

EFFECTS OF BANK MERGERS ON BANK CUSTOMERS

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EXECUTIVE SUMMARY

Consolidation in the Banking sector is very important in terms of mergers and for the growing Indian Banking Industry. This can be achieved through Cost Reduction and Increasing Revenue. The important part over here is that why do we need consolidation in Indian Banking and what are the Challenges Ahead. The role of the Central government is also very necessary to be analysed in the entire process as they play a crucial role in the policy formation required for the growth of Indian Banking.

An analysis of the Indian banking industry shows that due to factors like stability, return to shareholders, adhering to regulatory norms, etc make mergers as an imperative. Also mergers give an opportunity to these Indian banks of creating a universal bank. Also mergers can be used as a strategic tool and also there is a possibility of strategic investments where traditional Mergers are not possible. In the changing economic and business environment characterized by speed, flexibility and responsiveness to customers, size has a lot to contribute to staying ahead in the competition.

INTRODUCTION

1.1 INTRODUCTION OF BANKING

A bank is a legal way to lend money to others or a legal indirect way to invest. A bank is a bridge between government and people so that people cannot do tax fraud. A bank is a financial institution licensed to receive deposits and make loans. Banks may also provide financial services such as wealth management, currency exchange, and safe deposit boxes. There are several different kinds of banks including retail banks, commercial or corporate banks, and investment banks. In most countries, banks are regulated by the national government or central bank. Banks are a very important part of the economy because they provide vital services for both consumers and businesses. As financial services providers, they give you a safe place to store your cash. Through a variety of account types such as checking and savings accounts, and certificates of deposit (CDs), you can conduct routine banking transactions like deposits, withdrawals, check writing, and bill payments. You can also save your money and earn interest on your investment. The money stored in most bank accounts is federally insured by the Federal Deposit Insurance Corporation (FDIC).

Banks also provide credit opportunities for people and corporations. The money you deposit at the bank—short-term cash—is used to lend to others for long-term debt such as car loans, credit cards, mortgages, and other debt vehicles. This process helps create liquidity in the market—which creates money and keeps the supply going.

A bank is a financial institution that accepts deposits from the public and creates credit. Lending activities can be performed either directly or indirectly through capital markets. Due to their importance in the financial stability of a country, banks are highly regulated in most countries. Most nations have institutionalized a system known as fractional reserve banking under which banks hold liquid assets equal to only a portion of their current liabilities. In addition to other regulations intended to ensure liquidity, banks are generally subject to minimum capital requirements based on an international set of capital standards, known as the Basel Accords.

Banking in its modern sense evolved in the fourteenth century in the prosperous cities of Renaissance Italy but in many ways was a continuation of ideas and concepts of credit and lending that had their roots in the ancient world. In the history of banking, a number of banking dynasties – notably, the Medicis, the Fuggers, the Welsers, the Berenbergs, and the Rothschilds – have played a central role over many centuries.

The oldest existing retail bank is Banca Monte dei Paschi di Siena, while the oldest existing merchant bank is Berenberg Bank.

Banks act as payment agents by conducting checking or current accounts for customers, paying cheques drawn by customers in the bank, and collecting cheques deposited to customers' current accounts. Banks also enable customer payments via other payment methods such as Automated Clearing House (ACH), Wire transfers or telegraphic transfer, EFTPOS, and automated teller machines (ATMs).

Banks borrow money by accepting funds deposited on current accounts, by accepting term deposits, and by issuing debt securities such as banknotes and bonds. Banks lend money by making advances to customers on current accounts, by making instalment loans, and by investing in marketable debt securities and other forms of money lending.



1.2 STATE BANK OF INDIA (SBI)



The State Bank of India (SBI) is an Indian multinational, public sector banking and financial services statutory body. It is a government corporation statutory body headquartered in Mumbai, Maharashtra. SBI is ranked as 236th in the *Fortune Global 500* list of the world's biggest corporations of 2019. It is the largest bank in India with a 23% market share in assets, besides a share of one-fourth of the total loan and deposits market.

The bank descends from the Bank of Calcutta, founded in 1806, via the Imperial Bank of India, making it the oldest commercial bank in the Indian subcontinent. The Bank of Madras merged into the other two "presidency banks" in British India, the Bank of Calcutta and the Bank of Bombay, to form the Imperial Bank of India, which in turn became the State Bank of India in 1955. The Government of India took control of the Imperial Bank of India in 1955, with Reserve Bank of India (India's central bank) taking a 60% stake, renaming it the State Bank of India.

History of State Bank of India:

The roots of the State Bank of India lie in the first decade of the 19th century when the Bank of Calcutta later renamed the Bank of Bengal, was established on 2 June 1806. The Bank of Bengal was one of three Presidency banks, the other two being the Bank of Bombay (incorporated on 15 April 1840) and the Bank of Madras (incorporated on 1 July 1843). All three Presidency banks were incorporated as joint stock companies and were the result of royal charters. These three banks received the exclusive right to issue paper currency till 1861 when, with the Paper Currency Act, the right was taken over by the Government of India. The Presidency banks amalgamated on 27 January 1921, and the re-organised banking entity took as its name Imperial Bank of India. The Imperial Bank of India remained a joint stock company but without Government participation.

Pursuant to the provisions of the State Bank of India Act of 1955, the Reserve Bank of India, which is India's central bank, acquired a controlling interest in the Imperial Bank of India. On

1 July 1955, the Imperial Bank of India became the State Bank of India. In 2008, the Government of India acquired the Reserve Bank of India's stake in SBI so as to remove any conflict of interest because the RBI is the country's banking regulatory authority.

In 1959, the government passed the State Bank of India (Subsidiary Banks) Act. This made eight banks that had belonged to princely states into subsidiaries of SBI. This was at the time of the first Five Year Plan, which prioritised the development of rural India. The government integrated these banks into the State Bank of India system to expand its rural outreach. In 1963 SBI merged State Bank of Jaipur (est. 1943) and State Bank of Bikaner (est. 1944).



