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Impact of Mergers on Consumers and Employees with Respect to Banks in India

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Abstract

The intention of the paper is to have an overview of the post amalgamation of banks. Here most of the small financial Institutions are absorbed by the larger ones, thus simplifying the end use of customers and the Government, by framing their own parameters bounded by the laws of RBI. The objective of this paper is to present the motives of the banks for merger, which has been narrated with the live examples. Apart from the merger aspects, it also mentions from the point of view of human resource management and the various kinds of operations undertaken. Also, by the merger there would be a major impact in human resources, like the employees opting for the voluntary retirement which is a positive aspect for the organization, thereby overviewing the paper presentation we can say that there is a positive impact by the merger and simplified banking.

Keywords: Amalgamation, Parameters, Human resources, Merger, Banks, Impact

1. Introduction

In every economy, banking sector plays an important role as it is one of the rapid growing segments in our country. Since there is a stiff competition, due to the existence of multinationals, to face and survive in the current situation, merger was absolutely required. Commercial banks in India are going through tremendous changes in the regulations due to various factors such as the financials, risk management and the introduction of online transactions. All these factors make the financial institutions in our country very competitive and effective. In India merger of banks began in the 60s to strengthen the weaker banks and protect the public interests.

2. Objectives of the study

- The recent scenario of mergers in the banking sector.
- Understanding the merger procedure in banking.
- To find the effects of merger of banks.
- To know the impact of mergers on consumers and employment conditions.

In case of banking sector, Merger is combining of multiple banks, to form a single bank. It is a financial activity which is undertaken in a large variety of industries, hospitals, financial institutions, private institutions, industries and many more. Among the major mergers, one of the prominent mergers are merger of ICICI Ltd. with its banking component ICICI BANK Ltd. and the Global Trust bank with Oriental Bank of Commerce. This is said to be one of the major banking reforms post liberalization. The merger consists of three types of components namely Vertical merger, Horizontal merger and lastly Conglomerate merger. A Vertical merger is a merger between companies in the same sector but in various levels in the production process. In short, vertical merger takes place between companies where one purchases or sells something from or to the other. For instance: Soft drinks like Pepsi merger with restaurant chains involving the sale of beverages. The amalgamation between firms leads to Horizontal merger which are selling similar type of products in the same market. The examples of Horizontal merger are Eighties bank merger and the merger of HP and COM PAQ, impacting the competition decrease in the market.

3. Conglomerate merger is a combination between companies in different industries

The financial institutions pertaining to 10 public sector undertakings (PSUs) will be amalgamated into 4 banks w.e.f 1 April, 2020 which was announced by the Finance Ministry in August 2019. With this impact, the public sector banks have been downsized to 12 w. e. f. 2017. But due to the formation of merger exercise it may defer for some time due to the covid-19.

The major merger of PSU banks which would come into effect from 1 April:

- With the amalgamation of Punjab National Bank with The Oriental Bank of Commerce and United Bank of India.
- The merger of above said institutions would form the second largest public sector after State Bank of India.
- The merger of Bank of Baroda with Dena Bank and Vijaya Bank, it would create the third largest public sector bank.
- With the merger of Canara Bank and Syndicate Bank, it would make them the fourth – largest public sector Bank.
- Indian bank will be amalgamated with Allahabad bank.
- Union Bank of India would be merged with Andhra Bank and Corporation Bank.
- With effect from 1 April 2020 the customers of merging banks will be treated as customers of the banks in which these banks have been merged.
- In a nutshell, there will be 12 PSU's, consisting of 6 merged banks and 6 independent public sector banks.
  - 6 merged banks include SBI, bank of Baroda, Punjab National bank, Union Bank of India and Indian Bank, Canara Bank.
  - 6 independent banks consist of Indian overseas banks, UCO bank, Bank of Maharashtra, Punjab and Sind Bank, Bank Of India, Central Bank Of India.
- Henceforth, The oriental Bank Of Commerce and United Bank of India will operate as the branches of the Punjab national bank w.e.f. 1 April 2020.

