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MERGER AND ACQUISITION IN INDIAN BANKING SECTOR: IMPACT ON ECONOMIC VARIABLES

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ABSTRACT

In this study, we looked at how mergers and acquisitions affect important parts of the Indian economy. We wanted to see what happens to things like Non-Performing Assets (NPAs), jobs, and how well the combined banks do. When banks merge, one of them usually becomes much bigger. Let's break it down - "merger" and "acquisition" are two types of corporate unions. The companies getting stuff are called "acquiring companies" or "bidders," while those being taken over are the "target companies." Right now, more mergers and acquisitions are happening, but it's not clear if it's because the economy is doing better. NPAs are a bit better, but that's about it. Many bank workers think mergers are bad for their jobs because the people who own the banks want to limit how many employees there are. Banks that merged or got acquired are cutting jobs every year. The data shows that big Indian banks choosing to grow through mergers seem to be making good choices in organizing their staff better. Not many studies have looked at how mergers affect jobs, so it's important to check recent mergers of public sector banks. This analysis aims to find both good and bad effects of these mergers, giving us more understanding.

KEYWORDS: *Mergers and Acquisitions, The Impact of the Reformation of Banks, Financial Institutions.*

Introduction

According to the Reserve Bank of India (RBI), the Indian banking industry has a good amount of money and is well-controlled. The financial and economic situations in our country are much better than in other nations. Research on credit and liquidity risk indicates that Indian banks are robust and have fared well during the world financial crisis. Lately, there are new types of banks in India. One of them is the talked-about merger of big banks with weaker public sector banks that are facing losses. The government is trying to join these banks together to deal with the problem of bad loans. This is their way of slowing down the growth of bad loans. Merging banks is a way to tackle the issue, and it's not something we can ignore. The trick is to make sure the effects of the merger are managed carefully. This plan is part of a bigger effort to make the banking industry simpler and reduce pressure on the government's budget. Specifically, the RBI will keep a close eye on Non-Performing Assets (NPAs), which are loans that people don't repay. If a bank has more NPAs than allowed, it will be told to merge with a bigger bank. This is because when two banks combine, their total money becomes more, which helps lower the percentage of NPAs. Ten PSU banks are included in the RBI's Prompt Corrective Action (PCA) framework: Dena Bank, Allahabad Bank, United Bank of India, Corporation Bank, IDBI Bank, UCO Bank, Central Bank, Indian Overseas Bank, Oriental Bank of Commerce, Bank of Maharashtra, and Bank of India. The non-performing assets (NPAs) of these banks range from 15% to 31%.

Merger

Expanding their business activities is like a money tool to make more profit in the long run. When two businesses decide to join together, it's called a merger. It's not like buying, which might be a bit unfriendly. Managers are all about making the business better, running things smoothly, and growing so that everyone gets better terms like promotions, perks, and extra benefits.

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Acquisition

This is when one company buys out another. The buying company might still act as a separate legal person. The main goal is to take control of the bought company, and its stuff gets mixed into the one that's buying it.

Trends in Global Mergers & Acquisitions

One way for foreign investors to get into other countries' economies is by doing mergers and acquisitions across borders. Companies decide to do this based on things like having an advantage in ownership, location, doing things internally, and thinking about getting more market power, being more efficient by working together, getting bigger, spreading out, and wanting to make more money. Companies that want to grow worldwide use a mix of local and international money to pay for these deals. In theory, there are two main reasons for joining up. One is to make things better for everyone involved, and the other is not so concerned about that. In a perfect money world, all businesses would be about making shareholders happy. But in reality, saving money or making more of it is what really makes things better.

Merger and Acquisition in Indian Banking Sector

India's banking story began way back in 1770 with the Bank of Hindustan being the first bank. More banks popped up later, all under the British East India Company's permission. Among these were the Bank of Calcutta (1840), the Bank of Madras (1843), and the Bank of Bombay (1840).

In 1921, the Imperial Bank of India came into existence by merging these banks. Then, on July 1, 1955, it got a bit of national attention and a name change to the State Bank of India. This move aimed to boost banking services in rural areas and included eight affiliate banks (now 7). Later, The State Bank of Bikaner and Jaipur was established by the merger of the State Banks of Jaipur and Bikaner.

After the big global crisis in 2008–2009, India's banking scene has shown signs of doing better. It's more productive and efficient now compared to when the crisis first hit.

The government has been taking action to reinforce the financial system, and the Reserve Bank of India has also been taking action to aid in the recovery of the economy

Regulatory Framework for Merger and Acquisition in Indian Banking Sector

The rules for joining or merging two banks in India come from the Reserve Bank of India (RBI), and they've done a lot of work on this. The Indian Banking Regulation (BR) Act, 1949, is like the boss of these rules.

