International Journal of Research in Finance and Marketing (IJRFM)

RESEARCHERID THOMSON REUTERS

Available online at : http://euroasiapub.org

Vol. 6 Issue 9, September - 2016, pp. 113~127

ISSN(o): 2231-5985 | Impact Factor: 5.861 | Thomson Reuters ID: L-5236-2015

BIG IS BEAUTIFUL: A STUDY OF AMALGAMATION PLAN OF 27 PUBLIC SECTOR BANK INTO 6 LARGE INSTITUTIONS

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ABSTRACT:

The talk of bank consolidation first started in the early nineties when the Narasimham committee recommended that there should be three or four big banks, led by SBI, to create global-sized banks, followed by national banks with a countrywide presence and then local and rural banks. Public sector banks' consolidation, discussed often during the past decade, is being attempted for the first time with finance minister P Chidambaram taking the initiative to create global-sized Indian banks. Now New Government headed by Prime Minister Narendra Modi is very keen to improve the world ranking of Indian banks in terms of capital base and making them competitive at global level.

According to a Forbes study, in 2015 India's largest lender SBI does not feature in the top 50 banks in the global ranking. If its subsidiaries are merged with it, SBI would be among the world's top 10 banks. SBI appears now to be comfortable with the idea of absorbing all its subsidiaries through the process of merger and become a very large bank. Such a mega merger would be easier, particularly from the point of view of technology and human resource management.

Past bank mergers indicate that the two biggest challenges have been technology and human resource management, Bank unions fear there could be cultural issues as well and widespread transfers of employees of smaller and weak banks if they are merged with strong banks. Overlapping branches also could lead to job losses. With Reserve Bank of India (RBI) giving license for setting up new private sector banks, consolidation in the sector is inevitable, particularly among public sector banks.

The present paper is based on the study of Public Sector banks assets value, profit and Non-Performing Assets (NPA.). The paper also studies the Government's plan to amalgamate the

27 public sector banks into six large institutions as a part of its attempt to bolster the capital base of these lenders.

KEYWORDS — Capital Base, Consolidation, Nationalisation

I. INTRODUCTION:

The move to amalgamate some of the two dozen banks into six large institutions is part of the government's road map to adequately bolster the state-owned banks' capital base. This is aimed at keeping the credit tap open for genuine businesses while ensuring that economic growth does not suffer. "India needs strong banks rather than numerically large numbers," Finance Minister Arun Jaitley said after a recent two-day annual brainstorming event of industry leaders and officials from the RBI and the finance ministry in Gurgaon. What happens when you pool the individual savings of each member of a household? The figure looks large and formidable. If one individual slips into a crisis, the combined savings will take care of him and his dependents. Ditto applies for banks. Merging weaker banks with stronger ones will erect a protective ring for depositors and shareholders.

Since 1991, apart from a few cooperative banks, authorities have never allowed banks to fail. The government and the RBI oversaw the erstwhile Global Trust Bank's takeover by Delhi-based state-owned Oriental Bank of Commerce. In 1993, New Bank of India was merged with Punjab National Bank (PNB), in a government initiated move to protect depositors' interest. This was the last time a public sector bank merged with another. Likewise, Bank of Rajasthan Ltd was merged with ICICI Bank Ltd, in a process overseen by the regulator.

Mergers will also allow Indian banks to catch up with global peers. India's largest lender SBI does not feature in the top 50 banks in the global ranking. According to a Forbes study, in 2015, four Chinese banks were listed among the top 25 lenders globally based on their profits, asset size and market value. The Industrial and Commercial Bank of China with a total asset base of $3,322 billion leads the pack. SBI, with an asset size of ` 20, 48,080 crore or $310 billion is dwarfed in comparison. "Country needs good large banks to merge with each other and this has to happen".

II. OBJECTIVES AND RESEARCH METHODOLOGY:

The study has been geared to achieve the following objectives;

1. To study the financial position of 27 public sector banks with their asset base, profit and Non-Performing Assets (NPA).

2. To analyse the government's amalgamation plan of 27 public sector banks into six large institutions using representative example.
3. To study what's good or not so good in consolidation of public banks.

RESEARCH METHODOLOGY:

This study has been carried out with the help of secondary data only. Data of 27 public banks has been extracted from the various journals, magazines, newspaper and websites particularly from Reserve Bank of India (RBI) and Ministry of Finance, GoI. The data till March 2015 has been taken into consideration for analyse purpose.

III. NATIONALISATION TO CONSOLIDATION:

India nationalised banks in 1969 with the express objective of removing the concentration of control from the hands of a few. Besides, as the then Prime Minister Indira Gandhi put it, nationalisation intended to give a "professional bent to bank management" and to "encourage a new class of entrepreneurs."

Some of these goals were achieved. As the newly-nationalised banks were forced to open branches in remote areas, India's savings and investment rate rose steeply from 13 per cent to 23 per cent of the GDP. Higher investment feeds into growth. The number of PSB branches multiplied tenfold — from about 8,000 in 1969, to about 87,000 today. In 1969, a public sector bank branch covered an average population of about 70,000. That figure has now come down to about 13,000. The Reserve Bank of India (RBI) first opened up the banking sector to private participation in 1993 when HDFC Bank, ICICI Bank and UTI Bank (now Axis) were set up adding technology, efficiency and a touch of glamour to the banking sector. Through the new banks RBI wanted to infuse competition and raise efficiency and productivity.

