



Mergers and acquisitions prospects: Indian banks

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Abstract

The merger of bank is a particular situation when two or more banks club their assets and liabilities to become one bank. This merger undoubtedly has positive and synergistic effects on the banking industry, which would have an impact on the effectiveness, workforce and clients of the banks. It reduces the cost of operation. NPA (Non-Performing Assets) and risk management are benefited. It sees a bigger capital base and higher liquidity that reduces the burden of re-capitalizing. Mergers may also help in financial inclusion and broadening the geographical reach of the banking operation. Certain banks have regional customers to cater to merger destroys the idea of decentralization. The positive effect of bank mergers is good global competitiveness as the large bank is capable of facing global competitiveness. It boosts the economy. Indian banks can gain recognition and higher rating that can have the possibility to emerge as a global bank.

Keywords: Mergers, public sector banks, private sector banks, acquisitions

Introduction

Bank Merger is essentially an agreement between two banks, one being the acquiring bank and the other being the merged bank. In this process, the two banks combine their assets, liabilities, and operations to form a single, larger entity (TOI, 14th Dec, 2023). The follows certain policies by which public sector banks create healthy large banks as per global competitiveness. The merger of bank is a particular situation when two or more banks club their assets and liabilities to become one bank. The merger has many common motives like diversification, tax purpose, and increase in financial capacity & many more. The merger may include certain challenges like tech interaction, human resources, decision making, and provisions. When India faced the problem of economic slowdown then, Indian finance sector announced the ten public sector banks into four entities to boost the economy by increasing its liquidity, combating the issue of non-performing assets & diversifying the risk (Roy.et.al). Bank is an organization that deals with finance where customers deposit, save and borrow money. There are two categories of banks are public and private. In Public sector banking, the majority stake is held by the Government. In the case of private sector banking, most of the equity is owned by private bodies, corporations, and institutions instead of the mergers, announced by the finance minister are important for consolidation and expansion purposes (Thakur B, Lamsal R, 2023) [7]. To compete with the world, India needs a more global level of banks. The deals with the problem of merging (TOI, December, 2023), if vision, people & work culture are appropriate merging will synergize and create a win-win situation. The procedure of banks merger works under the Banking Regulation Act, 1949, any two public or private sector banks can initiate a merger discussion. It should finalize the merger scheme in consultation with RBI (Reserve Bank of India) and must be placed in parliament for approval. Parliament has the right to reject or modify the merger scheme. Parliament approval is necessary for the merger between public and private banks.

Advantages

Mergers have advantages as larger banks are capable of facing global competitiveness.

A merger will help in improving professional standards.

The merger will help the geographically concentrated regionally present banks expand their coverage. After the merger, the staff works under a single umbrella regarding their service conditions & wages.

Banks merged are: - Punjab National Bank, Oriental bank of commerce, United bank of India, Canara Bank and syndicate bank, Union Bank of India, Andhra Bank, and Corporation Bank. Indian Bank & Allahabad bank.

When two banks club their assets and liabilities to become one bank, a particular situation is known as merging banks. The announced the ten public sector banks into four entities in 2019. It is basically to reduce the cost of lending.

Mergers may have pros and cons.

1. It reduces the cost of operation. NPA (Non-Performing Assets) and risk management are benefited. It sees a bigger capital base and higher liquidity that reduces the burden of re-capitalizing.
2. Mergers may also help in financial inclusion and broadening the geographical reach of the banking operation. Certain banks have regional customers to cater to merger destroys the idea of decentralization.
3. The merger may be a temporary relief, but it's not a real remedy to the problem. It may include bad loans and bad governance in public sector banks.
4. The positive effect of bank mergers is good global competitiveness as the large bank is capable of facing global competitiveness. It boosts the economy. Indian banks can gain recognition and higher rating that can have the possibility to emerge as a global bank.
5. The cost of banking operations is reduced by the initiation of mergers enacted by Indian, resulting in the betterment of non-performing assets and risk management.
6. A larger bank can easily manage its short and long-term liquidity. The merger may have the benefits like a