Domestic Operations:

SBI has over 24000 branches in India. In the financial year 2012–13, its revenue was ₹2.005 trillion (US\$28 billion), out of which domestic operations contributed to 95.35% of revenue. Similarly, domestic operations contributed to 88.37% of total profits for the same financial year.

Under the Pradhan Mantri Jan Dhan Yojana of financial inclusion launched by Government in August 2014, SBI held 11,300 camps and opened over 3 million accounts by September, which included 2.1 million accounts in rural areas and 1.57 million accounts in urban areas.

Associated Banks of State Bank of India:

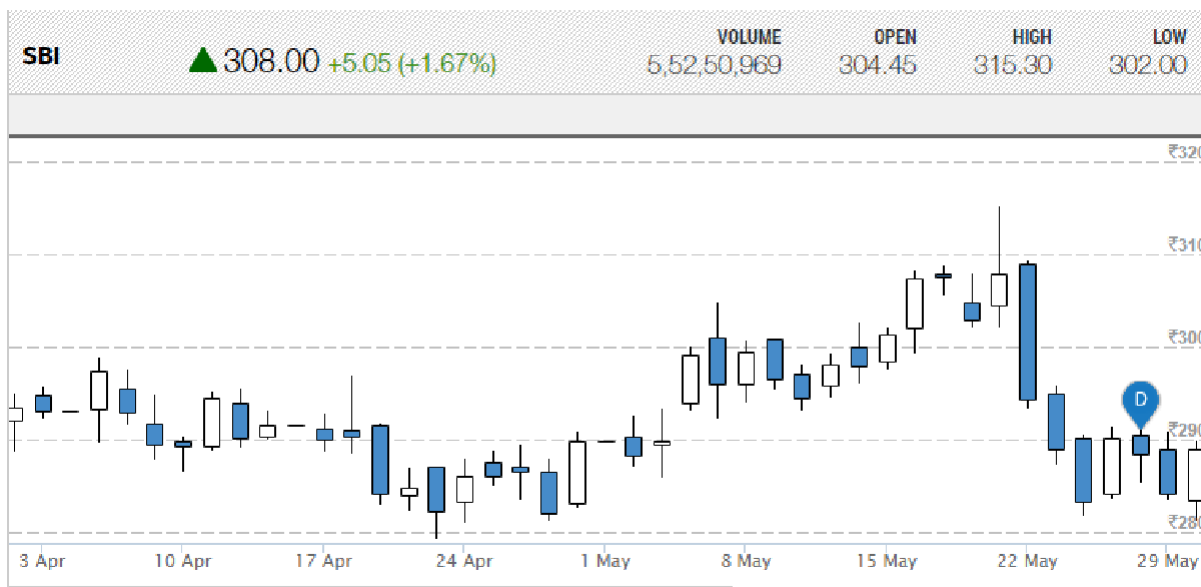
Apart from five of its associate banks (merged with SBI since 1 April 2017), SBI's non- banking subsidiaries include:

SBI Capital Markets Ltd

SBI Cards & Payments Services Pvt. Ltd. (SBICPSL) SBI Life Insurance Company Limited

In March 2001, SBI (with 74% of the total capital), joined with BNP Paribas (with 26% of the remaining capital), to form a joint venture life insurance company named SBI Life Insurance company Ltd.

Stock Price Data of SBI Due To Mergers



1.3 BANK OF BARODA



Bank of Baroda (BOB) is an Indian Multinational, public sector Banking and financial services company. It is the second largest public sector bank in India post-merger with a business mix of close to US\$225 billion.

Based on 2019 data, it is ranked 1145 on Forbes Global 2000 list. BoB has total assets in excess of ₹ 3.58 trillion (making it India's 2nd biggest bank by assets), a network of 9583 branches in India and abroad, and 10442 ATMs as of July, 2017. The government of India announced the merger of Bank of Baroda, Vijaya Bank and Dena Bank on September 17, 2018, to create the country's third largest lender. The amalgamation is the first-ever three-way consolidation of banks in the country, with a combined business of Rs 14.82 lakh crore, making it the third largest bank after State Bank of India (SBI) and ICICI Bank.

The Maharaja of Baroda, Maharaja Sayajirao Gaekwad III, founded the bank on 20 July 1908 in the Princely State of Baroda, in Gujarat. The Government of India nationalized the bank, along with 13 other major commercial banks of India on 19 July 1969; the bank has been designated as a profitmaking public sector undertaking (PSU).

As many as 10 banks have merged with Bank of Baroda to date.

History of Bank of Baroda:

In 1908, Maharaja Sayajirao Gaekwad III, set up the Bank of Baroda (BoB), with other stalwarts of industry such as Sampatrao Gaekwad, Ralph Whitenack, Vithaldas Thakersey, Tulsidas Kilachand and NM Chokshi. Two years later, BoB established its first branch in Ahmedabad. The bank grew domestically until after World War II. Then in 1953 it crossed the Indian Ocean to serve the communities of Indians in Kenya and Indians in Uganda by establishing a branch each in Mombasa and Kampala. The next year it opened a second branch in Kenya, in Nairobi, and in 1956 it opened a branch in Tanzania at Dar-esSalaam. Then in 1957, BoB took a big step abroad by establishing a branch in London. London was the centre of the British Commonwealth and the most important international banking centre. In 1958 BoB acquired Hind Bank (Calcutta; est. 1943), which became BoB's first domestic acquisition.

In 1961, BoB acquired New Citizen Bank of India. This merger helped it increase its branch network in Maharashtra. BoB also opened a branch in Fiji. The next year it opened a branch in Mauritius.

