Merger and Consolidation of Indian Public Sector Banks - An Analysis

P. R. Jeyalakshmi[1], A. S. Lakshmi Rani[2]
[1]*Research Scholar, Department of Commerce, Madurai Kamaraj University, Thrissur, India*
[2]*Assistant Professor, Department of Commerce, S. N. College, Madurai, India*

***Abstract*: This study is conducted principally for the aim of analysing the impact of merger and consolidation of Indian public sector banks on customers and Employees. The big news lately within the Financial sector is government's call to merge public sector banks, trimming their variety from twenty-seven to twelve over successive few years around. For this purpose, elaborated review of literature has been verified to know the trends in Merger in international and Indian banking. The study conjointly focus what is more on customers and their perception towards this merger and Consolidation, the Customers loyalty, customers typically respond terribly showing emotion to a bank Consolidation and Merger – therefore it's essential to manage customer perception with regular, careful communication. Then conjointly the Employee of the banks are reviewed to know their perspective towards adapting to the amendment, Job satisfaction of the staff, structure fit, commitment towards work and loyalty. It's noted patently, there's positive or negative aspects of employees' work perspective are sure to fluctuate particularly beneath ever-changing environmental conditions wherever reforms in these banks could have led to mergers and Consolidations. This study found there is a positive significant moderate correlation between the customer perception and Merger and Consolidation of PSB's and there is a positive significant correlation between the employee perception and Merger and Consolidation of PSB's .This study at nutshell, that the merger and Consolidation of banks has each absolutely (Scale, Efficiency, Business Gaps crammed , Talent And Team Upgrade , Technological Deployment) and negatively wedged (Poor work Culture, Lack of Commitment, Compliance and Risk Consistency) Hence it is important to study Customers, Employees and their Perception.**

***Keywords*: Merger, Consolidation of Banks, PSB's, Employee's Perception, Customer's perception.**

1. Introduction

Indian banking sector has a crucial role in economic development of the country and these sectors presently passing through an exciting and difficult part. With the onset of economic reforms in India, Banks additionally prefer Mergers and Consolidation to reap the advantages of economies of scale through reduction of prices and maximization of each economic and non-economic benefits. Indian banking sector is not any intruder to the development of mergers and consolidation across the banks. Several banks read a sale or merger as a chance to expand their reach up operations faster. The merger is anticipated to make fewer and stronger Universal-sized Banks to advance economic process. Mergers of banks began in India within the Nineteen Sixties so as to bail out the weaker banks and shield the Customers and Investors interests. After post liberalization expedition to make an Indian bank that may be within the conjoin of worldwide giant and powerful had been continued since 1990. Moving on the trail of making one in all the biggest international banks, the government had approved the merger of 5 associate banks with SBI in Feb 2017. Later in March, the cabinet approved merger of BMB additionally. The biggest pursue public sector banks has left India with solely twelve banks currently rather than eighteen before the choice. According to the government this call of constructing large entities can build the Indian banks capable of meeting the upper funding desires of the economy and can facilitate in getting the worldwide scale.

2. Overview of Mergers

Merger of Banks 2018- the govt. had Consolidated Dena Bank and Vijaya Bank with Bank of Baroda, making the third-largest bank by loans within the country in 2018.

Mega Merger of Banks 2019- With the mega merger announced on August thirty, 2019, 10 public sectors banks are reduced into four massive banks. The four sets of banks to be created out of geographical area Bank and Syndicate Bank merger; Indian Bank and Allahabad Bank merger; Union Bank of India, Andhra Bank and Corporation Bank merger; and therefore the bank to be created once merger of Punjab National bank, Oriental Bank of Commerce and United Bank of India.

Three banks - Punjab National bank, Oriental Bank of Commerce, and United Bank of India - can Merge to create what is going to become India's second-largest Lender. That entity can have a combined total of eighteen 100000 large integer business, with India's second largest branch network - eleven,437 branches.

Canara Bank and Syndicate Bank can merge to create another massive entity which is able to be the fourth largest PSB, with business value fifteen.2 100000 large integers. it'll have ten,324 branches - the third largest network in India.

Merging Union Bank of India with Andhra Bank and Corporation Bank can produce the country's fifth largest PSB, with business value Rs. fourteen. 6100000 large integers, and

9,609 branches - the fourth largest network.

When Indian Bank merges with Allahabad Bank, the new entity are the seventh largest PSB, with Rs. 8.08 100000 large integer of business. India can have 6 massive public sector banks with Rs. ten 100000 crore-plus balance sheets, 2 national banks and 4 regional banks.

Indian Overseas Bank, UCO Bank, Punjab National Bank, and Bank of geographical region - these banks have a powerful regional focus and can still operate as separate entities. Bank of India and financial institution of India will still operate one by one as before. For PSBs as a full, there'll be twelve public sector banks in the place of twenty-seven public sector banks in 2017. Those twelve can embrace bank of India and Bank of Baroda.

