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Banking Sector Mergers and Its Impact and Significance

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Abstract: This paper is dealing with the aftermath effect of merger of ten public sector banks (PSBs) in to four entities, which will have bearing on the entire financial sector. The merger of banks was announced under the Bank Consolidation plan among other major initiatives and steps to accelerate the economic growth of India. The new scheme was being rolled out for "making the path clear to reach the $5 trillion economy" mark in next five years The announcement on bank mergers is a cohesive and a clear recognition that bigger banks have that much more ability to absorb shocks, reap economies of scale as well as the capacity to raise resources without depending unduly on the exchequer. These mergers could impact almost every other individual who has a savings account or ED with a PSU bank. The bank mergers announced will set a number of changes in motion that the account holder will have to be prepared for and the decision to have separate mechanism for sanctioning and monitoring of big loans would ring-fence the banks against potential frauds.

Keywords: Merger, Motive, Impact, Downsizing and Amalgamation.

Introduction:

Union Finance Minister announces the merger often big public sector banks (PSBs) into four, The banks which are being merged are Punjab National Bank, Oriental Bank of Commerce, United Bank of India, Indian Bank, Allahabad Bank, Canara Bank, Syndicate Bank, Union Bank of India, Andhra Bank and Corporation Bank. India will now have 12 Public Sector Banks from 27 in 2017. The merger of banks was announced under the Bank Consolidation plan among other major initiatives and steps to accelerate the economic growth of India, Finance Minister said that only six banks showcased profitability in the Quarter of aoi8-ip. However, in Quarter i of 2019, 14 PSBs showcased growth and profit. In order to boost the national presence of banks along with their global reach, the amalgamation of banks was necessitated, This is not the first time that the Government is merging the banks together.

Earlier, under the Banks Consolidation plan itself, the Government had merged all the entities of State Bank of India into one and merged Bank of baroda, Dena Bank and Vijaya Bank as one single entity. Now we have 12 Public Sector Banks from 27 in 2017. The announcement on bank mergers is a cohesive and a clear recognition that bigger banks have that much more ability to absorb shocks, reap economies of scale as well as the capacity to raise resources without depending unduly on the exchequer. All four merged entities will have more than io% of their loan exposure towards NBFCs, These mergers could impact almost every other individual who has a savings account or ED with a PSU bank. The bank mergers announced will set a number of changes in motion that the account holder will have to be prepared for and the decision to have separate mechanism for sanctioning and monitoring of big loans could ring-fence the banks against potential frauds

Objectives: The objectives of this paper are to examine the rationale behind the merger of public sector banks and its implementation, to study the impact of merger of public sector banks on common person and banks, to study the impact of merger of public sector banking on economy of India and to provide suitable suggestions for better functioning public sector banks. Research **Methodology:** The paper is based on secondary data. The data has been collected from internet, articles newspapers etc. Based on the data collected the comprehensive view on its impact analysed and suggestions were presented.

Banks to be merged together are:

- Punjab National Bank, Oriental Bank of Commerce, United Bank of India v.ili be merged as one
- Canara Bank & Syndicate Bank
- Union Bank of India, Andhra Bank and Corporation Bank
- Indian Bank &Allahabad Bank

The Government targets 5 trillion US dollars economy througb these bank reforms and consolidation. The Government would infuse Rs 55,2.50 Crore of capital in these io big banks for their credit growth 'and regulatory compliance to boost the economy, Apart from these merged banks, two public sector banks will continue to work as an independent body to strengthen national presence. These banks are Bank of India and Central Bank of India, Four regional banks will also continue to work independently to strengthen the regional focus. These are: Indian Overseas Bank, UCO Bank Bank of Máharashtra and Punjab & Sind Bank

Head/Anchor Bank	Merged banks	Business Size (Rs. lakh cr)	PSB Size
Punjab National Bank	Punjab National Bank Oriental Bank of Commerce United Bank of India	17.94	2nd largest Bank
Canara Bank	Canara Bank Syndicate Bank	15.20	4th largest Bank
Union Bank of India	Unlon Bank of India Andhra Bank Corporation bank	4.59	5th largest Bank
Indian Bank	Indian Bank Allahabad Bank	8.08	7th largest Bank
State Bank of India (Merged earlier		52.65	1st largest bank
BnkofBaroda(Mged earlier)		16.13	3rd largest bank

Apart from these to merged entities, six banks will continue to work individually. Have a look at the details of these banks:

Bank	Business size (Rs. lakh crore)
Bank of India	9.03
Central bank of india	4.68
Indian overseas bank	3.75
UCO Bank	3.17
Bank of Maharastra	2.34
Punjab and Sind bank	1.71

Source: Rupali Pruthi Aug 30, 2019

Motives of merger of PSBs: The bank merger was done under the bank consolidation plan of the Union Government. Have a look at the government's objective behind the merger of these banks are enhanced capacity to increase credit, banks with a strong national presence and international reach, reduction in lending cost, next generation technology for the banking sector and improved ability to raise market resources.