In 1963, BoB acquired Surat Banking Corporation in Surat, Gujarat. The next year BoB acquired two banks: Umbergaon People's Bank in southern Gujarat and Tamil Nadu Central Bank in Tamil Nadu state.

In 1965, BoB opened a branch in Guyana. That same year BoB lost its branch in Narayanganj (East Pakistan) due to the Indo-Pakistani War of 1965. It is unclear when BoB had opened the branch. In 1967 it suffered a second loss of branches when the Tanzanian government nationalised BoB's three branches there at (Dar es Salaam, Mwanga, and Moshi), and transferred their operations to the Tanzanian government-owned National Banking Corporation.

In 1969, the Indian government nationalised 14 top banks including BoB. BoB incorporated its operations in Uganda as a 51% subsidiary, with the government owning the rest.

Affiliates:

India First Life Insurance Company is a joint venture between Bank of Baroda (44%) and fellow Indian state-owned bank Andhra Bank (30%), and UK's financial and investment company Legal & General (26%). It was incorporated in November, 2009 and has its headquarters in Mumbai. The company started strongly, achieving a turnover in excess of ₹ 2 billion in its first four and half months.

Bank of Baroda and HDFC Bank are partner banks in Chillr Mobile app. Non-partner bank customers can only receive funds. Only the mobile number of the beneficiary in the remitter's phonebook is needed. Application enables customers to send money to any registered Chillr user on phone contact list.

Stock Price Data of Bank of Baroda Due to Mergers:



1.4 VIJAYA BANK:



Vijaya Bank was a public sector bank with its corporate office in Bengaluru, Karnataka, India. It was one of the nationalised banks in India. The bank offered a wide range of financial products and services to customers through its various delivery channels. The bank had a network of 2031 branches (as of March 2017) throughout the country and over 4000 customer touch points including 2001 ATMs.

On 17 September 2018, the Government of India proposed the merger of Vijaya Bank and Dena Bank with the Bank of Baroda, pending approval from the boards of the three banks. The merger was approved by the Union Cabinet and the boards of the banks on 2 January 2019. Under the terms of the merger, Dena Bank and Vijaya Bank shareholders

received 110 and 402 equity shares of the Bank of Baroda, respectively, of face value ₹2 for every 1,000 shares they held. The merger is effective from 1 April 2019. Vijaya Bank that has merged with Bank of Baroda has built a museum that dedicates to its history.

History of Vijaya Bank:

Vijaya Bank was established by a group of farmers led by A. B. Shetty on 23 October 1931 in Mangaluru in Dakshina Kannada District of Karnataka State. Since it was established on Vijayadashami Day, it was named 'Vijaya Bank'.

During the economic chaos created out of the Great Depression of 1927–30, Shetty approached leading Bunt personalities to start a bank with the objective of extending credit facilities at a lower rate of interest to enable the farmers to cultivate their lands and prevent them from falling into the clutches of money lenders. Accordingly, Shetty involved 14 Bunts and established Vijaya Bank on 23 October 1931. In the beginning the bank had an authorised capital of ₹5 lakh and an issued capital of ₹2 lakh.

The paid up capital was ₹8,670.

Amalgamation:

Amalgamation on 17 September 2018, the Finance Ministry of the Government of India proposed to amalgamate 3 state run banks, viz. Vijaya Bank, Bank of Baroda and Dena Bank into a single bank as an effort to consolidate the country's banking system. The amalgamated bank was set to become the third biggest bank in India with a total business of more than ₹1,482,000,000,000 (US\$21 billion). The boards of the three banks are to meet to consider the proposal. The agenda behind the amalgamation of the banks was to lower Non- performing assets. The Gross NPA OF the Bank of Baroda, Vijaya Bank and Dena Bank is 12.4%, 6.9% and 22% respectively.

Stock Price of Vjaya Bank Due to Mergers:



1.5 DENA BANK:



Dena Bank Ltd was an Indian public sector bank. It was headquartered in Mumbai and had 1,874 branches. The bank was founded in 1938 and the Indian government nationalized it in 1969.

On 17 September 2018, the Government of India proposed the amalgamation of Dena Bank and Vijaya Bank with the Bank of Baroda, pending approval from the boards of the three banks. The Union Cabinet and the boards of the banks approved the merger on 2 January 2019. Under the terms of the amalgamation, Dena Bank and Vijaya Bank shareholders received 110 and 402 equity shares of the Bank of Baroda, respectively, of face value ₹2 for every 1,000 shares they held. The amalgamation became effective from 1 April 2019.

History of Dena Bank:

Dena Bank was founded on 26 May 1938 by the family of Devkaran Nanjee, under the name Devkaran Nanjee Banking Company.

It adopted its new name, Dena (Devkaran Nanjee) Bank, when it was incorporated as a public company in December 1939.

In July 1969 the Government of India nationalized Dena Bank, along with thirteen other major banks.

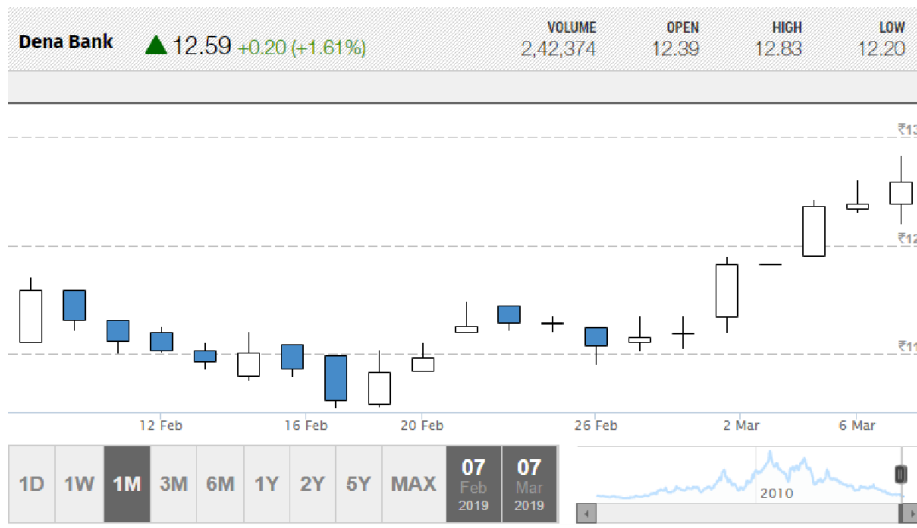
Dena Bank thereby became a Public Sector bank constituted under the Banking Companies (Acquisition & Transfer of Undertakings) Act, 1970. Under the provisions of the Banking Regulations Act 1949, in addition to the business of banking, a bank can undertake other businesses as specified in Section 6 of the Banking Regulations Act, 1949.

