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A Study Of The Impact Of Merger Of Public Sector Banks In India

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ABSTRACT: 1950's and 1960's saw Indian Banking dominated by Private Sector Banks. This did not fulfill the requirements of the people of India in any big manner as credit facilities were denied to the needy sections of the population. The negative fallout of the Indian Banking sector, dominated by Private Banks was felt during this period. A solution came in the form of 20 banks nationalization in 1969 and 1980. Branches were opened across the country in deep areas to serve the banking requirements of the people. The purpose was well served by the 20 banks (subsequently reduced to 19) during the last four decades. But Public sector domination of banks also carried with them, their own limitations. The solution came in 1991 and afterwards, in the form of re-entry of Private Banks in the banking sector.

Domination of new generation Private Banks, varieties of products and services, making available Alternative Delivery Channels, concerted marketing in banks, extensive and indiscriminate use of sophisticated technology, etc., all were seen during 1990's to 2020. Mounting NPA's (Non-Performing Assets), frequent re-capitalization in Public Sector Banks, low profits, absence of competition in the global banking scenario, not-so-good customer service in Public banks all led to a serious thinking in the minds of the Central Government. The solution was merger of Public Sector Banks in the financial sector of the country reducing the total number of banks to the minimum.

1. INTRODUCTION

The first half of the year 2020 assumed significance for the banking industry in India. The reason behind this was the proposed merger of Public Sector Banks. The talk of merger of Public Sector Banks was there for merely a decade prior to this event and became reality. The Government took a bold step and decided to merge a few Public Sector Banks thereby making them bigger entities in the Banking sector. The reasons adduced for this were many. One of them was that Indian Banks will be in a position to compete at the global level if they assume a bigger size.

Banking sector happens to be one of the vital pillars of the Indian economy. The financial sector is dominated by banks and any move to alter the structure of the banking industry will have its own impact. Indian Government looks forward to the merger of Public sector banks as an important measure which will strengthen the economy and augur well for its overall health.

NEED FOR THE STUDY

Merger of a few Public Sector Banks have taken place successfully in India. The expectation of Government of India is that this measure will take Indian Banking into the global competition. The expectation of the common man, though mixed, is mostly positive. Under this situation, it becomes an interesting avenue for any academician to undertake a study about the merger of Public Sector Banks. Thus, this study assumes an immediate necessity.

SCOPE OF THE STUDY

The present study is centered around one of the latest issues talked about in the Indian Banking sector, merger of Public Sector Banks. Therefore, the scope of the study includes the perceptions of the customers on the reasons behind the merger, Impact produced by the merger of Public Sector Banks, etc.

2. REVIEW OF LITERATURE

The following reviews relevant to bank mergers have been undertaken and they reveal the different issues of banks merger.

Jagdish R. Raiyani (2010) in her study investigated the extent to which mergers lead to efficiency. The financial performance of the bank has been examined by analyzing data relevant to the select indicators for five years before the merger and five years after the merger. It is found that the private sector merged banks are dominating over the public sector merged banks in profitability and liquidity but in case of capital adequacy, the results are contrary. Further, it has been observed that the private sector merged banks performed well as compared to the public sector merged banks