- brand-new customer base, empowering business, increased holding the market share, and opportunity for technology to upgrade.
7. A large bank is capable of facing global competitiveness. Indian banks can gain greater recognition in the global market as global banks. When a merger occurs, it will reduce the cost of operations too. The weaker banks get merged into the stronger ones and benefit from large-scale operations. For example, the state bank of India, Bank of India, and Syndicate Bank are in a small town. A merger can replace all the branches into one, resulting reduction in operational costs and improved efficiency.
 8. The mergers of banks are important for consolidation and expansion. It is also crucial for the economy. The problem of Non-performing assets is piled up not because of small banks but the inefficient policies to do with NPAs. To meet global competitiveness. India needs more global level banks.
 9. The deals with the problem related to mergers and will decide the success of merging. Merging must be executed to lead to an environment of trust and agreement among the people and the bank.
 10. The Indian Government announced the bank merger in 2020, resulting in seven large PSBs with scale and national reach. It helps banks create a scale comparable to global banks and capable of global competitiveness.

Bank Mergers and Acquisitions in the Indian Banking Sector

With the rapidly advancing technology and an increase in competitions between corporations, Mergers and Acquisitions (“M&A”) are the immediate choice and an effective strategy to penetrate new markets (Almeida, H., Campello, M., & Hackbarth, D. 2011) ^[1]. This approach is often employed by corporations with an aim to extend their business into a new domain and prevail over their unviable state. Banks being the underpinning foundation of our economy, are frequently encouraged to merge in order to expand globally and create harmony, which in turn benefits the affluence of our country through enhanced flow of money. In the present day, the Indian banking industry is considered to be growing swiftly and has altered itself into a dynamic industry (Abbas, Q., Hunjra, A. I., Azam, R. I., Ijaz, M. S., & Zahid, M. 2014) ^[2]. A new dimension is accelerated in the sector through mergers and acquisitions and has enabled banks to achieve a high ranking, tossing huge value to the shareholders & guidelines for merger/amalgamation of private sector banks. On April 21, 2016, the Reserve Bank of India (“RBI”) issued master directions streamlining the process of mergers of private sector banks (“Guidelines”). The proposed merger of two banking companies or of a banking company with a non-banking financial company is governed by these Guidelines. Additionally, these Guidelines would be applicable to public sector banks, as appropriate. According to the Guidelines, under the terms of Section 44A of the Banking Regulation Act of 1949, RBI has the discretionary authority to authorize the voluntary merger of two banking entities. These powers do not apply to the voluntary merger of a banking company with a non-banking company, which is governed by Sections 232 to 234 of the Companies Act of 2013, under which the National Company Law Tribunal (“Tribunal”) must approve the merger's plan. Approval by

board of directors Boards of the banks play a vital role in the amalgamation process as the of amalgamation must be ratified by two-third majority of the total board members and not just of those present and voting. Amalgamation between two banking companies, according to Section 44A of the Banking Regulation Act of 1949, no banking company may merge with another banking company unless a scheme outlining the terms of the merger has been presented in draft form to the shareholders of each of the relevant banking companies separately and approved by a resolution passed by a majority of the shareholders of each of the aforementioned companies present in person or by proxy at a meeting of shareholders. Prior to the shareholders' approval, the boards of directors of the two banking companies must accept the draft scheme.