According to the Act, there are two different types of amalgamations:

- Voluntary Amalgamation
- Compulsory Amalgamation

Voluntary amalgamation (section 44A)

It's like this: when two banks want to join together, the smart plan they make has to be agreed upon by most of the big decision-makers in both banks and then two-thirds of all the people who own a piece of those banks. Once everyone's on board, they can share the plan with the Reserve Bank for the final thumbs-up. But, here's the thing, the Reserve Bank can also say it's okay for the joining even if not everyone agrees. That's the power given to them by Section 44A of the BR Act. They have the say-so in letting two banks team up.

Compulsory Amalgamation

When the Reserve Bank says two banks have to join up, it's like a must-do thing according to Section 45 of the BR Act. This happens when it's good for everyone, like the people who put their money in the bank.

Imagine a bank is in trouble or not doing well, or it needs better management, the Reserve Bank can step in and say, "Okay, you two have to join." They can even ask the big government to pause things for a bit and make a plan for the joining. As per Section 45(2) of the BR Act, the Reserve Bank can tell the government to stop a bank from doing anything for a while and use that time to carefully plan how it will join with another bank.

And here's a rule: Before any bank can buy another business or team up with another bank or a money company, the Reserve Bank must give the thumbs-up. They are the boss here, deciding how the joining happens, who agrees, and everyone has to follow their rules.

Objective

- To understand the impact on employment by merger and acquisition in Indian Banking Sector.
- To learn that managers are all about making the business work better, handling everything for overall success, and making the business bigger to get better perks and benefits. Also, to find out what issues and difficulties come with Indian banks joining together.

Review of Literature

Athma & Bhavani (2012) concentrated on the pre- and post-merger performance of SBI and HDFC Banks, as there were a total of 22 mergers in the Indian banking sector between 1991 and 2017. All important metrics showed an upward trend during the post-merger era, with the exception of the number of employees and profits for SBI and the number of employees for HDFC Bank.

Singh & Gupta(2015) analyzed data and information were obtained regarding the performance of the selected banks before to and following the 1990 mergers. Comparing the impact of mergers on profitability involves examining several financial parameters such as operational profit margin, return on net worth, and return on capital used.

Ishwarya J (2019) this study looked at how banks performed in mergers and acquisitions, as well as the union of SBI and its affiliates. Profitability was unaffected considerably by certain bank mergers. However, there are good chances that profitability will increase soon. Although the stockholders of weak banks no longer gain from mergers between dissimilar banks (weak and strong banks), these mergers nevertheless safeguard weak bank depositors from losing money.

Jayadev & Sensarma (2007) examined the significant concerns surrounding banking consolidation in India with a focus on shareholders and managers. According to the analysis, neither the bidder nor the target institutions' shareholders have profited from forced mergers. The study provided compelling evidence that the Indian financial system needed very large banks to take on a variety of risks associated with functioning in both domestic and international markets.

H.Lahoti (2016) considered that corporate strategy measures such as mergers and acquisitions were crucial since they helped the company grow externally and provide it a competitive edge. In today's globalised economy, Mergers and acquisitions (M&A) are increasingly employed as a means of enhancing a company's competitiveness. These techniques include expanding the company's market share, using economies of scale, diversifying its holdings to reduce business risk, and entering new markets and geographic areas.

Research Methodology

The research paper on the title “Merger and Acquisition in the Indian Banking Sector: Impact on Economic Variables” used secondary sources and the descriptive analysis method. For this study, a wide range of publications and academic papers on relevant issues are thoroughly examined.

Particular emphasis is placed on articles written for newspapers, editorials, online learning resources, debates, and discussions held on news channels in order to gather the most recent statistical data and provide a thorough analysis of the topic, as it is one of the topics regarding the Indian economy that has generated the most discussion in recent years. The researcher tried to compose the research work in a genuine manner.

Sample Size

To meet the various goals of this study, surveys of one public sector (SBI and its associate banks) bank and one private sector banks have been conducted.

Public Sector Banks

Acquirer Banks	(**Target) PSU Banks in India Merged**
(SBI) State Bank of India	- State Bank of Hyderabad
	- State Bank of Bikaner and Jaipur
	- State Bank of Patiala
	- State Bank of Travancore
	- State Bank of Mysore
	- Bharatiya Mahila Bank

On April 1, 2017, the Union Cabinet decided to join together five State Bank Group associate banks with the State Bank of India. After this joining, the bank's total customers are now 37 crores, and it has a network of about 24,000 branches and around 60,000 ATMs all over the country. Because of this, the State Bank of India is now one of the top 50 banks globally.

Changes in Employment in the Banking Sector

The kind of jobs and how good they are having changed a lot because of the changes happening in Indian banking. Two big things causing these changes are the heavy use of new technologies in banking and a lot of banks joining together, which is called M&A or merging. Both of these things are closely connected, and we'll treat them as one big thing in this study. Even though merging happened after new technology came into banking, the technology part made the changes happen faster.