Table 1.3 Banks Ranked by Business Size

Banking order (Largest to Smallest)	Business in Lakhs of crore Rupees	Market Share
StateBank of India	52.1	22.5
PNB+OBC+ United Bank	17.9	7.7
1-IDFC Bank	17.5	7.6
Bank of Baroda	16.1	7.0
Canara + Syndicate Bank	15.2	6.6
Union+ Andhra + Corporation Bank	14.6	6.3
ICICI Bank	12.7	5.5
Axis Bank	10.6	4.6
Bank of India	9.0	3.9
Indian + Allahabad Bank	8.1	3.5

Source: The Economics Times dt September 09, .2019

Merger is needed to make a big one to compete globally, but the consequences and facts need to be considered are: Even if we merge all the banks in India it won't be big enough to compete globally as the capital required is 70 billion dollars and all the banks merged in India come up to only 4 billion dollars. Regional focus will be lost due to mergers, Competition is required not consolidation of banks and Large banks are not necessarily better banks — "Too big to Fail" theory. t needs to be ensured that there is no leadership vacuum in anchor banks, Technical Skills need to be considered like Integration Planning, transforming business support ftmction, also cultural integration of expanded workforce Sustained training initiation. Top leadership comes from within the banks based on performance.

Recruitment of professionals from key areas of technology HR and Risk Management in all for which PSB's are gross underequipped. Training Frontline Staff - A buoyant exercise of recruitment and training is vital. (Merger Wave May sink 'Fresh Hiring')

Impact of merger of PSBs: These mergers could impact almost every other individual who has a savings account or FD with a PSU bank. Retail customers including account holders of amalgamating banks are likely to get affected.

The bank mergers announced will set a number of changes in motion that the account holder will have to be prepared for. To start with, customers' account number and customer IDs, as well as the associated IFSC codes may change. Make sure your email ID and mobile number is updated with the bank so that you receive all official intimations instantly. Eventually, new account numbers, customer IDs, and IFSC bodes mean that you would have to update these details with various third-party entities including the Income Tax Department for tax refunds, insurers to get maturity proceeds, and mutual funds to get redemption amounts. We will have to submit fresh SIP or Systematic Investment Plans registration cum-mandate forms in case of auto-debits for SIP and for loan EMIs.

Merger impacts on downsizing, the employees recruited in 1990 will be retired and reappointment will be downsized. Bank mergers may reduce fresh hiring; the PSU bank merger is expected to impact the recruitment of clerks, in particular. Even as Finance Minister assured that the mega merger of so public sector banks into four entities will not lead to job losses, it looks likely that the sector will see a tapering of fresh hiring. As Per 1BPS (Institute of Banking Personnel Selection) data, these banks have been major recruiters over the years, which will change now, Reduction in fresh recruitment will be a natural consequence of any merger as rationalisation of branches and staff will have to be worked out to optimise resources.

There may also be a certain amount of branch rationalisation, as more than one merging entity may have branches in the vicinity. So you also need to be prepared for that, especially if you have bank lockers, Merger leads to reducing of i/4' of branches as a result loss in equipment generation and even general public in the remote areas will be denied of banking services, Only big Industries and Firms are benefited with big loans, so needy and small firms are affected and not ftilfilled of requirements.

Mergers to curb banking frauds, SBI Chairman Rajnish Kumar said that the decision to have separate mechanism for sanctioning and monitoring of big loans would ring-fence the banks against potential frauds. Further, the decision to empower bank boards and operational flexibility in hiring from the market will prioritise robust risk management practices in decision making.

Big mergers always attract wide attention from all stakeholders from customers, employees to investors for synergies, economies of scale and maintaining the market leadership. Over the last decade, the Rs 152 lakh crore banking industry witnessed four big mergers - two each in the public and private banking space.

Significance of merger of PSBs: Merger is not panacea — apart from merger other steps like Bank Reconciliation, Higher Operational Autonomy, Bank of Boards Bureau, Measures to ensure accountability will help improve the health of banking system.

Merger of public sector banks significant for economy of scale and reduction in the cost of doing business, rationalizing of branches and workforce which will improve profitability, risk taking ability of banks will increase and more importantly global standing increase and compete more efficiently in global scenario, The Credit availability of banks will enhance robust banking system with global pressure and also cure and immunization for NPA problem. Merger of public sector banks significant for employees because disparities of salaries will be reduced ad also employee welfare can be given importance for efficiency of banks. Merger of public sector banks significant for government, these measures will help in meeting more stringent norms under Base III especially Capital Adequacy Ratio, The burden of the central government to recapitalize the PSB's again and again will come down and from the regulating perspective monitoring and controlling less number of banks will be easier after merger.

Conclusion: Whenever the new amendments are introduced it has some impact on economy. The aim of this paper was to analyse the motives impact and significance of mega merger of public sector banks. The merger needs to be ensured that prudent selection of banks without yielding to political, social, and trade union pressure. Ensuring synergy that challenge of different operational procedures and Organizational culture. Only visionary leadership can bring the efficiency parameters of the merged entities in line with those of private banks. The quality of execution by a stable and committed leadership, aided by a shrewd and benign ownership. While making the important decisions like this the motives should be achieved with limited impact to stake holders,

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