Amalgamation:

On 17 September 2018, The Finance Ministry of the Government of India proposed to merge three state run banks — Vijaya Bank, Bank of Baroda, and Dena Bank — into a single bank. The amalgamated bank was estimated to become the third biggest bank in India with a total business of more than ₹1,482,000,000,000 (US\$21 billion). Some of the main stated reasons for the merger were to help the weaker banks improve their operational efficiency, increase their customer base and market reach, and to help them raise capital without depending on government funds at all. Earlier that year, Dena Bank had been brought under the Prompt Corrective Action (PCA) framework due to its high non-performing loans. At the time of the proposal to merge, the gross NPA ratios of Bank of Baroda, Vijaya Bank and Dena Bank were 12.4%, 6.9% and 22% respectively, and Dena Bank was the weakest among the three in terms of its total business size too.

Bank of Baroda announced that it would auction the Dena Corporate Centre (Dena Bank's head office) at Bandra Kurla Complex, Mumbai in September 2019.

Stock Price of Dena Bank Due to Merger:



1.6 WHAT IS MERGER

The phrase mergers and refers to the aspect of corporate strategy, corporate finance and management dealing with the buying, selling and combining of different companies that can aid, finance, or help a growing company in a given industry grow rapidly without having to create another business entity.

A Merger, also known as a takeover or a buyout, is the buying of one Bank (the target⁴) by another. A merger may be private or public, depending on whether the merging bank is or isn't listed in public markets. A merger may be friendly or hostile. Whether a purchase is perceived as a friendly or hostile depends on how it is communicated to and received by the merging Bank's board of directors, employees and stakeholders. It is quite normal though for merger deal communications to take place in a so called 'confidentiality bubble' whereby information flows are restricted due to confidentiality agreements. In the case of a friendly transaction, the banks cooperate in negotiations; in the case of a hostile deal, the takeover target is unwilling to be bought or the target's board has no prior knowledge of the offer. Another type of acquisition is reverse merger, a deal which enables a private bank to get publicly listed in a short time period. The Merger process is very complex, with many dimensions influencing its outcome. There is also a variety of structures used in securing control over the assets of a bank, which have different tax and regulatory implications:

- The buyer buys the shares, and therefore control, of the merging bank being purchased. Ownership control of the bank in turn conveys effective control over the assets of the bank, but since the bank is acquired intact as a going concern, this form of transaction carries with it all of the liabilities accrued by that business over its past and all of the risks that Bank faces in its commercial environment.

Motives behind Mergers:

The dominant rationale used to explain M&A activity is that acquiring firms seek improved financial performance. The following motives are considered to improve financial performance:

- **Economies of scale:** This refers to the fact that the combined company can often reduce its fixed costs by removing duplicate departments or operations, lowering the costs of the company relative to the same revenue stream, thus increasing profit margins.
- **Economy of scope:** This refers to the efficiencies primarily associated with demand- side changes, such as increasing or decreasing the scope of marketing and distribution, of different types of products.
- **Increased revenue or market share:** This assumes that the buyer will be absorbing a major competitor and thus increase its market power (by capturing increased market share) to set prices.
- **Cross-selling:** For example, a bank buying a stock broker could then sell its banking products to the stock broker's customers, while the broker can sign up the bank's customers for brokerage accounts. Or, a manufacturer can acquire and sell complementary products.
- **Synergy:** For example, managerial economies such as the increased opportunity of managerial specialization. Another example are purchasing economies due to increased order size and associated bulk-buying discounts.
- **Taxation:** A profitable company can buy a loss maker to use the target's loss as their advantage by reducing their tax liability. In the United States and many other countries, rules are in place to limit the ability of profitable companies to "shop" for loss making companies, limiting the tax motive of an acquiring company.
- **Geographical or Other Diversification:** This is designed to smooth the earnings results of a company, which over the long term smoothens the stock price of a company, giving conservative investors more confidence in investing in the company. However, this does not always deliver value to shareholders.
- **Resource transfer:** Resources are unevenly distributed across firms and the interaction of target and acquiring firm resources can create value through either overcoming information asymmetry or by combining scarce resources.
- **Vertical integration:** Vertical integration occurs when an upstream and downstream firm merges (or one acquires the other). There are several reasons for this to occur. One reason is to internalize an externality problem. A common example is of such an externality is double marginalization. Double marginalization occurs when both the upstream and downstream firms have monopoly power; each firm reduces output from the competitive level to the monopoly level, creating two deadweight losses. By merging the vertically integrated firm can collect one deadweight loss by setting the downstream firm's output to the competitive level. This increases profits and consumer surplus. A merger that creates a vertically integrated firm can be profitable. However, on average and across the most commonly studied variables, acquiring firms financial performance does not positively change as a function of their acquisition activity. Therefore, additional motives for merger and acquisition that may not add shareholder value include.
- **Diversification:** While this may hedge a company against a downturn in an individual industry it fails to deliver value, since it is possible for individual shareholders to achieve the same hedge by diversifying their portfolios at a much lower cost than those associated with a merger.
- **Manager's hubris:** manager's overconfidence about expected synergies from Merger which results in

overpayment for the target company.