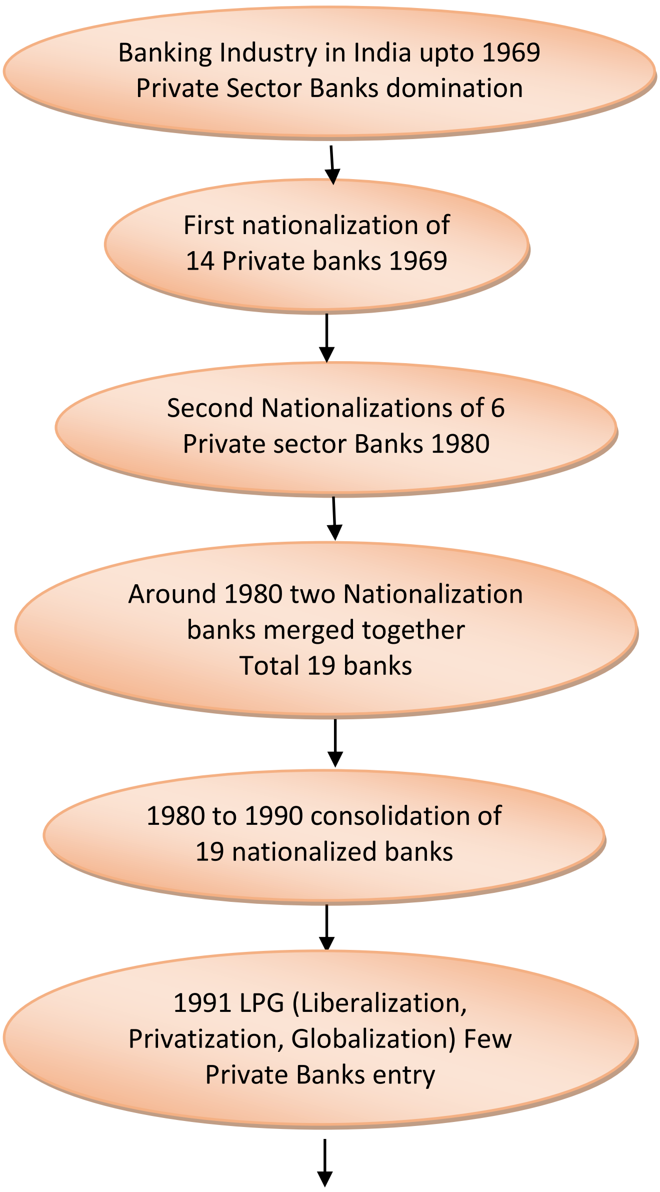
Dr. V. K. Shobhana and Dr. N. Deepa (2011)made a probe into the fulfillment of motives as vowed in the merger deals of the nine select merged banks. The study uses Summary Statistics, Wilcoxon Matched Paired Signed Rank Test and‘t’ test for analysis and interpretation of data pertaining to the five pre and post-merger periods each. The result indicates that there has been only partial fulfillment of the motives as envisaged in the merger deals.

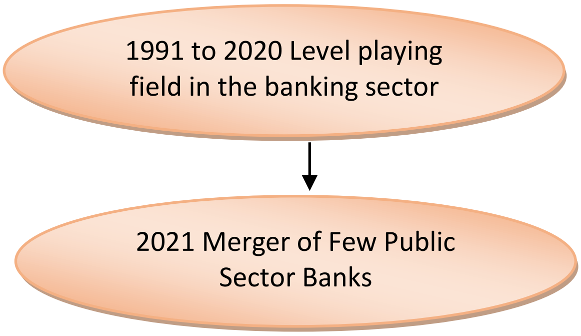
RehanaKouserandIrum Saba (2011) explored the effects of merger on profitability of the bank by using six different financial ratios. They have selected 10 commercial banks that faced M&A during the period from 1999 to 2010. The lists of banks were selected from the Karachi Stock Exchange (KSE). Quantitative data analysis techniques have been used for inference.Analysis was done by using paired t-test. The results recommend that operating financial performance of all commercial bank’s M&A included in the sample from banking industry had declined later. The results shows that there is a decline in all 6 ratios: profitability ratios, return on net worth ratios, invested capital, and debt to equity ratios.

Dr. P. Natarajan and k. Kalaichelvan (2011) used the share price data and financial statements of eight select public and private sector banks, during the period between 1995 and 2004, this study examined M&A as a business strategy and to identify the relative importance of mergers on business performance and increased Shareholders wealth. The study showed that in a banking environment marked by frequent mergers, such transactions directly or indirectly effects the shareholders sentiments and increase market share (i.e.) mergers enhances performance and wealth for both the businesses and shareholders.