Here are a few important things found by research about how M&A affects jobs, both in terms of quantity and quality:

- Jobs for less specialized roles are going down.
- The jobs for the big bosses are changing a lot. They're getting more challenging and flexible.
- There are more young, specialized workers getting jobs. Businesses can get rid of older, less skilled, or less qualified workers through early retirement plans.
- There are big problems when it comes to putting together and making different management systems, dealing with workers, and organizing how the work is done. These things need careful planning and are crucial for a joining to work well.

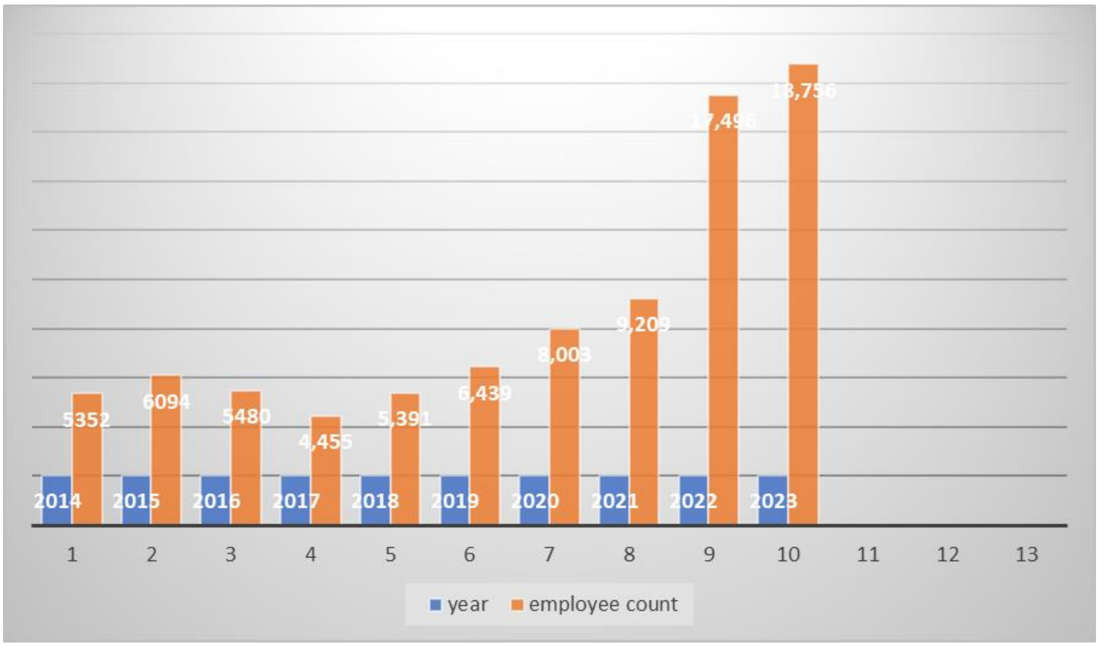

Table 1 source: https://www.macrotrends.net/stocks/charts/SBHGF/sbi-holdings/number-of-employees#google_vignette

Suggestions

- The government shouldn't rush the process of merging banks. It's important because making the merging plan work needs a careful look at how financially stable the banks are, and it needs enough time.
- Choosing which struggling banks should join with bigger, stronger ones must be done thoughtfully, and the main thing to think about is how to group different banks for this.
- The bank that's doing the acquiring can't try to control or take over the one it's joining with. They should mix the good things about both banks before the joining happens to

- make everyone feel good about it and get better results.
- Workers will need to join in on training sessions now and then to get used to the ideas, ways, and technology used in the new way of doing things.
- The people in charge must have a good plan for this and set aside a good amount of money for it.

Consequences

- The group knows that there might not be fewer workers, but there might not be many new jobs because the bigger company already has enough workers. This might make it harder to find a job because of the joining.
- People who work at smaller banks might feel a bit lost and need to work better to keep up with the people in the bigger banks. So, a big challenge in joining banks is making sure everyone works well together.
- Consumers should notify other organizations—such as the Income Tax Department for tax refunds, insurance firms for maturity revenues, mutual funds for redemption sums, and the National Pension System—when they get new account numbers or IFSC codes.

Conclusion

When it comes to combining accounts, infrastructure, administration, and marketing strategies of joining banks, making two financial institutions into one is a tough and hard job. It needs a lot of patience to make the joining process work. And the impact on employment is not negative, but higher specifications are required.

Even though it seems like a good idea for better management, joining banks can't really work well unless the issues with how they are managed and structured are fixed. We should see the results soon. The State Bank of India had to fix problems when it joined with its affiliated banks. But the idea is, even if there's a bit of trouble now, in the long run, it will be worth it. That's why people are pushing for banks to join together.

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