- Empire-building: Managers have larger companies to manage and hence more power.
- Manager's compensation: In the past, certain executive management teams had their payout based on the total amount of profit of the company, instead of the profit per share, which would give the team a perverse incentive to buy companies to increase the total profit while decreasing the profit per share (which hurts the owners of the company, the shareholders); although some empirical studies show that compensation is linked to profitability rather than mere profits of the bank.

Short Run Factors:

One of the major short run factors that sparked in The Great Merger Movement was the desire to keep prices high. That is, with many firms in a market, supply of the product remains high. During the panic of 1893, the demand declined. When demand for the good falls, as illustrated by the classic supply and demand model, prices are driven down. To avoid this decline in prices, firms found it profitable to collude and manipulate supply to counter any changes in demand for the good. This type of cooperation led to widespread horizontal integration amongst firms of the era. Focusing on mass production allowed firms to reduce unit costs to a much lower rate. These firms usually were capital-intensive and had high fixed costs. Because new machines were mostly financed through bonds, interest payments on bonds were high followed by the panic of 1893, yet no firm was willing to accept quantity reduction during that period.

Long Run Factors:

In the long run, due to the desire to keep costs low, it was advantageous for firms to merge and reduce their transportation costs thus producing and transporting from one location rather than various sites of different companies as in the past. This resulted in shipment directly to market from this one location. In addition, technological changes prior to the merger movement within companies increased the efficient size of plants with capital intensive assembly lines allowing for economies of scale. Thus improved technology and transportation were forerunners to the Great Merger Movement. In part due to competitors as mentioned above, and in part due to the government, however, many of these initially successful mergers were eventually dismantled. The U.S. government passed the Sherman Act in 1890, setting rules against price fixing and monopolies. Starting in the 1890s with such cases as.

U.S. versus Addison Pipe and Steel Co., the courts attacked large companies for strategizing with others or within their own companies to maximize profits. Price fixing with competitors created a greater incentive for companies to unite and merge less than one name so that they were not competitors anymore and technically not price fixing.

Why Merger in Banking?

Achieving Cost Reduction:

- Cost reduction through economy of Scale- Consolidation helps in scaling in up operations, thereby reducing per unit cost

- Cost reduction through economy of Scope- This is achieved through synergy involved in the ability to offer multiple products using the same infrastructure. Example: Banks can offer insurance and investment products using their branch network and thereby achieve economy of scope
- Cost reduction through rationalization of man power. The merged entity will be able to identify the right persons to man critical functions from a larger pool of human resources.
- Reduction in risk. The merged entity will be able to reduce credit risk through spreading it across wider geographies or product range.
- Cost reduction through possible reduction in tax obligations
- Cheaper sourcing of inputs with increased bargaining power with vendors and suppliers
- Ability to enter new business areas with reduced initial cost as compared to a new setup.

Increasing Revenue:

- A bigger entity will be able to serve a large customer better. By offering more services and taking bigger share in the business of the customer the bank will be able to increase the revenue per customer
- Product diversification will facilitate _one stop shopping by the bank customers.
- A larger customer base will generate more revenue
- Greater visibility in the market place will enhance the ability to attract new customers.
- A bigger size and share in the market will boost the bank's ability to raise product prices without losing customers
- The merged entity will be able to take bigger risk and reap its rewards.

Consolidation in Indian Banking:

Indian banks are smaller in size and scale, compared to their international counterparts. This can be gauged from the fact that India's largest bank, SBI, stands 72nd among the top 1000 banks in the world (according to a list published by—The Banker in 2006) and its Tier capital is roughly 1/10th the size of the world's biggest bank, Citigroup. Moreover, SBI does not find a place in the top ten banks even in Asia. On the contrary, there are six Chinese banks that feature in the list of the top 25 banks in Asia. Only two Indian Banks, SBI and ICICI, are among the top 25 Asian Banks.

The lack of size and scale acts as a major inhibitor to the Indian banks competing against the foreign banks. Currently, the banking sector is very strictly regulated, limiting the growth of foreign banks in India. Indian banks require approval from RBI for expanding overseas. These measures have shielded the Indian banks from competing with foreign banks.

With India strongly pushing for liberalisation and globalisation, this situation is bound to change.

The RBI has proposed opening the banking sector and providing a level playing field to foreign and national banks in 2009. This has spurred the Indian banks to consolidate to achieve size and scale comparable to foreign banks. Further,

the pressure on capital structure to meet prudential capital adequacy norms as prescribed by Basel II necessitates the need for consolidation in the banking industry.

Besides achieving scale and size, consolidation can reduce the cost of operations through economies of scale, for example, the effective use of manpower and offering multiple products using the same infrastructure. The larger banks are in a better position to manage credit risk by spreading it across geographies and multiple product range. The bigger entities are also in a better position to attract customers and provide diversified products to the customers.

Merger in Indian Banking Sector as an Imperative:

There are multiple reasons that lead to the fact that mergers in the Indian Banking sector as an imperative.

Stability:

Fragmentation poses increasing risk in the Indian Banking Sector. During the financial period 2001- 2005, only four banks have been able to cross the market capitalization of Rs. 50 billion included Bank of Baroda, HDFC Bank, ICICI Bank, and State Bank of India. Considerable fragmentation exists in the Banking sector for banks with market capitalization of less than Rs. 50 billion.

Moreover the created value is moving away from the top 5 banks thus indicating fragmentation indeed has increased over the period of last five years. Shown below are the deposit shares of the Banks operating in India over the period 2000-2004. It is observed that the share of the top 5 players has eroded and been consumed by the next fifteen players.