MehrozNidaDilshad (2012) measured the efficiency of market with respect to announcements of mergers and acquisitions using an event study methodology. The studyanalyzed the effects of banks mergers and their announcements on the prices of stocks, in Europe. Evidence here supports that significant cumulative abnormal returns were short lived for the acquirers. At the end of the event window, the cumulative abnormal returns were 0. Evidence of excess returns after the merger announcement was also observed along with the leakage of information that resulted in the rise of stock prices few days before the announcement of merger or acquisition. At the same time, the results of cumulative abnormal returns showed that target banks earned abnormal returns on the merger announcement day.

A PICTORIAL PRESENTATION OF THE DIFFERENT MILESTONES TRAVELLED BY THE BANKING INDUSTRY IN INDIA





OBJECTIVES OF THE STUDY:

The following objectives have been framed for the study:

1. To understand the demographic composition of the respondents to the study on Public Sector Banks merger.
2. To examine the main issues relevant to Public Sector Banks merger.
3. To examine the impact of Public Sector Banks merger

3. RESEARCH METHODOLOGY

Population: The study is carried out in Chennai City. Hence, the population of Chennai becomes the population for the study.

Sample size: 224
Sample area: Chennai City
Sampling method: Probability sampling
Sampling Type: Simple random sampling
Type of data: Primary
Instrument: Questionnaire
Data Collection and Coding: The 224 samples collected from the Chennai City population through a Questionnaire were edited and coded appropriately in an MS-Excel spreadsheet.

DATA ANALYSIS

Table – 1
Gender wise break up of respondents

Gender	Frequency	Percent
Male	121	54.0
Female	103	46.0
Total	224	100.0

(Source: Primary data)

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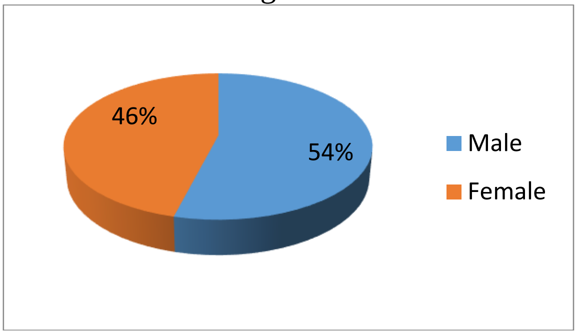
Figure 1



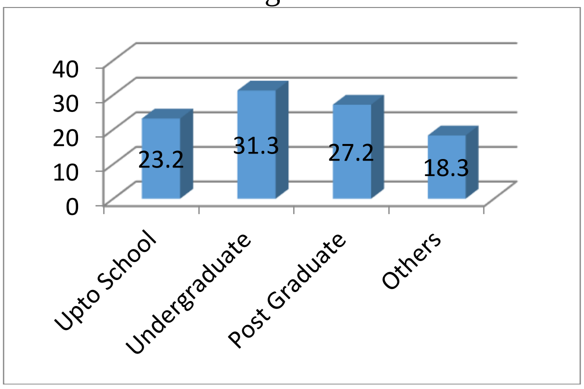
It can be seen from the above table that there are 121 males (54% of the total sample size of 224) and 103 are females (46% of the total sample) in the selected sample. It can thus be concluded that males outnumber females in the chosen sample.

Table 2
Education wise breakup of respondents

Education	**Frequency**	**Percent**
Upto School	52	23.2
Under graduate	70	31.3
Post graduate	61	27.2
Others	41	18.3
Total	224	100.0

(Source: Primary data)

Figure 2



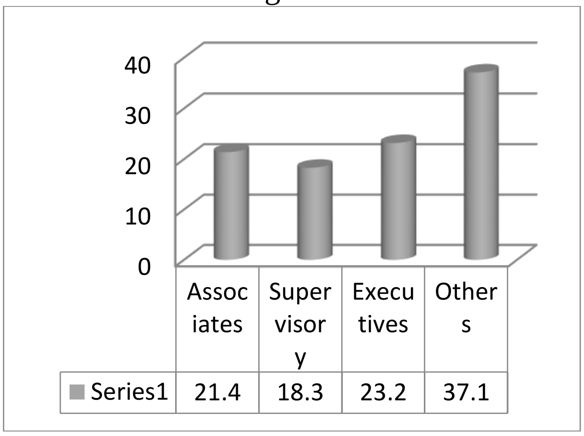
It can be observed from the above table that there are 52 respondents (23.2% of the total sample size of 224) who are educated upto school level, 70 respondents (31.3% of total sample) who are educated upto Graduation, 61 respondents (27.2% of the total sample) who are educated uptopostgraduation and 41 respondents (18.3% of the total sample) who are otherwise educated. It can therefore be concluded that Graduates out number other qualified respondents in the samples.