The following factors should be taken into account while considering such approval:

1. The value of the proposed merged company's assets, liabilities, and reserves, and if the proposed incorporation will result in an increase in the asset value.
2. The type of compensation the merging banking company will provide to the shareholders of the merged company. Whether the required amount of due diligence has been done with regard to the proposed merger.
3. Whether the swap ratio has been determined by independent value's and whether such swap ratio is fair and appropriate.
4. The shareholding structure of the two banking companies and if, as a result of the merger and the swap ratio, any person's, entities, or group's ownership of shares in the merged banking company will violate RBI's policies. The planned modifications to the board of directors' composition and whether the resulting membership of the board would be in compliance with the RBI Guidelines and the impact on the viability and the capital adequacy ratio of the amalgamating banking company.
5. If such a scheme is adopted by the required number of shareholders, it must be presented to the RBI for approval, which if granted, will be binding on the relevant banking companies.
6. Amalgamation of an NBFC with a banking company, the banking company should procure RBI's permission after its board has authorized the proposed merger but before it is filed to the tribunal for approval. With respect to the approval of the scheme, in addition to the considerations listed above, the board should also consider the following aspects.
7. Determine whether any RBI/SEBI regulations have been violated or are likely to be violated by the NBFC, and if so, ensure that they are complied with, before the scheme is approved. Whether “Know Your Customer” norms are complied with by the NBFC for all its accounts which will become accounts of the banking company.

Whether the NBFC has used credit facilities from banks or financial institutions, and if so, whether the loan agreements require the NBFC to obtain the consent of the bank or financial institution concerned for the proposed merger. Information and documents to be completing along with the application of scheme of amalgamation.

- The following are few of the documents/ information required to be submitted: Draft scheme of amalgamation approved by the shareholders of the banking companies. Certificates authorized by each of the officials present at the meeting of shareholders. Certificates from the concerned officers of the banking companies listing the names of shareholders who gave written notice to the banking company at or before the meeting that they opposed the amalgamation plan along with the amount of shares held by each shareholder. Details of the proposed CEO of the banking company after amalgamation. Annual reports of each of the banking companies for the three financial years preceding the date of such amalgamation. Such other information, documents or explanations as RBI may require during the application process. A reason for M&A's in banks. The following are the reasons for the mergers in banks. Merger of weaker bank. The objective of combining weaker banks with stronger banks has been supported in order to stabilize weak banks and diversify risk management. By joining forces with a more powerful bank, the weaker ones can maintain its presence and avoid going out of business completely.
- Synergies and Economies of scale due to the synergies created by the combined client bases of the two banks. The amalgamated product will be more profitable and provide improved customer satisfaction. The merged bank will have superior business portfolio, risk management plans, and market capitalization. It also benefits from economies of scale and lower costs through better utilization of available resources.
- Financial liquidity and economies of scale on merger increases liquidity, ensures direct access to cash resources, and assists in the disposition of surplus and obsolete assets. It aids to pool the resources of the individual banks and use them in an effective and efficient manner. After the merger, the banks will be better equipped to fund massive projects that they previously wouldn't be able to do on their own, making the funding procedure for those projects swift and simple.
- Technology advancement with the advent of the internet, banks can now offer services with the touch of a screen, allowing them to utilize the latest technologies. Through the merger, banks work together and make use of cutting-edge technology to deliver better services and support the expansion of the banking industry.
- Skill & Talent, when two banks merge or are acquired by one another, staff and expertise are also amalgamated, creating a larger talent pool that gives the merged entity an advantage over its competitors.
- History of mergers and acquisitions, the Indian banking sector has witnessed a few mergers with the primary motive to ensure growth, expand and diversify within the sector. For example, inter-alia, Punjab National Bank acquired New Bank of India in 1993, Bank of Madras Ltd merged into ICICI Bank Ltd in 2001 and Bhartiya Mahila Bank merged into State Bank of India in 2017.
- In August 2019, of India announced the -merger of 10 Public Sector Banks ("PSBs") to 4. In accordance with

RBI's press release dated 28th March 2020, the said mergers were to take effect from 1st April, 2020.