Considering that the base of total deposits has been consistently increasing, consequently the value in deposits gained by the next 15 banks has been tremendous.

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Similar trends are observed in profit after tax, borrowings and interest and non interest incomes of the banks, thereby hinting at increased levels of fragmentation in the top 20 banks. Though this could be the sign of a competitive bank market with healthy banks remaining in the market the goal of globally competent banks would be missed.

Benefits to Customers:

Benefits to customers can be seen in a number of ways. One such way is lowering in the intermediation costs. A 10 year trend in the intermediation costs as a percentage of Total assets in Indian Banks shows that the Indian private sector banks have the least intermediation costs as a percentage of total assets. During the time frame of study, a significant decreasing trend can also be observed in the Private Sector banks of India in the decade. Being non

fragmented they could claim greater efficiency and hence lower intermediation costs. Thus, building a strong case where intermediation costs can be lowered and merger could be a way for the same.

Comparison within the Indian banking sector reveals that consolidation will help in reducing the intermediation costs and this will in fact benefit the customers and will also give the customers better access to quality products and services which is restricted to a small part of the market.

Managing Bankruptcy Risks:

Recent studies have established that if merger and acquisitions in banks if allowed in a controlled manner would significantly reduce the bankruptcy risk of the merged entity.

Obviously, mergers would also provide these benefits to banks in India reducing their bankruptcy concerns. With most of the recent merger that have happened in the Indian banking have mostly been weak and bankrupt banks being forced to merge with stronger banks to protect the interests of the customers and only few mergers have happened keeping in mind strategic reasons and the need to grow in organically.

Merger in the Indian Banking Sector as an Opportunity:

There are two prime reasons to believe that M&A in the Indian Banking Sector is an opportunity.

Creation of a Financial Super Market or a Universal Bank:

A recent trend is to promote the concept of a financial super market chain, making available all types of credit and non-fund facilities under one roof under one umbrella organization (or through specialized subsidiaries).

An example of such a financial supermarket would be the reverse merger of ICICI and ICICI Bank. ICICI Bank today stands as India's second largest bank offering its clients both in India and overseas a product range as varied as retail banking products to exotic investment banking and treasury solutions. Similarly, IDBI and IDBI Bank treaded the same route. Though one has to state that consolidated accounting and supervisory techniques would have to evolve and appropriate fire walls built to address the risks underlying such large organizations and banking conglomerates.

Technological Expertise:

New entrants in the banking sector are armed with technological expertise while older players are well equipped with experience in practices. Mergers would thus help both parties gain an expertise in areas in which they lack. In India, the retail banking market biased towards the urban markets is growing at a Compounded Annual Growth Rate (CAGR) of almost 18-20% while the rural market is yet to be fully tapped. Keeping in focus the population profile, technology would be a major enabler for banking in the future. A number of state owned banks in India are adopting sophisticated core banking solutions and these are just the larger ones. For smaller banks to adopt technology platforms the expenditure may not be sustainable and hence this may be one more reason for M&A.

Growing integration of economies and the markets around the world is making global banking a reality. The surge in globalization of finance has also gained momentum with the technological advancements which have effectively overcome the national borders in the financial services business.

Widespread use of internet banking, mobile banking, and other modern technologies (such as SWIFT) has widened frontiers of global banking, and it is now possible to market financial products and services on a global basis.

In the coming years globalization would spread further on account of the likely opening up of financial services under WTO. India is one of the signatories of Financial Services Agreement (FSA) of 1997. This gives India's financial sector including banks an opportunity to expand their business on a quid pro quo basis. An easy way for this is thus to go through adequate reconstruction to acquire the necessary technology and get an early mover advantage in globalizing the Indian Banks.

Mergers as a Source of Competitive Advantage:

In the changing economic and business environment characterized by speed, flexibility and responsiveness to customers, size has a lot to contribute to staying ahead in the competition. It is in this context that mergers and acquisitions as a tool to gain competitive strength comes into the forefront with _Partnering for competitiveness being a recognized strategic argument for the same. In fact, as Michael Porter (1985) states, _the primary reason for Merger is to achieve synergy by integrating two business units in a combination that will increase competitive advantage'. Competitive advantage accrues since through Merger, bank seek strategic positioning, industry-wide consolidation, increased market share and shareholder value, synergy through economies of scale, revenue enhancement, risk reduction, shared cost of product development and improved access to markets and new technologies. However, it is also a fact that many Merger have produced disappointing results with three out of four mergers and acquisitions failing to achieve their financial and strategic objectives. While many reasons have been advanced for the failure ranging from financial, organizational, to people related; it remains true that Merger pose strategic challenges for both academicians and researchers.

While Merger have become a global trend, the resurgence in the Indian economy would provide a momentum to such activity in the near future, driven by factors such as boom in the financial markets, rising stock prices, persistently low interest rates, Specifically, sectors such as Banking, Pharma and Telecom are reported to drive the Merger as per an ASSOCHAM study.

The Indian banking industry is today witnessing a spate of mergers and acquisitions. This phenomenon is indicative of a global trend wherein banking is witnessing the twin trends of consolidation and convergence. This is driven by the need to acquire strength through bigger size and therefore be able to compete on a global scale in a competitive and deregulated banking environment.

It is to be noted that the situation facing the Indian banking industry is in contrast to that prevailing more than a decade back wherein the Indian banking sector was a monopoly dominated by the State Bank of India. Merger in the banking sector were initiated through the recommendations of the Narasimha Committee on banking sector which suggested that 'merger should not be viewed as a means of bailing out weak banks. They could be a solution to the problem of weak banks but only after cleaning up their balance sheet.' One of the first initiatives in this regard i.e. the HDFC-

Times Bank merger in 1999 created history since it signaled 'size' as a competitive advantage, that mergers amongst strong banks can be both a means to strengthen the base, and of course, to face the cut-throat competition. Prior to this private bank merger, there have been quite a few attempts made by the government to rescue weak banks and synergise the operations to achieve scale economics; unfortunately these proved futile. Subsequently, we witnessed two more mega mergers in the history of Indian Merger, one the merger of Bank of Madhur with ICICI Bank, and second that of Global Trust Bank with UTI Bank, (the new bank being called UTI-Global bank).