- Dena Bank and Vijaya Bank would be the branches of Bank of Baroda with effect from 1 April 2020.
- Syndicate Bank would function as the branch of Canara Bank w.e.f. 1 April 2020.
- All Allahabad bank branches would be henceforth treated as branches of the Indian bank
- Similarly, all branches of Andhra Bank and corporation bank would function as Union bank of India branches w.e.f. 1 April 2020.

4. Objectives and advantages

With mergers in the banking sector, the bank can achieve growth in their operations and reduce their expenses to a larger extent. Competition is also reduced because merger eliminates competitors from the banking industry. Mergers will increase the lending capacity. No person will lose the job. The employees of merging banks will benefit in the larger extent. As the banks are using a 'CORE BANKING SYSTEM' the software for these banks have merged accordingly so that there would not be any difficulty for the employee

The Government also gave Rs.2.5 lakhs crore for recapitalization of the banks, besides other reforms which have made the banking sector stronger than before. The banks merger was done under the bank consolidation plan of the Union Government. It would reduce their dependence on the government for the capital since it would increase the role of internal and market resources.

Furthermore, it would open up more capita! Generation opportunities, both internally and from the market, for the merged concern. For the government, it would create more dividends, as a part of non-tax revenue. As there would be less competitors in the ban king industry, they could concentrate on payment and settlement. The merger of banks would decrease the operational risks as it would fill the geographical gap between management and operational personnel. It is a next generation technology for the banking sector, reduced Public sector banks from 27 to 12 in India.

Banks with large bad debts and poor revenue would merge itself with another bank for its survival, and thereby consolidating financial institutions, to sustain in the day-to-day business activities.

To reduce the scope of inefficiency in small banks, mergers lead to gain in the larger scale of expertise.

Mergers give a sufficient and higher capital with more liquidity flow which decreases the obligation of governments; in recapitalizing the PSBs time and again, transferring the skills and sharing the resources and working efficiently to sustain in a competitive market.

5. Procedure for merger of banks

- The amalgamation of the banking companies must be compiled with the rules and regulations under sec 44A of the banking regulation act 1949.
- For merger of banks, the approval of shareholders is necessary, followed by approval of SEBI and there by a new company is formed. The shares are issued to the shareholders of the transferor company.
- Under the banking act, no financial institution shall be merged with another

financial institution unless there is a provision for such merger has been placed in draft before the respective shareholders of each of the banking companies and the same has to approved by the 2/3rd majority of shareholders present in person or by way of meeting.

- The notice of such meeting has to be given to or keep informed to every share holder of the respective merging banks indicating the time, venue and purpose of the meeting which should be published in 2 leading circulars, of which one should be understood locally.
- There on by the approval of the amalgamation by the required majority of shareholders binding the laws the same would be submitted to the RBI for the sanction and if sanctioned the RBI would pass the order in writing binding the bylaws of banking companies and its shareholders. On the post sanction of the amalgamation, the assets and liabilities of amalgamated banking company be transferred to the said banking company.
- The RBI after approving the dissolution of the amalgamated banking company, the same is produced to the Registrar to complete the closure formalities. The amalgamation process would stand as conclusion, once the requirement of sec 19 of the banking laws 1963 is compiled with and a certified copy in writing by the concerned RBI officer.
- In case of amalgamation the draft scheme of the same is thoroughly scrutinized by the respective board of directors, before giving their final approval. In case of private banks, the procedure is the same but within the parameter of reserve bank of India's master direction for amalgamation of private sector banks 2016.
- Lastly to conclude the amalgamation of private banks is not complicated and are rather straight forward, whereas the amalgamation of public sector banks is a lengthy process which required the nod of the government. In power and to have the approvals of the required numbers in both the houses of parliament. Also, the assets and liabilities and the human resource should be managed efficiently for the successful operation of the amalgamation process and there by not causing any kind of inconvenience to the customers of the amalgamated bank.