3. Reasons for consolidation of Banks

The big news of late in the Banking sector is govt’s decision to merge public sector banks, trimming their number from 27 to 12 over the next couple of years or so. The plan that will merge as many as 10 public sector banks into four entities. As the centre attempts to boost economic growth following a six-year low, this consolidation is expected to create fewer, and stronger, lenders. The merger is being undertaken in order to revive and revitalise the banking sector to stay on course for the govt’s stated target of touching $5 trillion as an economy. Apart from the merger, the centre announced that Rs. 55,250 crore upfront capital will be infused into the PSBs. As the disappointment over the underwhelming 5% GDP growth last quarter grows, the second merger of public sector banks in recent times is, according to Mint, “the widest rearrangement of the banking sector since the nationalisation of 14 banks in July 1969.” Four new mergers. Three banks - Punjab National Bank, Oriental Bank of Commerce, and United Bank of India - will combine to form what will become India’s second-largest lender. That entity will have a combined total of 18 lakh crore business, with India’s second largest branch network - 11,437 branches. Canara Bank and Syndicate Bank will merge to form another large entity which will be the fourth largest PSB, with business worth 15.2 lakh crore. It will have 10,324 branches - the third largest network in India. Merging Union Bank of India with Andhra Bank and Corporation Bank will create the country’s fifth largest PSB, with business worth Rs. 14.6 lakh crore, and 9,609 branches - the fourth largest network. When Indian Bank merges with Allahabad Bank, the new entity will be the seventh largest PSB, with Rs. 8.08 lakh crore of business.

The benefits of Merger are:

It reduces the price of operation. The merger helps in economic inclusion and broadening the geographical attain of the banking operation. NPA and danger administration are benefited. Merger leads to availability of a higher scale of know-how and that helps in minimizing the scope of inefficiency which is evident in small banks. The disparity in wages for bank body of workers, individuals will get reduced. Service conditions get uniform. Merger sees a higher capital base and greater liquidity and that reduces the government's burden of recapitalising the public sector banks time and again. Redundant posts and designations can be abolished which will lead to financial savings.

4. The hazards of merger

Many banks have a regional target audience to cater to and merger destroys the thinking of decentralisation. Larger banks would possibly be extra prone to world monetary crises whilst the smaller ones can survive. Merger sees the more suitable banks coming below strain due to the fact of the weaker banks. Merger may want to solely give a transient relief however now not actual redress to issues like terrible loans and terrible governance in public sector banks. Coping with Employee's disappointment ought to be any other mission for the governing board of the new bank. This may lead to employment issues.

5. Statement of Problem

There are many studies on M & A and efficiency which mainly concentrate on the banking industry. As government has announced the major decision of merging the Public sector banks, it has become important to study the perception of customers, employees and investors so that it may help the banks to manage customer perception with regular, careful communication, to retain Employees satisfaction, and to strengthen the Investor's loyalty. And hence this study has to be conducted

6. Review of literature

Avkiran makes use of DEA to study the operation efficiencies, worker productivity, profit performance and common relative of Australian buying and selling banks from 1986 to 1995. The result from the merger instances adds credence to the reviews of others that obtaining banks are greater efficient than target banks. There is blended evidence on the extent to which the benefits of efficiency positive factors are handed on to the public. The cases also guide the proposition that trade in market share and change in basic running efficiency are positively correlated.

B. Rajesh Kumar, K. M. Suhas (2014) “An Analytical Study on Value Creation in Indian Bank Mergers”. According to the study, it is discovered that merger announcements are value-creating things to do for the acquirer banks. At the same time, merger bulletins erode shareholder wealth for the target banks. The framework of pre-merger and post-merger assessment of the running overall performance of the acquirer banks was once based totally on three models whereby the cash flow was once deflated by using market price of assets, book value of assets, and income. It is additionally observed that it does now not provide proof to aid the view that corporate overall performance improves after mergers.

7. Scope of study

This study mainly focusses on analysing the impact of public sector banks merger and acquisition on employees, customer and investors. This study mainly intent to bring the perception of the customers, employees and investors towards Merger and acquisition of PSB's. This may further be reviewed for advance study after implementation of mergers.

8. Objectives of the study

To analyse the impact of merger and consolidation of public sector banks on Customers and Employees.

Data collection: In this study both primary data and secondary data collected and analysied in order to analyse the impact of merger and consolidation of banks in India on customer, and employee's perception.

Sample size: For this study 50 customers and 50 employees of Merging banks has been taken as sample. Convenience sampling method has been used.

