The Indian banking sector has gone a radical change during the post liberalization period. In 1991, the then Narasimha Rao government had embarked the policy of liberalization. Few private banks like Global Trust Bank (which later on amalgamated with Oriental Bank of Commerce), UTI Bank (presently known as Axis Bank), ICICI Bank and HDFC Bank were given licences to carry out banking business in India, which accelerated the growth in Indian Banking sector. Later, in the year 1993, the government merged New Bank of India with Punjab National Bank, resulting in the reduction of the number of nationalized banks from 20 to 19. Till then, it was the only merger between two nationalized banks in the Indian banking history. Contribution from all three banking sectors, viz. government banks, private banks and foreign banks, along with the rapid growth of the Indian economy had effected the globalization of the Indian banking sector. The impact of such globalization on Indian banking system demanded many structural and regulatory changes. Many different strategies have been adopted by this sector to remain efficient and to swell at the forefront in the global arena. Consolidation through M&As is considered to be one of such strategies.

In recent past, since the National Democratic Alliance (NDA) took over the administrative power in 2014, merging public sector banks have become a more regular phenomenon. In 2017, the State Bank of India merged with the Bharatiya Mahila Bank and five of its subsidiary banks. In 2018 approval for merger of Bank of Baroda, Vijaya Bank, and Dena Bank was given. For privatization of IDBI Bank Ltd., the government has given permission to Life Insurance Corporation of India (LICI) to procure 51% of the company's shares. In August

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2019, the government has set a roadmap to merge ten public sector banks into four which took effect on April 1, 2020.

II. LITERATURE REVIEW

It is observed in literature that most of the work done on M&As is based on financial and accounting aspect like performance of banking institutions. There are few efforts that have been made to measure the impact of bank's M&As on their employees and staff. However, apart from this, some efforts have been made to study the state of customers in the course of M&As. Acquisitions often have a negative impact on employee behaviour resulting in counterproductive practices, absenteeism, low morale, and job dissatisfaction. It appears that an important factor affecting the successful outcome of acquisitions is top management's ability to gain employee trust.

Rhoades (1998) summarized nine case studies, by nine authors, on the efficiency effects of bank mergers. The mergers selected for study were ones that seemed relatively likely to yield efficiency gains. That is, they involved relatively large banks generally with substantial market overlap, and most occurred during the early 1990s when efficiency was getting a lot of attention in banking. All nine of the mergers resulted in significant cost cutting in line with pre-merger projections. Four of the nine mergers were clearly successful in improving cost efficiency but five were not.

DeLong (2003) studied sample of 54 bank mergers announced between 1991 and 1995, tests several facets of focus and diversification. The study found that upon announcement, the market rewards the merger of partners that focus their geography and activities and earning stream. Only of these facets, focusing earning streams enhances long-term performance.

Shanmugam & Nair (2004) identified factors in their study on mergers and acquisitions of banks in Malaysia like globalization, liberalization and information technology developments have contributed to the need for a more competitive, resilient and robust financial systems.

It was found in the studies of Humphrey, Willeson, Bergendahl & Lindblom (2006) that industry consolidation occurred primarily because of financial and technological innovation that altered the optimal production functions of financial firms. The enabling force was a wave of financial deregulation that was necessary for banks and other financial services to take full advantage of the new production processes and technological advances revolutionized back-office processing, front-office delivery systems, and payments systems.

Sergio & Olalla (2008) finds that financial deregulation and technological progress has an important role in the process of mergers and acquisitions in the banking sector during the period 1995-2001. They used Multinomial logit analysis to conclude the characteristics of continental European financial institutions and observed that size is an important factor in mergers and acquisitions.

Devos, Kadapakkam & Krishnamurthy (2008) studied M&A as value creation, efficiency improvements as explanations for synergies and produced evidence that suggests mergers generate gains by improving resource allocation rather than by reducing tax payments of increasing the market power of the combined firm.

DeYoung, Evanoff & Molyneux (2009) have found in their study that the changes in deregulation, allowed commercial banks and other financial services firms to expand through mergers and acquisition into geographic markets and product markets.

Calipha, Tarba & Brock (2011) have reviewed M&A motives and success factors in their article such as entering a new market, gaining new scarce resources, achieving synergies and other managerial and organizational factors that are associated with M&A i.e. relative size of M&A partner, managerial involvement, culture and organizational structural issues etc.

Panwar (2011) studied ongoing merger trends in Indian banking from the viewpoint of two important stakeholders of a banking firm- stockholders and managers. The findings showed that the trend of consolidation in Indian banking industry has so far been limited mainly to restructuring of weak banks and harmonization of banks and financial institutions.