Table 3
Profession wise breakup of the respondents

Profession	Frequency	Percent
Associates	48	21.4
Supervisory	41	18.3
Executives	52	23.2
Others	83	37.1
Total	224	100.0

(Source: Primary data)

Figure 3



It can be concluded from the above table that 48 respondents (21.4% of the total sample size) are Associates, 41 respondents (18.3% of the total sample) are Supervisors, 52 respondents (23.2% of the total sample) are Executives and 83 respondents (37.1% of the total sample) are otherwise employed. It can thus be seen that respondents who are otherwise employed are more in number in chosen sample.

Table 4
Awareness about Public Sector Bank Mergers

Awareness Level	Frequency	Percent
Yes	174	77.7
No	50	22.3
Total	224	100.0

(Source: Primary data)

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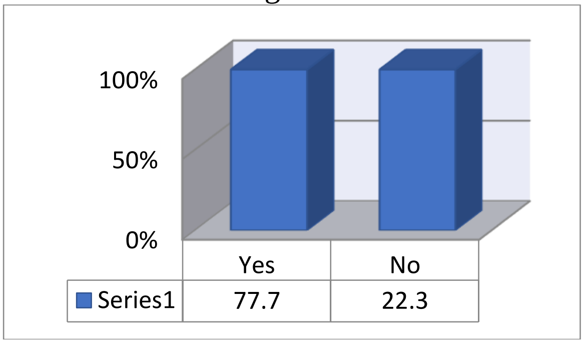
Figure 4



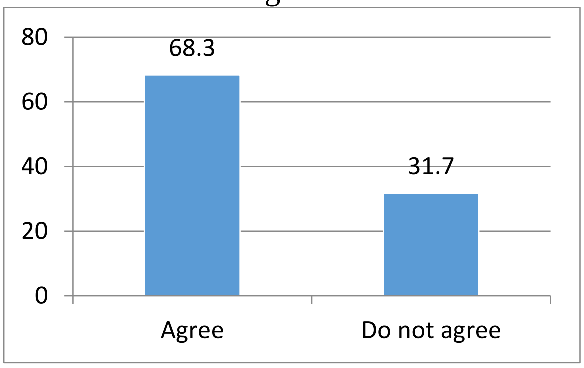
It can be observed from the above table that 174 respondents (77.7% of the total sample size of 224) are fully aware of the Public Sector Bank mergers while 50 respondents (22.3% of the total sample) are not aware of the Public sector bank mergers.

Table 5
Perceptions of Public Sector Bank customers about better deals

Perception	Frequency	Percent
Agree	153	68.3
Do not agree	71	31.7
Total	224	100.0

(Source: Primary data)

Figure 5



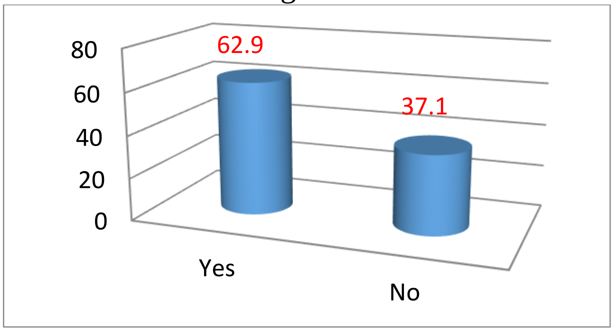
It can be observed from the above that 153 respondents (68.3% of the total sample size of 224) agree that they will get better deals from bigger banks than small banks while 71 (31.7% of the total sample) do not agree that they will get better deals from bigger banks than small banks.