The future outlook of the Indian banking industry is that a lot of action is set to be seen with respect to Merger, with consolidation as a key to competitiveness being the driving force. Both the private sector banks and public sector banks in India are seeking to acquire foreign banks. As an example, the State Bank of India, the largest bank of the country has major overseas acquisition plans in its bid to make itself one of the top three banks in Asia by 2008, and among the top 20 globally over next few years. Some of the PSU banks are even planning to merge with their peers to consolidate their capacities. In the coming years we would also see strong cooperative banks merging with each other and weak cooperative banks merging with stronger ones.

While there would be many benefits of consolidation like size and thereby economies of scale, greater geographical penetration, enhanced market image and brand name, increased bargaining power, and other synergies; there are also likely to be risks involved in consolidation like problems associated with size, human relations problems, dissimilarity in structure, systems and the procedures of the two organizations, problem of valuation etc. which would need to be tackled before such activity can give enhanced value to the industry.

RESEARCH METHODOLOGY

2.1 STATEMENT OF PROBLEM:

Mergers and Acquisitions are the most crucial and composite means of corporate restructuring. It involves massive funds but at the same time it also expands the arms of expansion. These kinds of decisions fundamentally depend on the monetary and economic strength of the organization. Merger or takeover brings growth and development but at the same time it also brings inevitable challenges for the merged banks. These challenges are related to working environment and culture as well as psychological factors, which are directly proportional with the employees' productivity and customer satisfaction. The merger of ICICI Bank and the Bank of Rajasthan Ltd. portrayed the same picture, as the work force of Bank of Rajasthan opposed it badly and were very disturbed after the announcement. This hampered the working conditions in the bank leading to not giving services to the customers on time. For that reason, the main objective of this study is to recognize those vital and crucial aspects which directly have an effect on the psychological facet, attitude and job satisfaction level of bank employees during post- merger.

2.2 SIGNIFICANCE OF STUDY:

The changing scenario of speedy changing business within the market place, has forced the companies to take up corporate restructuring. Globalization, the requirement to hustle growth and also the shortening of product cycles has forced firms to think about using "Mergers and Acquisitions" as a part of their business strategy to satisfy their business

goals. The challenges faced in this regard are numerous. While one would expect that Mergers and Acquisitions would accelerate growth, a lot of failures have also been identified. Some failures are explained by money and market factors; others are neglecting human resource problems. In the last decade, Mergers and Acquisitions have become a worldwide growth strategy, despite the high risks connected to it. Various studies have explained that around 85% of Mergers and Acquisitions fail as the prime reason being human resource including the customer front, neglect. It has been observed that a majority of staff takes voluntary retirement, shareholders selling or buying the stocks or customers not willing to have bank accounts continued while Mergers and Acquisitions process.

Despite a well-planned strategy Mergers and Acquisitions have found to be a failure, the main reason attributed for the failure is that the challenges faced in managing human resources & customers. Mergers and Acquisitions might have a good economic impact but it surely ignores the human aspect. Mergers and Acquisitions may be troublesome for the workers and customers of banks as there may be a likelihood of layoffs and delays because of various reasons. If the integrated bank is pretty adequate in terms of business capabilities, it would like same quantity of staff that it previously had in order to maintain its quantity of business and increase the customer base. Because of the changes within the in operation surroundings and business procedures, customers may additionally suffer from emotional and physical issues. This research thus talks about the impact of Mergers & Acquisition on Human Resource particularly in Indian Banking section.

RESEARCH TOPIC:

“EFFECTS OF BANK MERGERS ON BANK CUSTOMERS”

2.3 TYPE OF RESEARCH:

The research focuses on understanding the impact of Merger & Acquisition on various attitudes of Customer of both the target bank and acquirer bank. To get a deeper insight of this ultimate base of the research, the study further intends to determine the association between various changes in attitude experienced by the Customer and their satisfaction. This study determines various changes experienced due to merger & acquisition and examines the relation of these changes with satisfaction, psychological impact and attitude of the customers. For achieving the objectives, twenty one variables (based on intense literature review) are introduced for measuring attitude of the customers and fourteen variables were established after literature review for assessing their customer after merger.

2.4 SCOPE OF RESEARCH:

Geographic Scope: The individual customers in Mumbai City were considered for the study.

Demographic Scope: The research study was carried out with the help of data collected from individual customers belonging to different demographic features like gender, age, obstruction in services, etc.

Period Scope: The study was related to the data collected during the period 2024 – 2025.

Universe size

The universe or population for the study was the individual investors belonging to varied age groups, in the Mumbai City.

Sampling Technique

As the universe was too large with a heterogeneous population, Non-Probability Sampling technique was used. Purposive and Convenience sampling methods were used, as the customers belonging to the specified demographic variables were to be selected. Purposive sampling method was used as individual customers belonging to the above mentioned demographic features were to be selected. Convenience sampling method was used to reach the required sample of investors from the large group within the available time span.

Sample Size

The universe being too large, greater than a population of 10, 00,000 investors, a sample size of respondents was selected, the minimum requirement given for the large population being 100 sample sizes.

Inclusion

The individual customers in Mumbai City were considered for the study. These investors were consisting of students, businessman, and people doing services in Mumbai city.

Exclusion

As universe being too large, Customers other than Mumbai city were excluded from this study.