III. OBJECTIVE OF THE STUDY

In this backdrop, the present study is a humble attempt to investigate what are the major causes that lead to a significant number of bank mergers in India during the post liberalization period, to highlight certain emerging

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issues arising out of these bank mergers and to have an understanding of the future prospects of bank mergers in India.

Rationale for M&As in the Indian Banking Sector

In the past few years, the global banking system has gone through major turmoil mostly due to deregulation in three major areas viz. losing control over interest rate, removal of barriers between banks and other financial intermediaries, and lowering down of entry barriers. All these have led to demand for higher returns from the investors' end, severe price competition within and across geographical boundaries, reduced margins on operations etc. which force banks to look for new ways for enhancement of revenues. Consolidation through M&As has been considered as a significant strategic tool for this and has become a popular worldwide phenomenon, characterized by the inherent advantages of economies of scale, diversification within and beyond geographical barriers, lower costs through branch and staff streamlining and gaining market share. The underlying strategy for bank mergers, as it is perceived, is, larger the bank will be, higher will be its competitiveness and better will be its prospects for survival. The Indian banks find it very difficult to compete with their global counterparts in various facets of banking and financial services due to being comparatively smaller in size than the international banks. Hence, one of the strategies adopted by the Indian banks to face such severe competition was to consolidate through the process of M&As. The new Basel II norms (effecting from 2006-07), requiring strengthening of capital position to meet stringent prudential capital adequacy norms, have also led the Indian banks to go for M&As. More specifically, the following reasons may be attributed towards popularity of bank mergers in India:

- Few top banks in India have quality management and they can improve the functioning of some other smaller banks by taking them over and making changes in their management.
- Geographically, Indian banks are scattered and can consolidate to improve their client and industry positions. There are opportunities for smaller banks to consolidate and become large and for larger banks becoming even larger.
- Merger can enhance shareholders' wealth of both the companies through the amalgamated entity's increased market share. In addition to market share, a company went for a merger, can afford to control the price better which results in increased profitability.
- Companies, seeking for rapid growth in terms of size, market share and / or diversification in their product portfolio, may find a merger helpful instead of going through the time consuming process of internal growth or diversification. The firm may achieve the same objective in a comparatively shorter period and with a lower cost by merging with an existing entity rather than the alternative of developing the necessary production capacity.
- Mergers can create synergy. It implies a situation, where the combined firm is more valuable than the sum of the individual firms combined.
- Recent studies have established that M&As can reduce the bankruptcy risk of the merged entity significantly, if planned for and executed in a controlled manner. The same is applicable for the Indian banks as well.
- Banks, going for M&As, can achieve significant growth in their operations, reduce expenses significantly and eliminate competitors from the industry.
- More geographic growth can be achieved by M&As. Ability to grow products and segments and opportunity to cross-sell them enhance revenue.
- There are opportunities for the amalgamated entity to enable optimum utilization of various infrastructural and manufacturing assets, including utilities and other site facilities and to conduct operations in most cost efficient manner considering the complementary nature of the businesses of the concerned companies in terms of their commercial strengths, geographic profiles and site integration.

Major M&As by Indian Banks

The following table provides an inclusive list of major M&As in the Indian Banking Sector.

Sl. No.	Acquirer Bank	Target Bank	Year of Acquisition
1.	Bank of Baroda	Bareilly Corporation Bank Ltd.	1998
2.	Union Bank of India	Sikkim Bank	1999
3.	HDFC Bank Ltd.	Times Bank Ltd.	2000
4.	Standard Chartered Bank	ANZ Grindlays Bank	2000
5.	ICICI Bank Ltd.	Bank of Madura Limited	2001
6.	ICICI Bank Ltd.	ICICI & Its Retail Finance Subsidiaries	2002
7.	Bank of Baroda	Benares State Bank Ltd.	2002
8.	Bank of Baroda	South Gujarat Local Area Bank Ltd.	2004
9.	Oriental Bank of Commerce	Global Trust Bank	2004
10.	IDBI Bank	United Western Bank	2006
11.	Federal Bank Ltd.	Ganesh Bank of Kurundwad Ltd.	2006
12.	Centurion Bank of Punjab Ltd.	Bank of Punjab Ltd.	2007
13.	Centurion Bank of Punjab Ltd.	Lord Krishna Bank Ltd.	2007
14.	ICICI Bank Ltd.	Sangli Bank Ltd.	2007
15.	HDFC Bank Ltd.	Centurion Bank of Punjab Ltd.	2008
16.	ICICI Bank Ltd.	The Bank of Rajasthan Ltd.	2010
17.	Kotak Mahindra Bank	ING Vyasa Bank	2014
18.	State Bank of India	All the 5 associates of SBI	2017
19.	State Bank of India	Bharatiya Mahila Bank (BMB)	2017
20.	Bank of Baroda	Vijaya bank and Dena Bank	2019
21.	Punjab National Bank	Punjab National Bank, Oriental bank of commerce and United bank of India	2019
22.	Canara Bank	Canara Bank and Syndicate bank	2019
23.	Union Bank	Union Bank, Andhra Bank and Corporate Bank	2019
24.	Indian Bank	Indian Bank and Allahabad Bank	2019