Table 6
Implementation of Programmes by Govt.

Perception on implementation of Govt. Programmes	Frequency	Percent
Yes	141	62.9
No	83	37.1
Total	224	100.0

(Source: Primary data)

Figure 6



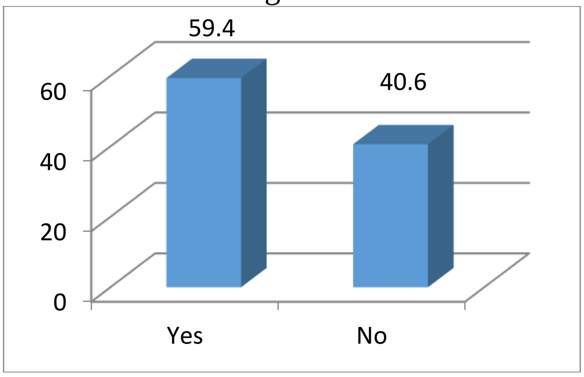
It can be seen from the above table that 141 respondents (62.9% of the total sample size of 224) feel that implementation of programmes by Government is possible in bigger banks while 83 respondents (37.1% of the total sample) feel that implementation of programmes by govt. is not possible in bigger banks.

Table 7
Honoring of commitments by Govt.

Perceptions of respondents about Govt. commitments	Frequency	Percent
Yes	133	59.4
No	91	40.6
Total	224	100.0

(Source: Primary data)

Figure 7



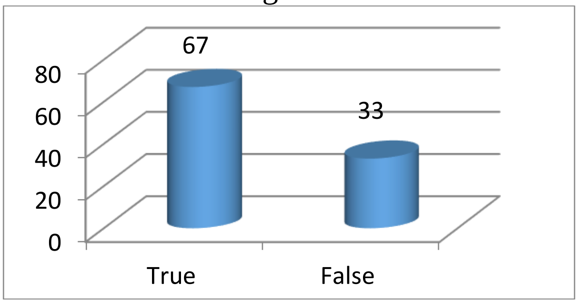
It can be observed from the above table that 133 respondents (59.4% of the total sample size of 224) feel that Govt. can honourits commitments comfortably through bigger banks than small banks while 91 respondents (40.6% of the total sample) feel that govt. cannot honourits commitments comfortably through bigger banks than small banks.

Table 8
Re-capitalization of Public Sector Banks by Govt.

Perceptions of customers about re-capitalization of PSB's	Frequency	Percent
True	150	67.0
False	74	33.0
Total	224	100.0

(Source: Primary data)

Figure 8



It can be observed from the above that 150 respondents (67% of the total sample size of 224) say that re-capitalization of Public sector banks by govt. need not be done as huge capital will be available with big banks while 74 respondents (33.0% of the total sample) say that re-capitalization of Public sector banks by govt. will be necessary even if big banks exist.

Table – 9
Impact of Merger of Public Sector Banks

Impact	N	Mean		Std. Deviation
	Statistic	Statistic	Std. Error	Statistic
NPA (Non Performing Assets) will come down due to professional credits manager from both merged banks	224	4.01	.070	1.050
Profitability of the new bank after merger will definitely improve	224	3.81	.073	1.092
Productivity of employees in the merged banks will increase	224	3.78	.079	1.176
Trade union activities will be very high due to increased strength of employees in the merged entity	224	3.71	.075	1.122
Both mass banking as well as class banking will go	224	3.77	.078	1.167

together				
Professionalism will prevail in all banking decisions in the new bank	224	3.75	.075	1.129
Political interferences will also increase due to higher capital availability	224	3.95	.071	1.056
Industrial competition will be less	224	3.88	.082	1.226
Merger will enable easy global competition	224	3.64	.084	1.252

(Source: Primary data)