The management at public sector banks had to overcome stiff resistance from workers' unions to push through computerisation, essential to hold on to ground in the wake of new players like ICICI Bank and HDFC Bank. Strikes were more commonplace amid a lurking fear of large scale layoffs. Machines, it was argued, would make many jobs redundant endangering the livelihood of thousands of families. For the 27 state-owned banks, it has been a steeple chase of sorts. Having more or less surmounted the tech battle, they have now walked into a war for capital. The non-performing assets (NPA), loans that have turned bad, have crossed Rs 4.3 lakh crore during the quarter-ended December 31, 2015. Besides, public sector banks are in dire need of more funds to meet the new capital adequacy norms under the global Basel III standards.

IV. FINANCIAL STATUS OF PUBLIC SECTOR BANKS:

The financial status of 27 public sector banks up-to March 2015 has been taken using their Asset Value, Profit and Loss and Non-Performing Asset (NPAs). This status is represented into following table:

S. NO.	BANK	ASSET VALUE (In Cr.)	PROFIT (In Cr.)	NPA (In %)
1	SBI	20, 48, 080	13, 101.60	2.12
2	Bank of Baroda	7, 14, 989	3, 398.40	1.89
3	Bank of India	6, 18, 698	1, 708.90	3.36
4	Punjab National Bank	6, 03, 334	3, 061.60	4.05
5	Canara Bank	5, 48, 001	2, 702.60	2.65
6	Union Bank of India	3, 81, 616	1, 781.60	2.71
7	IDBI Bank	3, 56, 031	873.4	2.88
8	Central Bank of India	3, 11, 940	606.5	3.61
9	Syndicate Bank	3, 03, 135	1, 522.90	1.9
10	Indian Overseas Bank	2, 85, 637	-454.3	5.71
11	UCO Bank	2, 45, 917	1, 137.80	4.3
12	OBC BANK	2, 30, 514	777.5	3.32
13	Allahabad Bank	2, 27, 096	620.9	3.99
14	Corporation Bank	2, 25, 993	584.3	3.08
15	Indian Bank	1, 92, 836	1, 005.20	2.5
16	Andhra Bank	1, 85, 170	638.4	2.93
17	SBH Bank	1, 54, 503	1, 317.10	3.97
18	Bank of Maharashtra	1, 46, 019	450.7	4.19

19	**Viyaya Bank**	1, 42, 643	439.4	1.91
20	**Dena Bank**	1, 29, 921	265.5	3.82
21	**United Bank of India**	1, 23, 028	256	6.11
22	**SBP Bank**	1, 16, 709	362.1	4.5
23	**SBT Bank**	1, 05, 595	335.5	3.71
24	**SBBJ Bank**	1, 02, 302	776.9	5.8
25	**P&S Bank**	97, 753	121.4	3.55
26	**SBM Bank**	79, 469	408.8	5.88
27	**BMB Bank**	1, 843	19.8	0

Table 1: Asset Base, Profit and NPA of 27 Public Sector Bank (Data till March 2015)

V. GO CLUBBING:

The finance ministry is examining various suggestions made by investment bankers to merge the country's biggest state-run banks to create much stronger financial institutions. An attempt has been done to combine "Weak" public sector banks with the "Strong" ones to see how merged banks could look like.

A representative example, this is not based on any rigorous methodology but on some of media reports that has come out after a recent two-day annual brainstorming event of industry leaders and officials from the RBI and the finance ministry in Gurgaon in March 2016.

Here is a list based on simple fusion of existing banks into six large ones based on asset size

KEY

All Data up-to March 2015

1. **ASSET VALUE (In Rupees Crore)**
2. **PROFIT (In Rupees Crore)**
3. **NON-PERFORMING ASSET (In %)**

World's Biggest Bank

The Industrial and Commercial Bank of China (ICBC, China)

Asset Value $3, 322 billion OR

222, 57, 400 Crore

BANK 1:

State Bank of India is not ranked among the top 50 banks in the world. It may take SBI decades to reach the size of any top US banks if it has to grow only organically. According to a Forbes study, in 2015, four Chinese banks were listed among the top 25 lenders globally based on their profits, asset size and market value. The Industrial and Commercial Bank of China with a total asset base of $3,322 billion leads the pack. SBI, with an asset size of ` 20, 48,080 crore or $310 billion is dwarfed in comparison.

If its subsidiaries are merged with it, SBI would be among the world's top 10 banks. SBI appears now to be comfortable with the idea of absorbing all its subsidiaries through the process of merger and become a very large bank. Such a mega merger would be easier, particularly from the point of view of technology and human resource management.

With unions no longer as influential as before, SBI has already merged two of its associates: State Bank of Saurashtra and State Bank of Indore. The remaining five subsidiaries -- State Bank of Hyderabad (SBH), State Bank of Mysore (SBM), State Bank of Bikaner & Jaipur (SBBJ), State Bank of Patiala (SBP) and State Bank of Travancore (SBT) -- are likely to be merged with State Bank of India (SBI) in a phased manner.

