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The Bank Marger in India & their Benefits

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Preface:

The banking sector is the foundation of every nation's economy. It is very important to keep this area healthy and strong. The RBI is responsible for regulating the banking sector in India, which is important in the Indian economy, and monitors the functioning of the banks. It is a well known fact that our banking system is in trouble with NPAs and this situation is getting worse day by day. Public sector banks are running at a loss due to intentional mismanagement, fraud and political interference. The problem of NPAs is becoming more serious day by day. The situation is also deplorable due to mismanagement and inefficiency of the banks. Out of the 21 public sector banks, Allahabad Bank, United Bank of India, Corporation Bank, IDBI Bank, UCO Bank, Bank of India, Central Bank of India, Indian Overseas Bank, Oriental Bank of Commerce, Dena Bank and Bank of Maharashtra The bank's immediate reforms were brought under scrutiny. The RBI's control over the operations of these banks had a huge impact on their business. Without proper criteria and bad loans, these banks faced a mountain of bad loans. Under the immediate reform action, these banks will have to open new branches, hire new employees, distribute dividends and disburse loans. Restrictions were imposed on things. On the whole, the commercial activities of such banks were hampered. As a result, the restriction naturally affects the bank's profits and in a way, such a bank is more likely to become inactive. Although the basic objective of the immediate reform action system is to save such banks from bankruptcy, the restriction on the business of such banks, of course, affects their income.

Following the global financial crisis of 2008, all countries agreed to further strengthen the banking system and maintain a minimum level of capital for banks in terms of risk management. The Government of India had announced additional investment under the Rainbow Scheme to meet the capital of banks in line with the global risk criteria known as Basel III. Against this backdrop, the Government of India has decided to consolidate some of the public sector banks in India and keep a handful of banks in operation. Banks will include one strong, one medium and one weak bank under PCA. This decision of the Central Government will bring about a huge change in the banking business in India. This article attempts to review this.

Objectives of the study

* To study the pre-merger situation of banks in India.
* To study the decision taken by the Government of India to do bank marger.
* To study the effect of bank merger.

Status of Banks in India before to Bank Merger

Due to rising NPAs and losses, public sector banks had a net loss of Rs 87,357 crore in FY17-18. Punjab National Bank (Rs 12,283 crore) was the biggest loser, followed by IDBI Bank (Rs 8,237.93 crore). Of the 21 public sector banks in the country, only Indian Bank and Vijaya Bank were in the red. Public sector banks' non-performing loans (NPLs) had risen from Rs 8.65 lakh crore to Rs 7.9 lakh crore (end-December 2018). 77,000 crore was recovered in 2017-18. Indian banks were struggling internationally due to rising bank losses. At the same time, taking advantage of the weak links in the management sector of public sector banks, industrialists like Vijay Malla were tired of taking huge loans from various banks. For all these reasons, public sector banks in India were in financial trouble. The central government was also limited in providing financial assistance to the troubled banks.

Against this backdrop, consolidation of state-owned banks was the only option before the government. Despite the nationalization of banks, there was no improvement in the management of banks. On an experimental basis, the government had merged State Bank and its five associate banks. As a result of the government's decision, SBI reduced its branches by about 1,800 branches and consolidated more than 200 administrative offices, resulting in significant savings in Stay Bank's expenditure over a period of one and a half years. Based on this example, the Government of India has decided to merge the banks.

Following the 2008 global financial crisis, banks were recognized by all countries for strengthening their banking systems and maintaining a minimum level of capital in terms of risk management. Under the Rainbow Scheme, the government had announced additional investments to meet the capital of banks in line with the global risk criteria known as Basel III. Against this backdrop, the central government decided to merge Bank of Baroda, Vijaya Bank and Dena Bank. The three banks announced by the government include a strong bank, a medium-sized bank and a weak bank under the PCA. Also, considering the geographical issues, such a bank can expand its business by being active in the three areas of South, North and West.

The decision to merge the banks

Loans to companies, especially small and medium enterprises, are less available due to the limitations on lending under the PCA. Nowadays, there is no liquidity in the market due to lack of funds to raise capital. Companies that are large in terms of business have bonds or similar instruments available in the capital market. The government cannot afford such strangulation of small and medium enterprises. In such a scenario, it was imperative for the Government of India to consolidate such logically consistent banks. With the central government aiming to expand the country's economy to the tune of ???? 5,000 billion, the Indian government has decided to set up World Bank-sized banks capable of providing large loans.

A group of ministers headed by Finance Minister ArunJaitley was set up in 2017 with the aim of making qualitative changes in the functioning of banks. The group of ministers had announced plans to merge the loss-making small banks into a larger one. It will also reduce the amount of non-performing loans (NPAs) and provide better convenience to consumers. That was the motive behind the decision. According to the report of this group of ministers, the Modi government started the merger of the nationalized bank. By April 1, 2020, the Modi government has merged the following banks.

Merger of 5 Associate Banks in State Bank of India

State Bank of India merged five Associate banks of State bank of India with itself from April 2016. On June 20, 2016, the Union Cabinet approved the merger of State Bank of India (SBI) and Associate Bank to become a global bank.

* State bank of Bank of Bikaner, State Bank of Travancore, State Bank of Patalia, State Bank of Mysore and State Bank of Hyderabad will be the five state-owned banks of State Bank of India from April 2017. These five subsidiary banks were merged into State Bank of India.
* In June 2016, the Cabinet had approved the merger of State Bank of India (SBI) and five subsidiary banks to become a global bank to transfer all these five banks to State Bank of India with effect from 1 April 2017.
* The merged entity will now be a banking conglomerate with an asset base of about Rs 37 lakh crore with 22,500 branches and 58,000 ATMs.