9. Analysis of employees' perception towards merger and consolidation of PSB's in India

It provides the information on the perception of the employees towards Merger and consolidation of PSB's. For this purpose, five-point scale parameters been taken to evaluate the employee's perception towards Merger and Consolidation of PSB's Such as Strongly Agree, Agree, neither agree nor disagree, Disagree and Strongly Disagree. Values assigned were five, four, three, two and one respectively. Reliability Analysis, Correlation analysis and Independent sample t test was used for examining whether The merger and consolidation is influenced on employee perception. In order to verify the internal consistency of the scaled statements relating to employee perception towards Merger and consolidation, reliability analysis using Cronbach's Alpha Reliability test was done.

Table 1
Reliability Statistics: Employees' Perception towards Merger and Consolidation of PSB's in India

Serial No.	Variables	Number of items	Alpha Value
Employees' Perception towards merger and consolidation of PSB's in India			
1	Lay -off Dilemma	3	.815
2	Work load	3	.758
3	Structural fit	3	.767
4	Job satisfaction	3	.783
5	Technology deployment	3	.745
		15	

Source: Survey Data

Table 1 shows that all the constructs relating to employees perception towards Merger and consolidation of PSB's have alpha value greater than 0.7 which indicates that all statements are highly reliable.

Perception of Employees and Merger and Consolidation of PSB's

In order to determine the relationship between Merger and Consolidation of PSB's and perception of bank employees a null hypothesis was developed and tested by using Correlation analysis.

H0: The perception of bank employees and Merger and consolidation of PSB's are positively correlated.

Table 2
Correlation between Employee Perception and Merger and Consolidation of PSB's in India

		Employee Perception	Merger and Consolidation of PSB's
Employee Perception	Pearson Correlation	1	.770**
	Sig. (2-tailed)		.000
	N	50	50
Merger and Consolidation of PSB's	Pearson Correlation	.770**	1
	Sig. (2-tailed)	.000	
	N	50	50
**. Correlation is significant at the 0.01 level (2-tailed).			

Source: Survey Data

The output table 2 shown above provides Pearson Correlation between employee perception and Merger and Consolidation of PSB's. From this result, it can be observed that the correlation coefficient between employee perception and PSB's Merger and Consolidation is 0.770 and p value is .000, which means that there is a positive significant correlation between the employee perception and Merger and Consolidation of PSB's at a significance level of 0.01.

A. *Analysis of customers' perception towards merger and consolidation of PSB's in India*

Table 3
Reliability Statistics: Customers' Perception towards Merger and Consolidation of PSB's

Serial No.	Variables	Number of items	Alpha Value
Customers Perception towards Merger and Consolidation of PSB' s in India			
1	Credit Procedures	3	.845
2	Price/ Cost of services	3	.746
3	Employee's / Customer's relationship	3	.747
4	Customer's Reliability	3	.795
5	Reduction of service branches and ATM's	3	.735
		15	

Source: Survey Data

Table 3 shows that all the constructs relating to customer's perception towards PSB's Merger and Consolidation have alpha value greater than 0.7 which indicates that all statements are highly reliable.

Perception of Customers towards Merger and Consolidation of PSB's.

In order to determine the relationship between Merger and Consolidation of PSB's and perception of Bank customers a null hypothesis was developed and tested by using Correlation analysis.

H0: The perception of customers and Merger and Consolidation of PSB's are positively correlated.

Table 4
Correlation between Merger and Consolidation of PSB’s and Customer Perception

		Customer Perception	Merger and Consolidation of PSB's
Customer Perception	Pearson Correlation	1	.635**
	Sig. (2-tailed)		.000
	N	50	50
Merger and Consolidation of PSB's	Pearson Correlation	.635**	1
	Sig. (2-tailed)	.000	
	N	50	50
**. Correlation is significant at the 0.01 level (2-tailed).			

Source: Survey Data

The output table 4 shown above provides Pearson Correlation between customer perception and Merger and Consolidation of PSB’s. From this result, it can be observed that the correlation coefficient between customer perception and Merger and Consolidation of PSB’s is 0.635 and p value is .000, which means that there is a positive significant moderate correlation between the customer perception and Merger and Consolidation of PSB’s at a significance level of 0.01.

B. Perception towards merger and consolidation of PSB's in India: Comparison between customers and employees

Independent sample t test was used to examine whether there is any difference between the perception of employees and customers towards Merger and Consolidation of PSB's in India

Merger and Consolidation of PSB's Perception of Customers and Employees

In order to examine whether there is any difference between the perception of customers and employees towards Merger and Consolidation of PSB's a null hypothesis was developed and tested by using Two Independent sample t- test.

H0: There is no significant difference in the perception of customers and employees towards Merger and Consolidation of PSB's.