If Five subsidiaries are merged with State Bank of India then there will be combined asset of worth rupees 26, 06, 658 crore with 23, 078 combined no. of branches and 282, 915 combined staff strength. After consolidation, State Bank of India is likely to be among top 10 Banks of world. The graphical representation of Bank 1 is depicted as below:

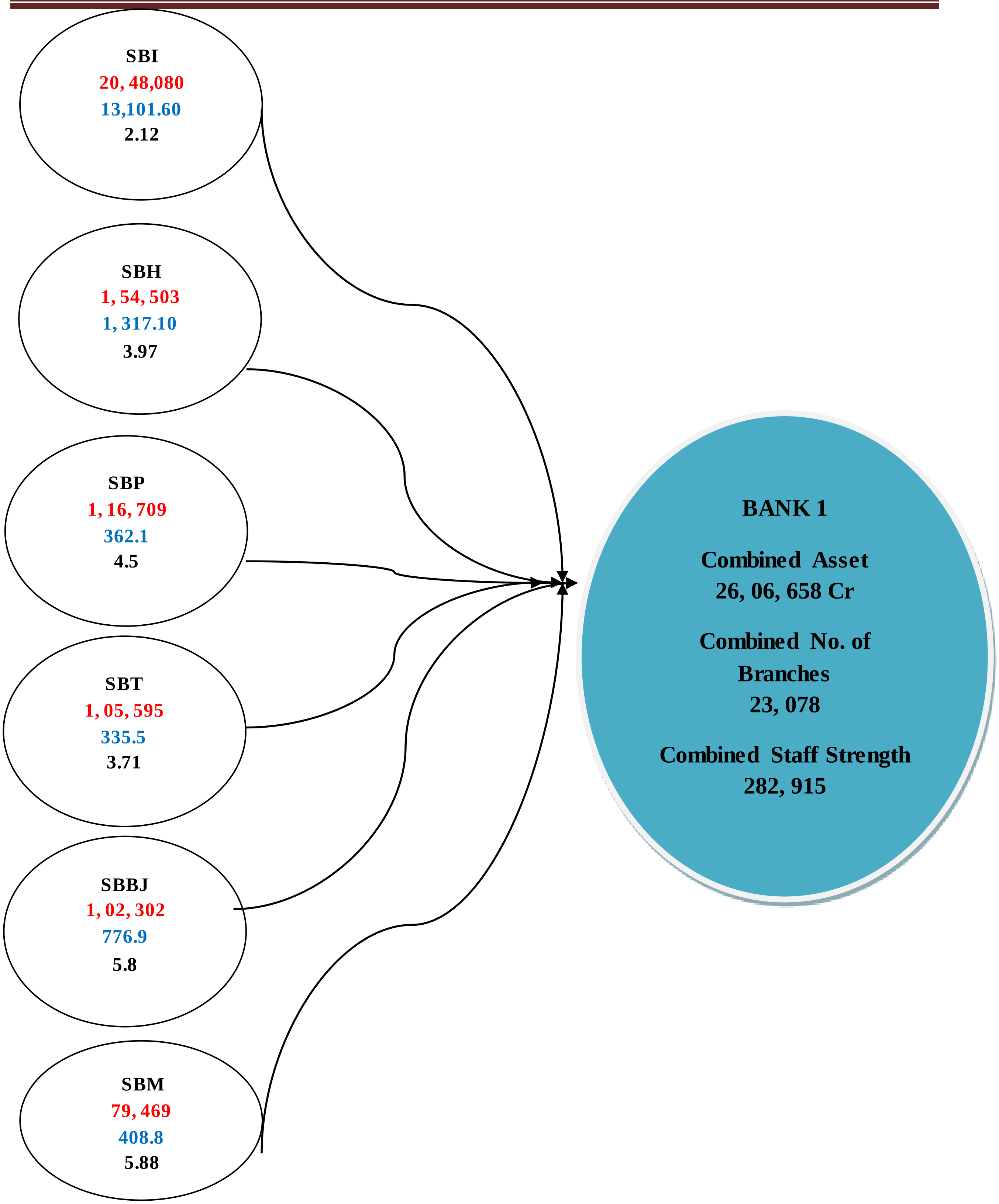
SBI
20, 48,080
13,101.60
2.12
SBH
1, 54, 503
1, 317.10
3.97
SBP
1, 16, 709
362.1
4.5
SBT
1, 05, 595
335.5
3.71
SBBJ
1, 02, 302
776.9
5.8
SBM
79, 469
408.8
5.88
BANK 1
Combined Asset
26, 06, 658 Cr
Combined No. of Branches
23, 078
Combined Staff Strength
282, 915

Figure 1: Possible Combination of Existing Banks for making large Bank/Institution No. 1

BANK 2:

The second bank combination may include 5 banks such as Punjab National Bank, Oriental Bank of Commerce, Allahabad Bank, Corporation Bank and Indian Bank. Once clubbed into one large bank/institution there will be combined asset of worth rupees 14, 79, 773 Crore, 16, 630 Combined branches and 152, 749 staff strength. The graphical representation of Bank 2 is depicted as below:

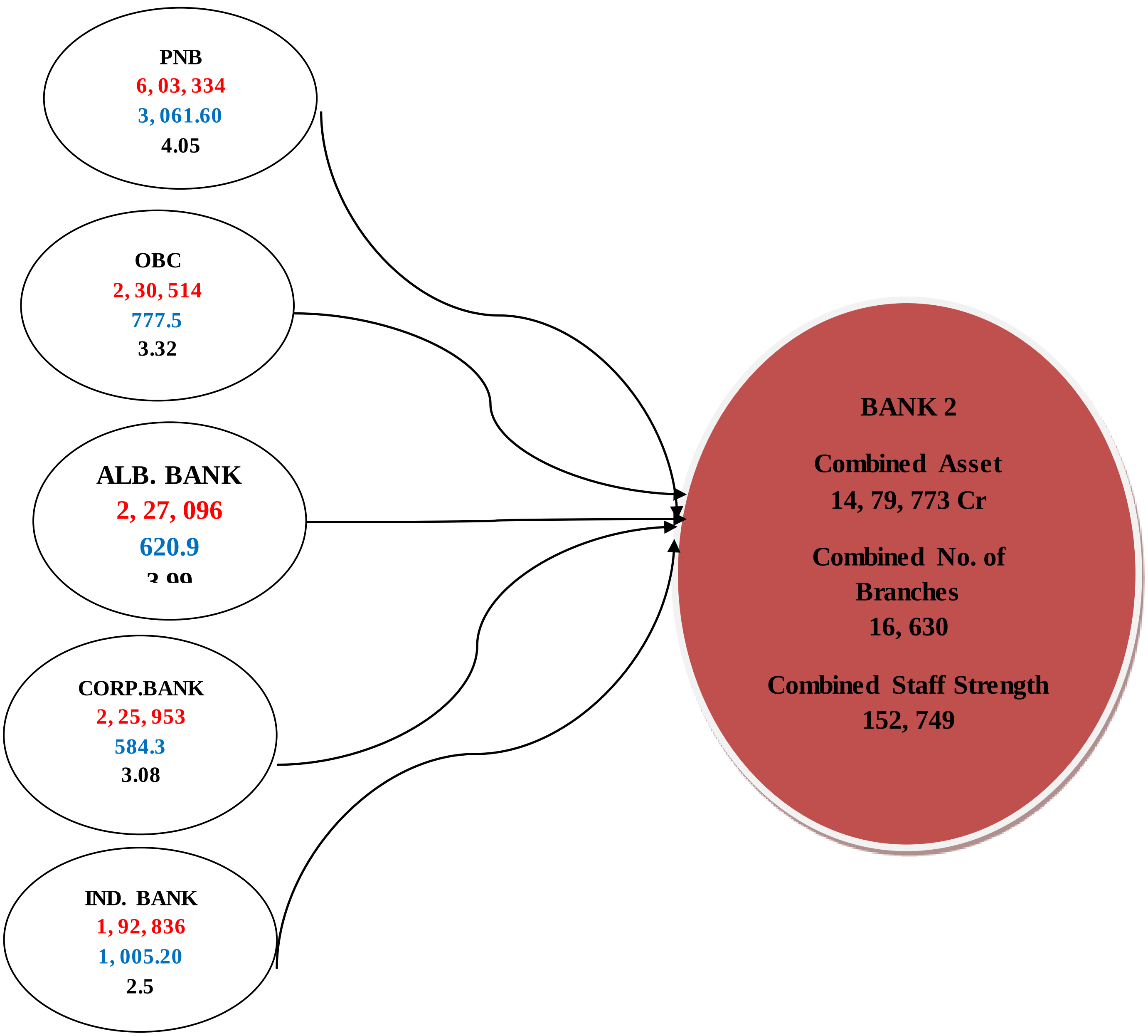

Figure 2: Possible Combination of Existing Banks for making large Bank/Institution No. 2

BANK 3:

The Third bank combination may include 4 banks such as Canara Bank, Syndicate Bank, Indian Overseas Bank and UCO Bank. Once clubbed into one large bank/institution there will be combined asset of worth rupees 13, 82, 690 Crore, 15, 643 Combined branches and 140, 290 staff strength. The graphical representation of Bank 3 is depicted as below:

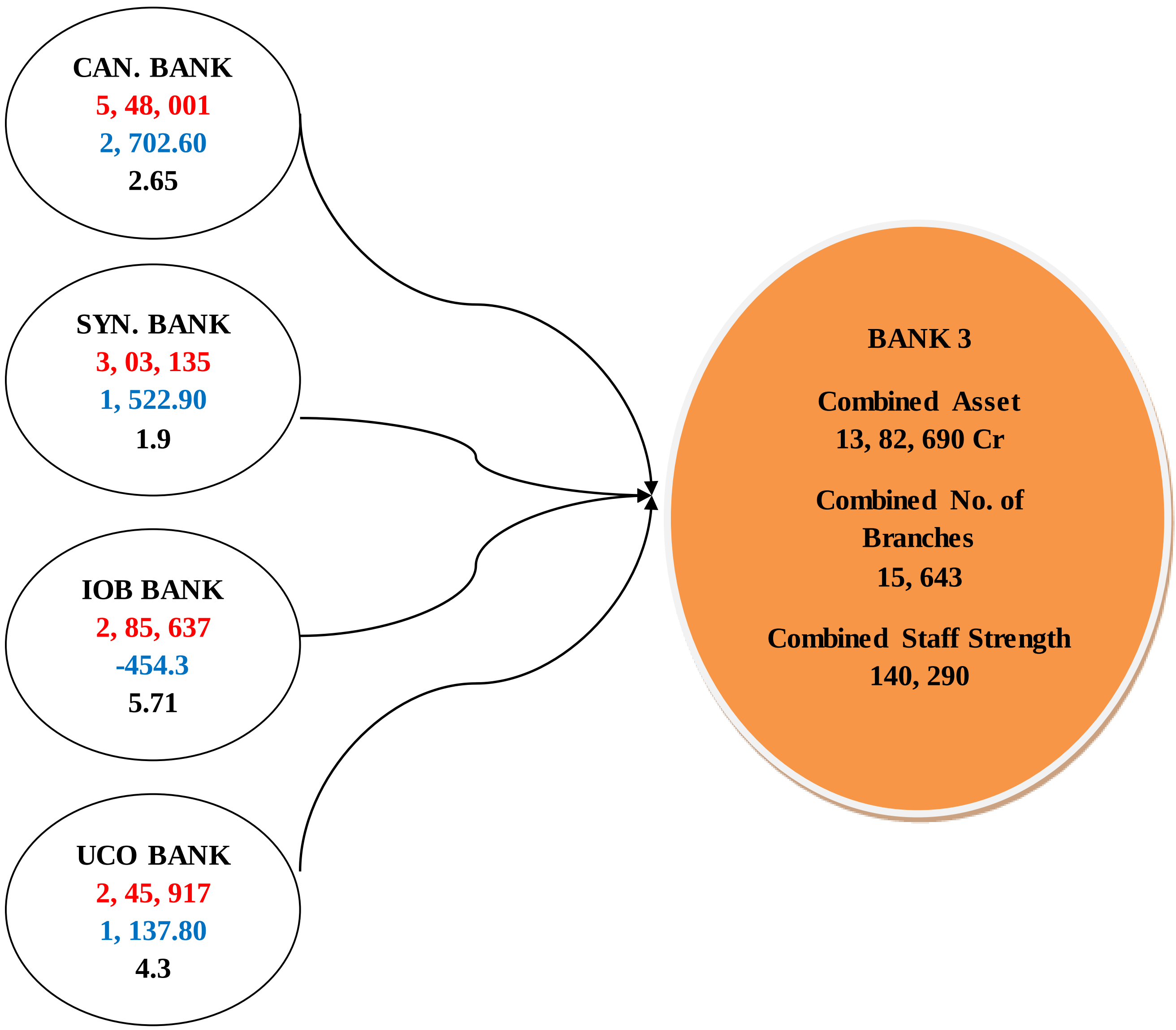

Figure 3: Possible Combination of Existing Banks for making large Bank/Institution No. 3

BANK 4:

The Fourth bank combination may include 4 banks such as Union Bank of India, IDBI Bank, Central Bank of India and Dena Bank. Once clubbed into one large bank/institution there will be combined asset of worth rupees 11, 79, 508 Crore, 12, 110 Combined branches and 104, 740 staff strength. The graphical representation of Bank 4 is depicted as below:

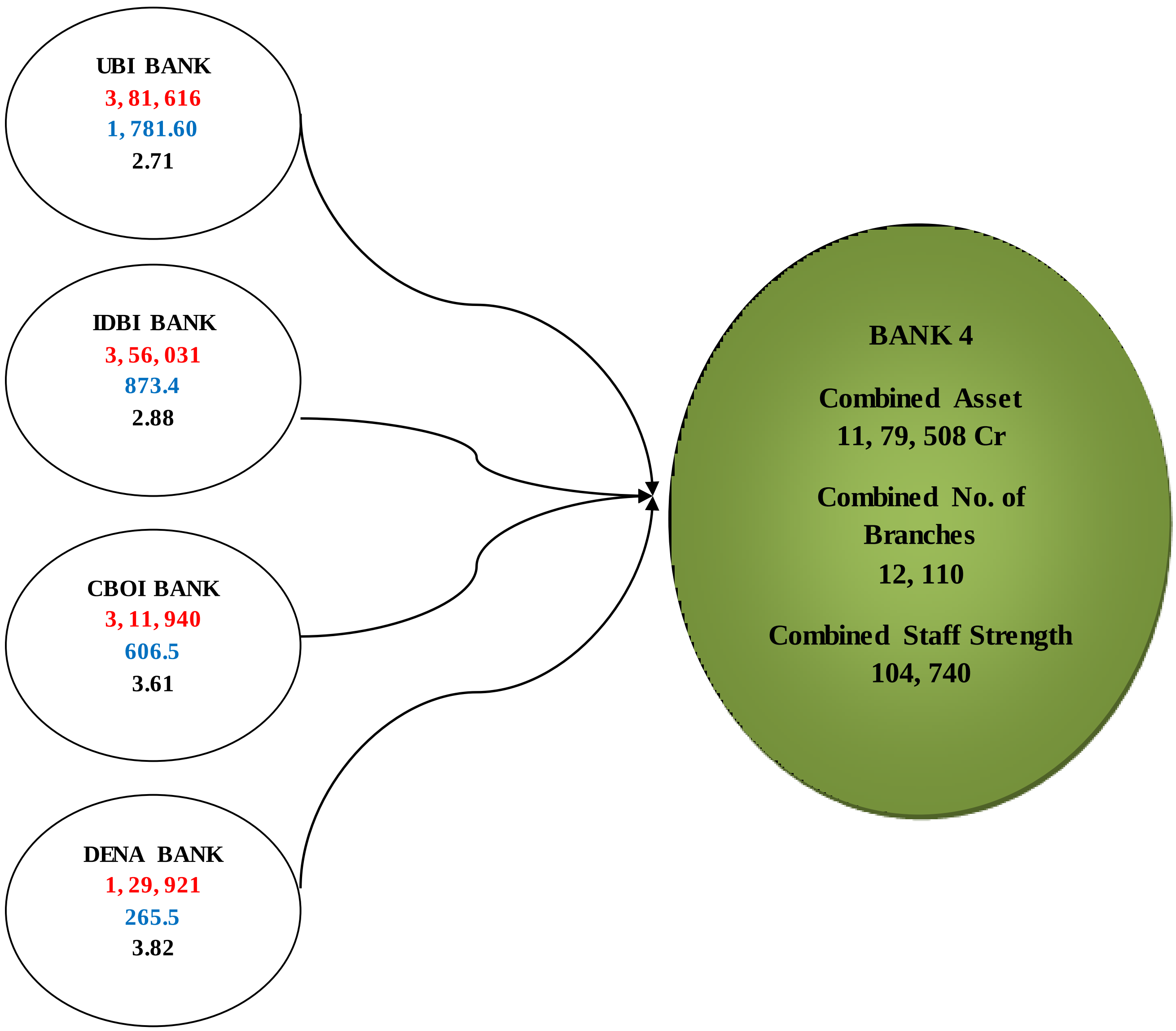

Figure 4: Possible Combination of Existing Banks for making large Bank/Institution No. 4

BANK 5:

The Fifth bank combination may include 4 banks such as Bank of India, Andhra Bank, Bank of Maharashtra and Vijaya Bank. Once clubbed into one large bank/institution there will be combined asset of worth rupees 10, 92, 5300 Crore, 10, 953 Combined branches and 94, 301 staff strength. The graphical representation of Bank 5 is depicted as below:

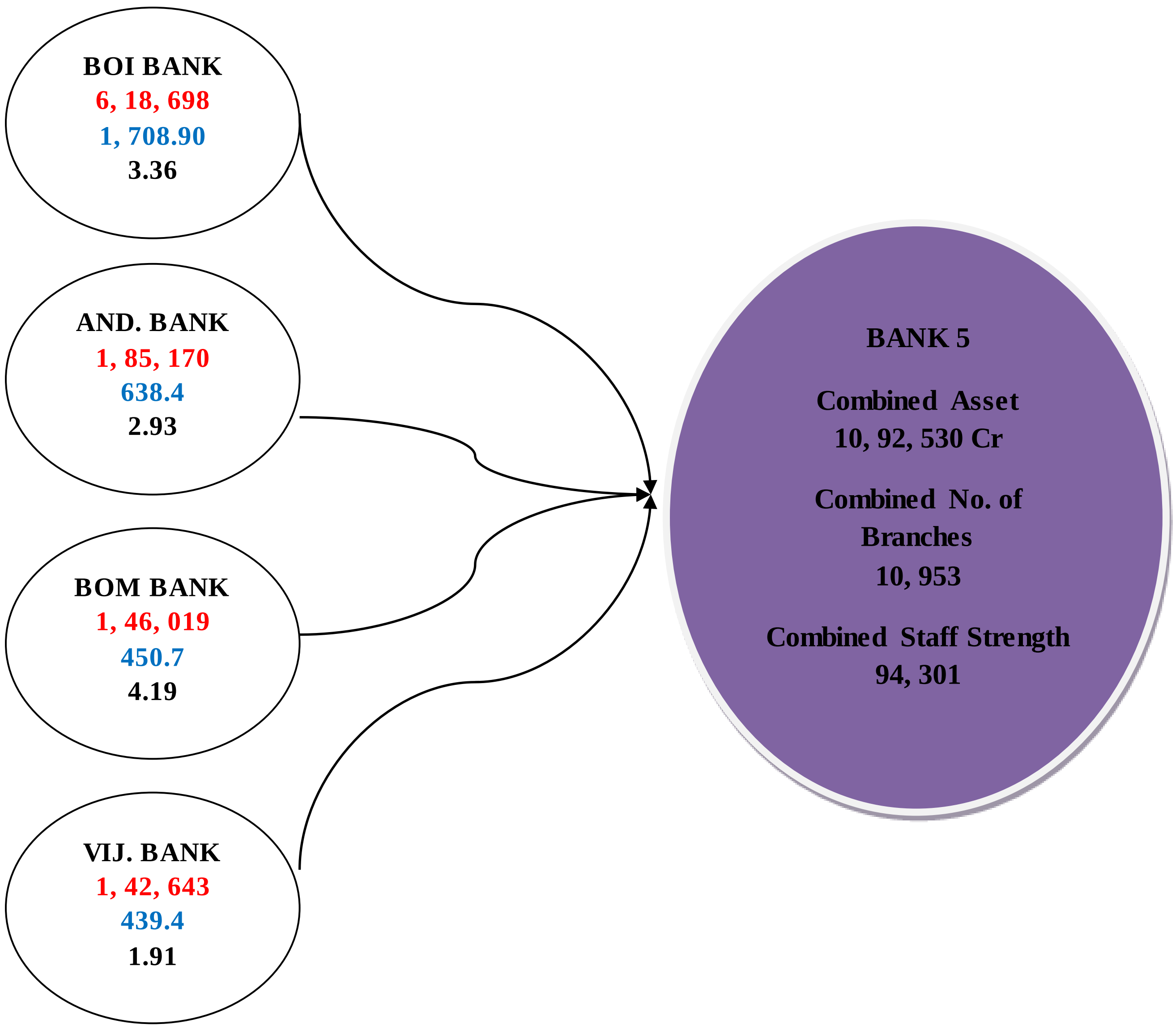

Figure 5: Possible Combination of Existing Banks for making large Bank/Institution No. 5

BANK 6:

The Sixth bank combination may include 5 banks such as Bank of Baroda, Union Bank of India, Punjab & Sind Bank and Bhartiya Mahila Bank. Once clubbed into one large bank/institution there will be combined asset of worth rupees 9, 37, 612.7 Crore, 11, 128 Combined branches and 76, 849 staff strength. The graphical representation of Bank 6 is depicted as below:

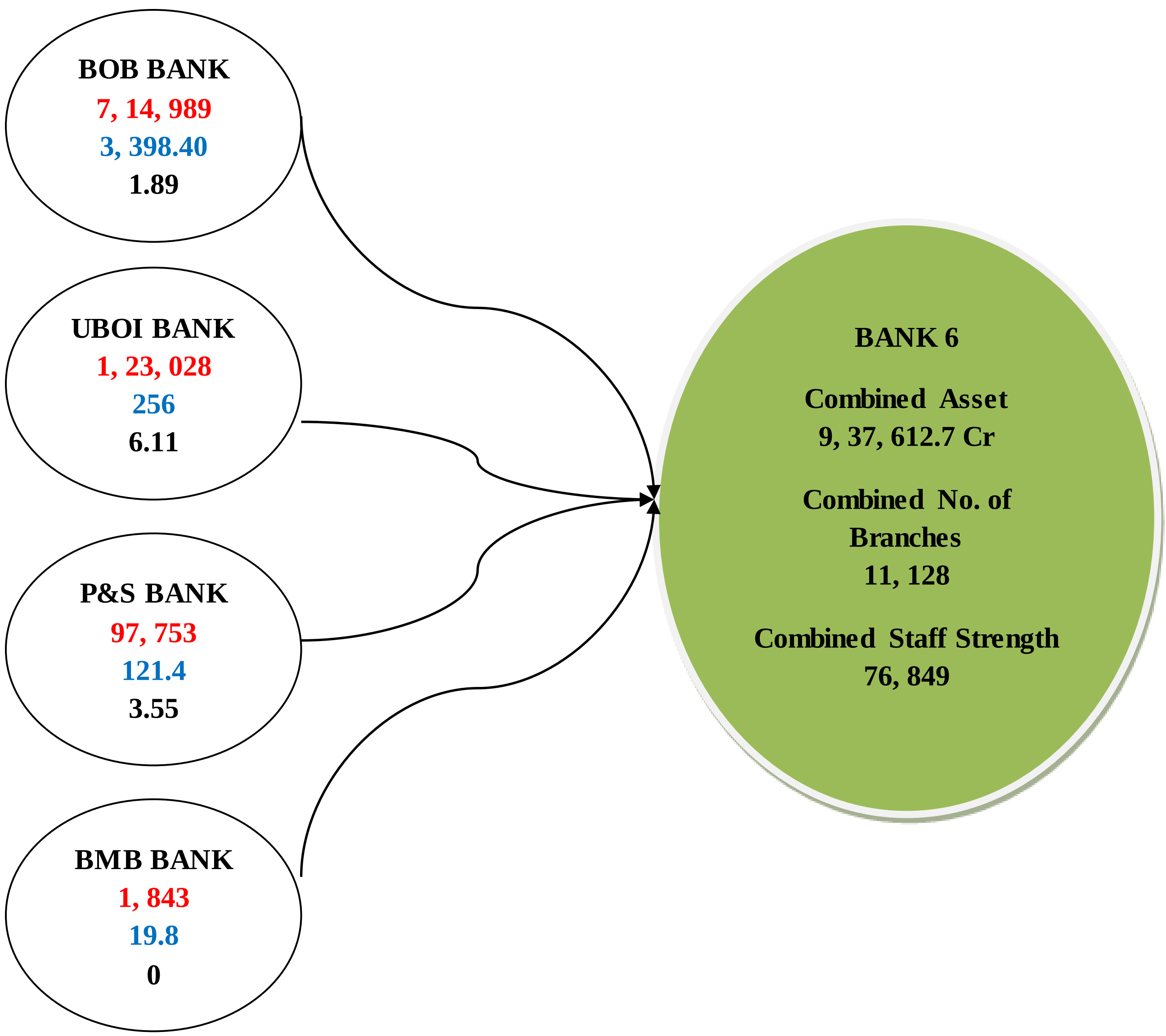

Figure 6: Possible Combination of Existing Banks for making large Bank/Institution No. 6