* SBI merged State Bank of Saurashtra for the first time in 2008. Two years later, the State Bank of Indore was merged.

Merger of BharatiyaMahila Bank withBharatir State Bank

The BharatiyaMahila Bank was set up three years ago by the Government of India to provide the financing needed for the economic upliftment of women. In February 2017, the Union Cabinet approved the merger of BhartiyaMahila Bank with State Bank of India. Earlier, the cabinet had completed the process of merging the state banks a few months back. In this way, the journey of BharatiMahila Bank has come to an end in just three years. Mahila Bank had seven branches run entirely by women.

Merger of Dena and Vijaya Bank into Bank of Baroda

Union Finance Minister ArunJaitley has announced the merger of public sector Dena Bank, Vijra Bank and Bank of Baroda on September 17, 2018. This is the largest decision taken by the Government of India on the merger of these three public sector banks after the merger of State Bank of India &their Associate Banks. After the merger of three public sector banks, Dena Bank, Vijya Bank and Bank of Baroda, it will be the third largest bank in India.

* The combined NPLs of the three consolidating banks are currently Rs 80,000 crore.

* Legal action has been taken against 12 nationalized banks with large non-performing loans (NPLs) under the Reserve Bank's 'Quick Corrective Action-PCA' scheme, which cannot lend or open new branches. At present such banks can only accept deposits. If these banks do not give loans, then the banks do not have any means of income, as a result, the losses of the national banks will continue to increase. Due to this, consolidation of national banks was inevitable.

* The bank formed after the merger will be the third largest bank in India. Even after the merger, the three banks will continue to receive financial support from the government for their capital.

Merger of ten banks into four banks

In the second phase of merger of public sector banks, the Modi government has decided to merge ten leading banks into four banks from the beginning of the new financial year in a cabinet meeting chaired by Prime Minister NarendraModi in February. . Following this decision, the following banks have been merged.

* In Punjab National Bank, Oriental Bank and United Bank will be merged and the new bank will be known as Punjab National Bank. It will be the second largest public sector bank in the country.
* Syndicate Bank will be merged with Canara Bank and the new bank will be known as Canara Bank. It will be the fourth largest public sector bank in the country.
* Andhra Bank and Corporation Bank will be merged into Union Bank and the newly formed bank will be known as Union Bank. It will be the fifth largest public sector bank in the country
* Allahabad Bank will be merged with Indian Bank, making it the seventh largest public bank in the country. It will be known as the newly formed Indian Bank.

Consequences of bank mergers

With the central government's decision to merge 10 state-owned banks into four banks, the country will now have 12 large public sector banks, with the aim of empowering the country's public sector banks and accelerating economic growth. In 2017, the number was 27. State Bank of India is the largest in the country and the merger will make Punjab National Bank the second largest bank. The merger of Punjab National Bank, Oriental Bank and United Bank will bring together their combined turnover to Rs 17.95 lakh crore, which will be one and a half times the size of Punjab National Bank. Both the Bank of India and the Central Bank of India operate independently as public banks. Last year, the merger of Vijaya Bank and Dena Bank with Bank of Baroda was approved. It was implemented in April 2019. Earlier in 2017, State Bank of India merged five affiliated banks, namely Bikaner-Jaipur, Mysore, Travancore, Patiala and Hyderabad, as well as Mahila Bank. After the merger, they were accommodated in different branches without any staff cuts. Due to reinvestment in government banks, sufficient reserve funds became available to the banks, which provided a large amount of funds for lending to these banks.

Merged banks

* Punjab National Bank, Oriental Bank and United Bank (the second largest public sector bank in the country) (Total financial turnover - 17.95 lakh crore) (New Bank - Punjab National Bank)

* Canara Bank and Syndicate Bank (4th largest public bank in the country) (Total financial turnover - Rs 15.20 lakh crore) (New Bank - Canara Bank)

* Union Bank, Andhra Bank, Corporation Bank (the fifth largest public sector bank in the country) (Total financial turnover - 14.59 lakh crore) (New Bank - Union Bank)

* Indian Bank and Allahabad Bank (the seventh largest public sector bank in the country) (total financial turnover - 8.08 lakh crore) (new bank - Indian Bank)

Currently operating are State Bank, Punjab National Bank, Canara Bank, Union Bank, Indian Bank, Bank of Baroda, Bank of India, Central Bank, Indian Overseas Bank, UCO Bank, Bank of Maharashtra and Punjab and Sindh Bank. 55,000 crore will be reinvested in this. In it

* Punjab National Bank - 16 thousand crore

* Union Bank - 11,700 crore

* Bank of Baroda - 7 thousand crore

* Indian Bank Overseas Bank - 3800 crore

* Central Bank of India - 3300 crores

* Indian Bank - 2500 crores

* UCO Bank - 2100 crore

* United Bank - 1600 crores

* Punjab and Sindh Bank - 750 crore

Conclusion

The Narasimhan Committee established by the Reserve Bank in 1999 on bank reforms. The Narasimhan Committee had recmmended three to four international banks and ten national banks in the country. But over time, that is likely to change. The merger of banks by the Government of India by 1 April 2020 has created seven of the seven largest public sector banks at the national level, each with a combined turnover of Rs 1 lakh crore, enabling Indian banks to compete effectively globally. The consolidation of banks has increased the lending capacity of merged banks and increased their ability to compete globally in terms of financial capacity.

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