6. Legal implications of merger

The Banking Regulation Act of l949 governs the private banks and other related financial institutions, whereby merger between banking industries is regulated by Section 44 of the said Act. According to this a merger is required to be approved by a two-third majority of shareholders of each of the merging companies. Section 45 of this Act 1949, deals with the compulsory amalgamation of banks... Section 35 refers to acquisition of business of other banks. Thereby the shareholders of the public listed banks would be affected and that impact would be known only, once the swap ratios are announced. The legal aspects are bounded in such a way that the shareholders get appropriate ratio of their holdings. The following are the latest announcements on merging State run Banks: As announced by the lClC1 securities, it estimated that the shareholders of Syndicate Bank would get 140 shares of Canara Bank for every 1000 shares of the Syndicate bank. The shareholders of Allahabad Bank would get

176 shares of the Indian bank for every 1000 shares held in Allahabad bank. They also estimated that the shareholders of Oriental Bank of Commerce would get 1130 shares of the Punjab National Bank for every 1000 shares held in Oriental Bank of Commerce. The shareholders of United Bank would get 160 shares of PNB for every 1000 shares held in United Bank, as part of the agreed merger swap ratios. Similarly, the shareholders of Andhra Bank would get 330 shares of the Union bank of India for every 1000 shares held in Andhra bank and the shareholders of Corporation bank would get 320 shares of the Union bank of India for every 1000 shares held in Corporation bank. The stakeholders of Vijaya Bank will get 402 equity shares of Bank of Baroda for every 1000 shares held. The shareholders of Dena Bank will get 110 shares of Bank of Baroda for every 1000 shares.

7. Impacts of merger

- The foremost requisite would be to change the cheque book (new format) sometimes the logo of the banks has to be changed.
- There would be a change in IFSC codes with the merged bank and the exchanging of the debit/credit card.
- There would be a change in interest rates for the fixed deposit and lending rates in the case of post horizontal
- Merger, the bank which has induced may have to face the NPAs of the merged bank if any.
- Post-merger the banks are expected to make settlement of the employees and their statutory dues for those who opt for the Voluntary Retirement.

8. Disadvantages

The management would have to face critical challenges with merger and respect to staff integration, rationalization of branches, synchronizing accounting, cultural compatibility, policies for recognition of bad loans, etc. The process of merger would face resistance from the employee Unions who would afraid of losing jobs or promotions. The rationalization of branches would lead to their relaxation. Pensions would be affected due to various employees benefit structures. The major disadvantage is the compliance and risk consistency as both the merger organization would have different norms and risk culture leading to uncertainty which creates a negative foot-print on the profitability of the organization.

9. Suggestions

- Minimize the Existing banks, by merging with the smaller banks. Which in turn would again reduce the competition and survival of the sick banks.
- To introduce of more banks in overseas, to increase deposits, and other banking facilities.
- Effective training is to be provided to the employees to build a good, and friendly relationship with the customers.
- Merge of major scheduled and cooperative banks with the nationalized banks.
- Reintroduce of Reverse Mortgage loans to the senior citizens, whereby the senior citizens could avail loan on their assets and after their death the legal heirs could close the loan or the asset would be owned by the bank
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- Outsource the employees, to reduce the statutory dues and their wages.
- Provide good incentives and benefits to the employees.
- Reduce the minimum amount of account opening, and providing doorstep services to the customers.
- Introduce of more single windows in retail banking so as to fulfil the needs of the customers.
- Introduce more ATM's and reduce the limitation for withdrawal.
- Introduce mobile ATMs in remote places.
- To encourage implementing corporate social responsibilities as philanthropic activities as most of the banks would be in a better position of earning profits due to the merger.
- Update the CIBIL scores of the customers in time and again which is otherwise not done regularly.

10. Conclusion

It is true the Merger of banks would boost our economy and there by function more efficiently and effectively and thus creating more profits and healthy financials. The act of merger should be such that it should merge with the respective competitive banks to maintain the status and also share their respective parameter and man power. Through merger, the banks financial status would improve by and large.

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