Source: Compiled from various sources

Emerging Issues in Bank Mergers in India

In the present competitive global business environment, growth is regarded as the fulcrum of every business and there is tremendous competition among corporate entities to eclipse their competitors and emerge as market leader through charting out an aggressive growth path. One of the preferred routes to the corporate entities in achieving the objective of growth is considered to be the process of corporate restructuring through M&As. But, as a matter of concern, different stakeholders of the companies involved in the M&A process viz. customers, employees, shareholders and other concerned departments are affected due to such process.

Following are some of the emerging issues in M&As that are required more attention for successful implementation of the merger.

- The delicate aspects like employees' attitude, their satisfaction and motivation from mergers should be taken care of which are considered to be prerequisites for customer satisfaction, one of the necessary parameters for the competitive sustainability of the organization.
- The service quality of the banks, as it is perceived by the customers, should be assessed before going for mergers.
- An employee-oriented communication process, together with an acceptable level of management-employee relationship, seems to form the basis for a successful merger. Communication throughout the M&A process is of crucial importance in its eventual success. Providing timely, clear, consistent, factual, sympathetic and up-to-date information to employees in various ways will increase their productivity and create synergy.
- Effect of leadership and change management strategies on acceptance of cultural change by individuals of the merged enterprise should be examined. The success of a merger depends on individual's perception about the manner in which the process is handled and the direction in which the culture is moved.
- Unsuccessful mergers are often attributed to human resource management and organizational problems, and therefore several factors related to maintaining workforce stability are identified as important parameters for success of M&As.
- Media plays a crucial role in shaping the social context of M&As. It is the uncertainty that creates stress among the employees rather than the actual changes likely to result from the merger. Leaders need to be competent and trained enough in handling the process of transforming organizations in order to ensure that individuals within the organization accept the proposed changes going to be prompted by the merger.

IV. FUTURE PROSPECTS OF M & AS IN INDIAN BANKING SECTOR

Recently, due to Govt. policy of inviting FDIs, the Indian banking sector has further opened up, which provides an opportunity for the foreign banks to enter the Indian market. With their huge capital reserves, cutting-edge technology, best international practices and skilled personnel, foreign banks have a clear competitive advantage over their Indian counterparts.

Persistent growth in Indian corporate sector and other segments provide further incentives for the banks to go for M&As. Banks have to keep pace with the growing industrial and agricultural sectors to serve them efficiently. Consolidation with global players can give the benefit of global opportunities in fund mobilisation, credit disbursal, investments and rendering of financial services. Consolidation can also lower intermediation cost and increase reach to underserved segments.

The Narasimhan Committee (II) recommendations are also an important indicator of the future shape of the sector. There would be a movement towards a 3-tier structure in the Indian banking industry: 2-3 large international banks, 8-10 national banks; and a few large local area banks. In addition, M&As in the future are likely to be more market-driven, instead of government-driven.

V. CONCLUSION

Banking sector is one of the fastest growing areas in the Indian economy. M&As is considered as one of the most useful strategic tool for growth. Indian economy has witnessed tremendous growth during post liberalization period (since 1991 onwards) in almost every sector and banking is one of them. M&As in banking sector has been considered as the useful tool for survival of weaker banks by merging into larger bank. Small and local banks face difficulty in bearing the impact of global economy, and therefore, they are merged with some other larger banks.

Some private banks used mergers as a strategic tool for expanding their horizons. There is huge potential in rural markets of India, which is not yet explored by the major banks. ICICI Bank Ltd. has used mergers as their expansion strategy in rural market. They are successful in making their presence in rural India. It strengthens their networks across geographical boundary, improves customer base and market share.

It is important to note that merger (or large size) is just a facilitator, but there is no guarantee for improved profitability on a sustained basis. Hence, the emphasis should be given on improving risk management capabilities, corporate governance and strategic business planning. In the short run, options like outsourcing, strategic alliances, etc. can be attempted. Banks should exploit the advantage of fast changing environment, where products are short-lived and time to market is critical. The resulting larger size post-merger should not affect the agility of the merged entity. The aim should be to create a sprightly giant, rather than a lumbering dinosaur.

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