2.5 Sources of Data:

Primary Data: The primary data was collected with the help of a structured questionnaire. The tool was developed to study the process bank mergers through effect on customers and profiling of the respondents.

Secondary Data: The secondary data was collected from various reference books, finance journals, articles from newspapers and internet.

2.6 Objective of Study:

- To explore the Customer issues involved in Mergers and Acquisitions in banking sector.
- To study the change in attitude Customers after Mergers and Acquisitions.
- To study the level of satisfaction of Customers after Mergers and Acquisitions.
- To find out impact of Mergers and Acquisitions on Customers Satisfaction.
- To compare the attitude of Customers of target bank and acquirer bank.
- To compare the Customer satisfaction level of Customers of target bank and acquirer bank.

REVIEW OF LITERATRE

LITERATURE REVIEW:

If the two firms have some similarities in operations, they can merge and multiply benefits arising out of synergy. Secondly, amalgamation of two companies having high grouping potential was very much successful in comparison to the companies which are not able to make significant endeavours for integration. Lastly, it was realized that Mergers which were based on earning more profits by combining production and marketing procedure, faced more confrontation from their employees in comparison to mergers which focused on gaining complementary earnings. It is said that in remarkable transformations in the international business environment gave rise to Mergers they are still happening in India. Mergers occur for a good cause, however, several expensive Mergers do not succeed in accomplishing their goals, partially because of various reasons. Sometimes, the problem occurs when it becomes difficult to understand the issues related to human resource and also when they are not managed properly. It is considered that the example of 5 bank mergers which took place in India namely Centurion Bank and Bank of Punjab, ICICI Bank with Bank of Madura, Punjab National Bank with New Bank of India, Global Trust Bank and Oriental Bank of Commerce, ICICI Ltd. with ICICI Bank. Instigator concluded that integration is essential where there is wide customer base, spread in rural market, extensive branch network, strong economic position, advanced resources, technological edge and focus on core points. In addition to this, some problems which occurs postmerger were identified like merging of two different cultures, managing human resources and dealing with customers. It opines that the motive behind this paper is to explore different drives for Mergers in the Indian Banking sector. India is a country that is gradually but certainly moving from a system of 'large number of small banks' to 'small number of large banks'. In the scenario of Banking Merger, it has been suggested that merger gives bank operational benefits such as economies of scale, asset restructuring and technical and managerial skill transfer, bank mergers also supposedly improve the financial position by risk reduction, increased debt capacity and lower interest rate as well as tax savings.

FINDINGS

SUGGESTIONS:

- We need to have unique rules and regulations for Mergers which should be clear and Compaq so it can create transparency, hassle free and a very healthy environment for merger and it can also lead to smooth transformation with no burning up the customer base.
- RBI is the only authority for banking sectors even for the Mergers of banks. There is need of a firm other authority who exclusively handles only Mergers. And also authority who take care about the feasibility of the same. Along with that have to consider every concern's view on the same.
- There is need to create Bank Board to keep watch on every activity of bank and top managers at the time of Mergers announcement and after that also trained the bankers to be a buffer between banks and the Government to ensure proper governance leading to a healthy environment and smooth processes for the customers.

- There is vestige of social era that we are in need to review and rectify of our old policies, strategies and specifically conservative approach regarding PSBs. Time have come to decide, we want many banks or strong banks.
- Large PSBs more efficient in performance than small ones but Consolidation of weak banks does not produce a healthier institution; it actually harms the economy so this trend should discontinue. The IMF opined, size is absolutely linked with risk – size insulates entities from disciplinary action by the government and if any organization realizes there is no downside to risk, it is prone to indulge in it
- Human resource including customers protection policy for post-merger, should be there as they are the assets of any corporation. Merger can be successful only if it is done in similar culture, but it leads to job cuts, branch closures which should be taken in to serious consideration. Further should understand merger is not only about size but it's about efficiency, performance and profitability.
- There is constant need arise for recapitalization which can resolve the issue of rising non-performing assets (NPAs). There is need to follow the “precaution is better than cure” way means there is need to have proper committee who approves huge loans . Like small lenders there is need to keep security for corporate loans also and there's need to caption of maximum 60% against property. Hence, there is need to work on regulation of lending by banks. This in turn safeguards the interest of all the retail customers and the stakeholders of the banks.

CONCLUSION:

Mergers have immensely evoked and still continue to capture scholars interests. More so, Mergers in the banking sector evokes high interest simply for the fact that after decades of strict regulations, easing of the ownership & control regulations has led to a wave of Mergers in banking industry throughout the world.

Considering the changed environment conditions, we believe that Mergers in the Indian Banking are an important necessity. The reasons include (a) fragmented nature of the Indian banking sector resulting in poor global competitive presence and position; (b) large intermediation costs and consequent probability in increasing its risk profile; and (c) meet the new stringent international regulatory norms. While a fragmented Indian banking structure may very well be beneficial to the customers (given increased competition due to lower market power of existing players), at the same time this also creates the problem of not having any critical mass to play the game at the global banking industry level. This has to be looked at significantly from the state's long-term strategic perspective. Given that economic power is increasingly used as a tool by nations to defend their position, to signal power, to signal intent, and to establish their supremacy over others hence owning and managing large powerful global banks would be an obvious interest for every country. Consolidation through Mergers may be requirement of future. Mergers of future should aim at creation of strong entity and to develop ability to withstand the market shocks instead of protecting the interests of depositors of weak banks. The Mergers in the banking sector should be driven by market related parameters such as size and scale; geographical and distribution synergies and skills and capacity. The emerging market dynamics like falling interest rate regime which makes the spread thinner; increasing focus on retail banking, enhanced quest for rural credit, felt need for increasing more profits especially from operations, reduction of NPA's in absolute terms, need for more capital to augment the technology needs, etc. are the major drivers for mergers and acquisitions in the banking sector.

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