VI. WIN SOME, RISK SOME:

Like all marriages, bank mergers too will call for necessary adjustments. For customers, the shared infrastructure will come as a big plus. For instance, there will be no cross-bank ATM usage fees between the merged banks. "Withdrawal of money from another bank ATM is often charged. This is something that should be changed". Most of these public sector banks have local characteristics. For instance, the Indian Bank's reach in the country's southern region is far greater than that of a north-India headquartered bank. Mergers will allow customers use of the network. "Customer service interface will further improve to be best-in-class and this will help both depositors and borrowers".

What about interest rates? It is too early to say, but a combined entity will have more cash in hand. Logically, this should help in keeping borrowing rates low since the cash is likely to be lent out to individuals and companies, instead of being kept idle in the reserves. An opposing strand of thought, however, cautions that a few large inter-linked banks expose the broader economy to greater financial risks. The stunning collapse of Wall Street icons such as Lehman Brothers in 2008 exemplifies this argument. "Regulators should avoid helping the big banks to get bigger," said a 2013 paper entitled "Big Banks and Macroeconomic Outcomes," published on VOXEU.Org. Human resource issues like regional allegiances, ensuring employees fit in with the new culture, and chalking out a career path for them in the merged banks all need to be handled with care.

PROS AND CONS OF AMALGMATION:

Followings are the pros and cons of amalgamation plan of banks:

WHAT'S GOOD IN AMALGMATION?

1. **Increase capital efficiency,** apart from improving the ability of banks to recover bad loans which are rising
2. **Shared Infrastructure** will give customers a wider use of the ATM network.
3. **Charges** on cross-bank ATM usage would reduce considerably.
4. **Customers** of smaller banks will get access to wider use of financial instruments like mutual funds and insurance products that most big banks offer.
5. **Large Banks** would have a wider capital base enabling them to offer big ticket loans on their own without being part of consortium.

WHAT'S NOT SO GOOD?

1. **Many Smaller Banks** will lose local characteristics, which customers preferred because of cultural affinity.
2. **A Few Large** inter-linked banks increase the risk of a systemic trigger like one seen during the 2008 financial crisis that pushed the world economy into a tailspin.
3. **Human Resource** issues can be ticklish; career growth of senior management and other workers could become knotty.
4. **Danger to financial stability:** Given the track record of PSUs, the new entities, say 5 or 6 large banks, could be a danger to financial stability. Any bank failure would create multiple problems for the system as well as for the economy.

KEY FOR SUCCESSFUL CONSOLIDATION:

Followings are the key for achieving successful consolidation of banks:

A. Cost Rationalisations: Cost rationalisation is seen as one of key to make consolidation a success. This would result in cutting down branches, particularly in urban areas where there are too many branches of different banks in a same area. So, there is a view that banks from different geographies should be chosen for merger. For example, a south based banks should be merged with a north based bank. The recent acquisition by Kotak Mahindra Bank of ING Vysya Bank is a case in point, which primarily driven by the geographical synergies. Before the merger, 15 per cent of the Kotak branches were in south India, which improved to 38 per cent – post merger.

B. Timing: Timing is the most key factor for achieving successful consolidation. Consolidation among public sector banks was also in the agenda of the previous United Progressive Alliance government's finance minister P Chidambaram but the then government wanted the proposal to come from bank board's which never came. Merger between two banks would have cost the job of one of the chief executive, so one uttered the word. The financial situation has not improved in last few years; rather it has further deteriorated if the Oct-Dec quarter results are considered. Many banks, including the likes of Bank of Baroda, IDBI Bank, and Bank of India reported record losses. Therefore consolidation should be started in coming years as it is the need of hour.

C. Employee Unions: One of the toughest challenges that the government will face while merging banks is from the employee unions and the employees who may fear identity loss. The unions have already started opposing the proposed privatisation of IDBI Bank, in which the government said it would consider lowering stake below 50 per cent.

VIII. CONCLUSION:

Today the PSU banks still control over 70 per cent of the deposits and advances in the industry, but the entire pack mirrors each other in terms of performance. The public sector banks in India never had it so bad. First, there was a 'capital' scare as many of the banks were low on capital, and then came the 'NPA' scare, which is still hovering over the banks. Now finally, the 'consolidation' agenda has to the table. As of now, the government seems committed to fusing these institutions. This will improve the efficiency and service delivery of the public sector banks. Experts, however, warn against a hurried implementation. The Air India and Indian Airlines marriage has still not settled down. Authorities can learn a few lessons from that experience. The merger exercise will be a success only when it is a conscious business decision. An alliance for the sake of just staying together may not necessarily lead to lasting matrimony.

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