It can be seen from the above table that the variables "NPA (Non-Performing Assets) will come down due to Professional credits manager from both merged banks", "Profitability of the new bank after merger will definitely improve", Productivity of employees in the merged banks will increase", "Trade Union activities will be very high due to increased strength of employees in the merged entity", "Both mass banking as well as class banking will go together", Professionalism will prevail in all banking decisions in the new bank", Political interferences will also increase due to higher capital availability", Industrial competition will be less" and Merger will enable easy global competition" assume the mean values, 4.01, 3.81, 3.78, 3.71, 3,77, 3.75, 3.95, 3.88 and 3.64. It can be concluded from the above mean values that the respondents feel that the variable "Non-performing Assetsproduced the highest impact on merger of Public sector banks"(mean value 4.01) while the variable "Merger will enable easy global competition"(mean value 3.64) produced the least impact on merger of Public sector banks.

Correlation Analysis

Table – 10
Age vs. Annual Income

		Age	Annual Income
Age	Pearson Correlation	1	.532
	Sig. (2-tailed)		.000
	N	224	224
Annual Income	Pearson Correlation	.532	1
	Sig. (2-tailed)	.000	
	N	224	224

(Source: Computed data)

It can be seen from the above table that age of the respondents and their annual incomes are correlated to the extent of 0.532. The correlation is positive and also moderate. This means that as the age of the respondents increase or decrease, their annual incomes also increase or decrease.

Table – 11
Age vs. Banking experience of respondents

		Age	Experience in Banking
Age	Pearson Correlation	1	.705
	Sig. (2-tailed)		.000
	N	224	224
Experience in Banking	Pearson Correlation	.705	1
	Sig. (2-tailed)	.000	
	N	224	224

(Source: Computed data)

It can be seen from the above table that the age of the respondents and their banking experiences is positively correlated to the extent of 0.705. The correlation is positive and on the higher side. This implies that as the age of the respondents increase or decrease their banking experiences also will show an increase or decrease.

Table – 12
Annual Income of the respondents Vs. Experience in Banking

		Annual Income	Experience in Banking
Annual Income	Pearson Correlation	1	.429
	Sig. (2-tailed)		.000
	N	224	224
Experience in Banking	Pearson Correlation	.429	1
	Sig. (2-tailed)	.000	
	N	224	224

(Source: Computed data)

It can be inferred from the above table that the correlation between annual income of the respondents and their experiences in banking is 0.429. The correlation is positive and is moderate. This shows as the annual incomes of the respondents increase or decrease their banking experience will also show an increase or decrease.

Table – 13
Table showing the reasons for the Public sector banks merger and the perceptions of the respondents

Sl. No	Reasons for Merger	Frequency	%
1	Indian Banking has matured since 1970 and 1980 Nationalization and therefore no necessity to have too many banks	114	50.9
2	Too many banks makes control issues for RBI very difficult	121	54.0
3	Indian Banking before merger could not compete at the International level.	95	42.4
4	Big banks enable better management and	103	46.0

	maneuverability of funds		
5	Expertise of all banks prior to merger will not be available in a few banks	112	50.0

(Source: Primary data)

It can be understood from the above table that 114 respondents (50.9% of the total sample 224) have given the reason "Indian Banking has matured since 1970 and 1980 Nationalization and therefore no necessity to have too many banks" for the merger, 121 respondents (54% of the total sample) have given the reason "Too many banks makes control issues for RBI very difficult", 95 respondents (42.4% of the total sample) have given the reason "Indian Banking before merger could not compete at the International level", 103 respondents (46% of the total sample) have given the reason "Big banks enable better management and manovourability of funds" and 112 respondents (50% of the total sample) have given the reason "Expertise of all banks prior to merger will not be available in a few banks", as the reasons for the PSB's merger.

