Bank Mergers: A Critical Analysis

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Narasimham Committee Recommendations

- A 3-tier banking structure in India through establishment of three large banks with international presence
- 8-10 national banks
- Large number of regional and local banks
- M&A decisions should evolve on the basis of market driven, employees support & profitability considerations.

RBI should be the only main agency to regulate banking in India.

Banking Regulation Act, 1949

- Sec.44A gave RBI the power to approve voluntary mergers
- Sec.45 gives RBI to make involuntary mergers
PNB-NBI Merger:

➢ Involuntary merger forced by RBI
➢ New Bank of India (NBI) with loan book close to Rs.1000 crores had reached its precarious state of liquidity
➢ PNB with loan book close to Rs.12000 crores had been a strong bank with an uninterrupted record of profits
➢ Following the merger, PNB suffered a net loss of ₹96 crore in 1996
➢ Embroiled in litigations relating to absorbing the staff of NBI
➢ It reportedly took PNB five years and more to get over the merger effect.
SBI Merger with Associate Banks & BMB

I & II Round
(2008 & 2010)
• State Bank of Saurashtra (2008)
• State Bank Of Indore (2010)

III Round (2017)
• State Bank of Bikaner & Jaipur
• State Bank of Mysore
• State Bank of Travancore
• State Bank of Patiala
• State Bank of Hyderabad
• Bharatiya Mahila Bank (Non-Associate)
MOTIVES BEHIND SBI & ABs MERGER

• Creation of Large Bank: Huge asset base with large capital base would help it gain entry in Top 100 Banks in the World

• Fulfilling capital norms as per Basel-III

• Financial Reconstruction in wake of financial crisis so that it could meet its liabilities

• Better Management: Earlier all banks were managed by separate management though holding was same so whole process was cumbersome

• Reduced costs & increased profitability
AFTER EFFECTS OF MERGER

FINANCIAL
- Q4(17-18): Loss Rs.7718 Crore as compared to profit of Rs.2815 Crores in 2016-17
- GNPA 10.91% as compared to 6.90% in 2016-17
- CRAR was 13.11% as compared to 12.60% in 2016-17
- Huge Asset Base of 34.45 Lac Crores led to it being inducted in Largest Banks of World
- Credit growth improved

MANAGEMENT
- Inefficiencies in Management observed as 70,000 employees of e-AB’s (erstwhile Associate Banks) have been told to return DeMo overtime payment

OTHERS
- Employee Benefits cost saved due to synergy
- Loss of reputation for the Bank due to huge pile up of Bad Loans
Expected Benefits of Bank Mergers

- Scale benefits leading to better diversification of risks and stronger overall profitability leading to higher credit ratings
- Sufficient lending capacity to fund big ticket reforms
- Large Banks would be better positioned to absorb the asset-quality issues currently plaguing the sector.
- Larger banks would be better placed to deal with compliance & they will be better equipped with enhanced IT infrastructure

Cons of Bank Mergers

- Opposition from Labor Unions with a view that they would lose their jobs because of merger
- A bank becoming bigger than a certain threshold limit may cause moral hazard.
D-SIBS & Too Big To Fail

- Potential moral hazard due to perceptions about government bailouts (An implicit bailout guarantee),

- RBI assesses domestic importance of a bank using indicators: size, interconnectedness, substitutability and complexity.

- A relative composite systemic importance score of the banks will be computed. RBI will determine a cut-off score beyond which banks will be considered as D-SIB.

- Based on their systematic importance score, D-SIBs are sub-classified into bucket number 1 to bucket number 5 depending on their size (as % of GDP).

- Each year in August, RBI will disclose the names of banks designated as D-SIBs.
• **Drawbacks of D-SIB norms:**
  
  • India’s D-SIB framework is less rigorous than those of other jurisdictions
  
  • With only 3 banks in India designated as D-SIBs, the country has the least number of D-SIBs as compared to those countries that have implemented the framework.
  
  • The RBI’s capital surcharge is lower at less than 1 percent, and the RBI’s timeline for complying with the capital surcharges is longer, despite the presence of the less stringent capital requirements.

### Bank with assets size of above 2% of GDP

<table>
<thead>
<tr>
<th>Bank</th>
<th>Total assets in Rs cr</th>
<th>No of branches</th>
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<tbody>
<tr>
<td>State Bank of India (SBI)</td>
<td>27,05,966</td>
<td>17,365</td>
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<tr>
<td>HDFC Bank</td>
<td>8,63,840</td>
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<tr>
<td>ICICI Bank</td>
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<td>Punjab National Bank</td>
<td>7,20,331</td>
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<td>Bank of Baroda</td>
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<td>Bank of India</td>
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<td>Axis Bank</td>
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<tr>
<td>Canara Bank</td>
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<td>Union Bank of India</td>
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<td>IDBI Bank</td>
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<td>Central Bank of India</td>
<td>3,33,402</td>
<td>4,464</td>
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REFERENCES

- https://rbidocs.rbi.org.in/rdocs/Speeches/PDFs/PSM1645A1230B973D4C5C8DC85E01B5AB35BB.PDF