Table 5
Merger and Consolidation of PSB's: Perception of Customers and Employees

Respondents	N	Mean	Std. Deviation	t	Sig.
Customers	50	82.6754	6.77876	8.658	.003
Employees	50	85.5270	7.75635		

Source: Survey Data

The result of the table 5 shows that the significant value is less than 0.05 and hence the null hypothesis of no difference is rejected. It can be inferred that there is significant difference between customers’ perception and employees’ perception towards Merger and Consolidation of PSB's in India.

10. Findings

The foremost gain is better capacity to extend credit. The consolidated entities will have a greater ability to lend, but additionally want potential building, mainly in challenge appraisal, Risk Management and monitoring. A financial institution like SBI, with its large stability sheet, has also determined itself in hassle with comparable asset first-class troubles as different PSBs.

The 2nd attain the govt. claimed is strong countrywide presence and international reach. But these PSBs already control two-thirds of all banking in India. As a way as world attain goes, Indian banks have a lot to seize up. Competition from personal banking institutions is consuming into the share of PSBs, thanks to better digitization, quicker processing of loans, and much higher purchaser service.

The third manageable attain is the operational efficiency gains that minimize the fee of lending. This is one area where the whole working mannequin has to change. PSBs still operate in an ancient common manner. Banking has modified considerably in the ultimate decade, with product-focused banks. We now have retail banks, small finance banks, repayments banks and more. Meanwhile, PSBs appear to be caught in the exceptionally outdated loop of corporate banking while private banks are exiting the house due to asset-liability administration issues.

Prices may advantage or damage the customer, depending on the circumstances. Fewer rivals in the market suggest a enterprise could probably cost greater for the product or service. Alternatively, it may want to also furnish extra savings to the consumer if some of the preceding expenses concerned with walking the business are decreased an end result of the merger. Customer pride or client provider is any other issue that varies with a merger. In some cases, a newly merged employer may ride troubles at the customer service level. Fewer purchaser provider representatives make it harder for customers to obtain answers to their questions, which may want to end result in more consumer complaints. New software and databases may also result in lost or wrong purchaser data and technology deployment. A merger may want to additionally create more reps and improved databases, resulting in higher carrier satisfaction. Study resulted in findings that Customers loyalty, Reduction of service branches and ATM's, Employee Customer relationship, Credit services were the most concern fear of the Customers, which should be taken due consideration at the time of Merger process.

Employees satisfaction is prime and foremost Important for the smooth functioning of the Banks. Here in this study, it is found that the Merger processes has impacted greatly employees about their work load, Job satisfaction, lay- off Dilemma, Technology deployment and structural Fit.

11. Conclusion

Basically, retail customers of the amalgamating banks are probably going to get legitimately influenced while customers of the stay bank are not prone to confront a lot of progress. In any case, investors of all banks engaged with the mergers will undoubtedly be affected. Employees may feel the fear of job loss and Load due to technological deployment. Though Merger was a helpful step and would begin potency in contrast troubled regarding the impact on employees. Customers fear "the number of branches are going to be reduced within the name of branch rationalization. Human resources needed are going to be unostentatious, under-projected consciously to point out to the powers that be that mergers lead to savings. They conjointly worry that within the name of right-sizing workers or citing cultural work issues, a voluntary retirement theme is also offered, the govt. has to consider the Employees and customers Perception and feedbacks, then take steps of Merger and Consolidation without creating any harmful effect to them, so that it becomes successful Implementation.

References

[1] S. Panwar, (2011). Mergers and Acquisitions in banking Industry-The need of hour. International Journal of Contemporary practices, 1(2), pp. 75-82.
[2] B. Rajesh Kumar, K.M. Suhas (2014) "An Analytical Study on Value Creation in Indian Bank Mergers" Afro-Asian Journal of Finance and Accounting, Inder science Enterprises Ltd, vol. 2(2), pp. 107-134.
[3] www.mbauniverse.com/group-discussion/topic/business-economy/banks-merger-in-india
[4] www.moneycontrol.com/news/business/mergers-acquisitions/digging-deeper-the-big-bank-merger-what-why-and-what-next-4411711.html
[5] m.economictimes.com/wealth/personal-finance-news/psu-bank-mergers-customers-of-which-banks-are-likely-to-be-impacted-and-how/articleshow/71020548.cms
[6] www.bigskyassociates.com/blog/the-benefits-and-dangers-of-bank-mergers-and-acquisitions
[7] www.business-standard.com/article/finance/how-the-mergers-will-impact-your-bank-accounts-debit-cards-and-emis-119083001760_1.html
[8] www.livemint.com/money/personal-finance/what-do-psb-mergers-mean-for-account-holders-1567167252031.html
[9] www.thehindubusinessline.com/specials/people-at-work/the-human-impact-of-big-bang-bank-mergers/article29511500.ece
[10] www.thehindu.com/business/Industry/how-will-mergers-affect-public-banks/article29363041.ece