Chi-square tests

Table – 14

Association / Disassociationbetween chosen variables through Chi-square tests

Variable 1	Variable 2	Chi-square value	P – value	df	Sig. level	Result
Gender	Awareness about PSB mergers	5.092	0.024	1	0.05	Association
Education	Awareness about PSB merger	4.847	0.183	3	0.05	No association
Profession	Awareness about PSB merger	9.663	0.022	3	0.05	Association
Education	Customers get better deals from big banks	4.344	0.227	3	0.05	No Association
Education	Govt. can implement its programmes in big banks	0.778	0.855	3	0.05	No association
Education	Govt. can honor its commitment comfortably with big banks	2.822	0.420	3	0.05	No association
Education	Frequent re-capitalization of PSB by Govt	1.020	0.796	3	0.05	No Association

(Source: Computed data)

The above table presents seven sets of variables namely:

Gender vs. Awareness about Public sector banks

Education vs. Awareness about PSB merger

Profession vs. awareness about PSB merger

Education vs. Customers get better deals from big banks

Education vs. Govt. can implement its programmes in big banks

Education vs. Govt. can honor its commitment comfortably with big banks

Education vs. Frequent re-capitalization of PSB by Govt.

It can be seen from the above table that the Chi-square values are namely, 5.092, 4.487, 9.663, 4.344, 0.778, 2.822, 1.020 and p-values are 0.024, 0.183, 0.022, 0.227, 0.855, 0.420 and 0.796.

The chi-square tests at 5% significance level clearly reveal the non-acceptance of Null hypothesis for the variable sets:

Gender vs. Awareness about PSB merger

Profession vs. awareness about PSB merger.

The chi-square tests at 5% significance level also clearly reveal the acceptance of Null hypothesis for the other five variable sets.

Therefore it can be concluded that Gender and awareness about Public sector banks and Profession vs. awareness about PSB mergers are dependent on each other.

FINDINGS OF THE STUDY

1. Males out number females in the chosen sample.
2. Graduates are more in number in the selected sample.
3. Respondents who are otherwise employed (not associates, supervisors and Executives) dominate the sample.
4. Majority of the respondents (174 out of 224) are fully aware of Public Sector Banks merger
5. Majority of the respondents (153 out 224) agree that there will be better deals from bigger banks due to merger than from small banks.
6. Majority of the respondents (141 out of 224) feel that implementation of programmes by the Govt. is easily possible in big banks than through small banks.

7. A major portion of the respondents (133 out of 224) feel that Govt. can honor its commitments very comfortably through bigger banks than small banks.

8. Majority of 150 respondents (67% of the total sample size of 224) say that re-capitalization of Public Sector Banks need not be done after merger as the new entity will have huge capital outlay with them.

9. One of the main impact of Public sector banks merger will be reduction in NPAs as professional credit managers from both merging banks will be available to manage the situation.

10. Age of the respondents and their annual incomes are positively and moderately correlated (Correlation value 0.532).

11. Age of the respondents and their banking experiences are positively and highly correlated. (Correlation value 0.705).

12. Annual Income of the respondents and their banking experiences are positively and moderately correlated. (Correlation value 0.429).
13. Gender of the respondents and their awareness level about Public Sector banksmerger are well associated. They are dependent on each other.

14. Profession of the respondents and their awareness level about Public sector Banks merger are well associated. They are dependent on each other.

LIMITATIONS OF THE STUDY

1. The sample size, though 224 and fairly good, cannot be accepted to be an optimal one in a City like Chennai which is hugely and densely populated with people having banking knowledge. An increased sample size may probably give still clear results to the study.

2. More intricate issues relevant to Public Sector Banks merger may also lead to an improved knowledge on the study. The study on hand has this limitation.

4. CONCLUSION:

Merger of Public Sector Banks was one of the main agenda with the government during the past decade. It has become a partial reality. The direct as well as indirect fallout of this bold move needs to be watched and analyzed further. It all started with a change over from class banking to mass banking during 1969 and afterwards. It was consolidation of Public Sector Banks during 1980's. It was opening up banking sector to the Private Banks in 1990s. It became a level playing field during the first two decades of the 21st Century. Now it is merger of Public Sector Banks. It remains to be seen during the next decade whether the intended objectives of merger (By the Government) are achieved in total or partially. It is fervently hoped by everyone concerned, that having a good and healthy financial sectorthrough merger of Public sector banks will auger well for the economy of the Country.

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