Banks Mergers

- Punjab National Bank, United Bank of India & Oriental Bank of Commerce
- Indian Bank & Allahabad Bank
- Canara Bank & Syndicate Bank
- Union Bank of India, Andhra Bank & Corporation Bank
- Bank of Baroda Dena Bank & Vijaya Bank
- State Bank of India - State Bank of Bikaner and Jaipur - State Bank of Hyderabad -State Bank of Mysore - State Bank of Patiala - State Bank of Travancore.
- Bharatiya Mahila Bank - Bank of Baroda was merged with Vijaya Bank and Dena Bank. The merger took effect on 1 April 2019. SBI's associate banks and Bharatiya Mahila Bank were merged with the State Bank of India in 2017.

Impact of the Mergers

The merger, which saw 27 public sector banks consolidated and reduced to 12, had a principal objective to establish next generation banks and achieve a trillion-dollar economy in the years to come. This merger undoubtedly has positive and synergistic effects on the banking industry, which would have an impact on the effectiveness, workforce, and clients of the banks. The's consolidation strategy aims to create larger banks that can compete with both domestic and international financial institutions. Following the mergers, SBI currently has a 22% market share among all banks, and PNB, the second-largest public-sector bank, has a market share of roughly 8%. With the merger of Punjab National Bank, United Bank of India, and Oriental Bank of Commerce, the country's second-largest nationalized bank in terms of revenue and branch network will be created. The resulting synergy will yield a next-generation bank that is competitive on a global scale.

Objectives of PSB Amalgamation

India announced the mergers with the following objectives

- Increase operational effectiveness to reduce financing costs
Establishment of banks with a significant national presence. The global reach Unlocking potential through mergers and the development of new banks. Repositioning PSBs in order to create a \$5 trillion economy. Increased ability to take on more credit and risk. Improvement in delivery of services.
- RBI's Financial Stability Report. The combined PSBs' total assets account for almost 90% of all PSB assets. As a result, under the same reasoning, the following data analysis of all PSBs can be treated equivalently for the combined PSBs. The following data is extracted from RBI's financial stability report published in January, 2021 all banks' credit growth (year over year), which had fallen to 5.7% by March 2020, fell even lower to 5.0% by September 2020. Credit growth for PSBs accelerated from 3.0% in March 2020 to 4.6% in September 2020.
- Precautionary savings fueled the other business component, or deposit growth, of all banks, which grew at a robust 10.3% (y-o-y). One of the highest growth

rates over the past five years was 9.6% for PSBs. In terms of earnings, PSBs' net interest income (NII) increased at a significantly faster pace of 16.2% in September 2020 compared to March 2020 (13.0%). In September 2020, Net Interest Margin (NIM) increased. However, the rise of other operating income (OOI), which was 29.2% in March 2020, fell to 1.2%. PSBs' earnings before taxes and provisions (EBPT) increased by 17.6%. Return on Assets (RoA) and Return on Equity (RoE) both increased significantly, with PSBs' return to positive (RoE) after four years of sub-zero and near-zero levels being particularly remarkable. As a result, profit parameters for the combined PSBs in FY21 showed a markedly hopeful growth.

Bank-Merger Conclusion

In addition to providing a bank with additional capital to work with in terms of making loans and investments, an acquisition or merger also aids in the growth of the bank's geographic reach, allowing it to serve a bigger customer base. Major M&A transactions have taken place in the Indian banking industry recently, and as a result, a number of international players have emerged. Recent studies demonstrate that there are reliable predictions of increases in the profitability of Indian banks in the near future (Sravansai, Mula, and Sudha Srinivasan. 2025) ^[6]. However, a dramatic increase in the volume of these mergers and acquisitions has led to an unprecedented growth in market-level bank concentration, which could have an effect on the competitiveness of the banking industry. Mergers do appear to be a solution because the country's nonperforming assets (NPAs) and bad loans have adversely affected its reputation abroad. However, it should constantly monitor anti-competitive mergers and abuses of power in the banking industry. The current needs to enact stringent legislations pertaining to mergers in both PSBs and private banking organizations. The content of this article is intended to provide a general guide to the subject matter. Specialist advice should be sought about your specific circumstances.

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