CHAPTER 1
INTRODUCTION

1.1 Introduction

When it comes to a nation's economy, one of the most significant pillars is its banking sector. The banking sector plays a major part in the process of fostering economic expansion and development by acting as a catalyst for the movement of funds, as well as by ensuring that available financial resources are utilized effectively. McKinnon (1973) and Shaw (1973) emphasized the importance of the financial system in economic growth and argued that there is a strong correlation between the two. That's why it's so important to keep an eye on the changes taking place in the financial system because it affects every other sector of the economy. Mergers and acquisitions (M&A) in the banking sector are such changes that require kind attention. Consolidation through M&A is now a common practice around the world. The terms "merger" and "acquisition" are many a times used synonymously; however, in a merger, the entities choose to unite as a single company, but in an acquisition one entity takes over another with ownership rights and the capacity to make decisions. A merger is the coming together of two or more companies that each have their own unique corporate character, culture, and set of values (Sudarsanam, 2003). In India, "Accounting Standard (AS) 14, 'Accounting for Amalgamations', classifies amalgamations in India into two major groups" (The Council of the Institute of Chartered Accountants of India).

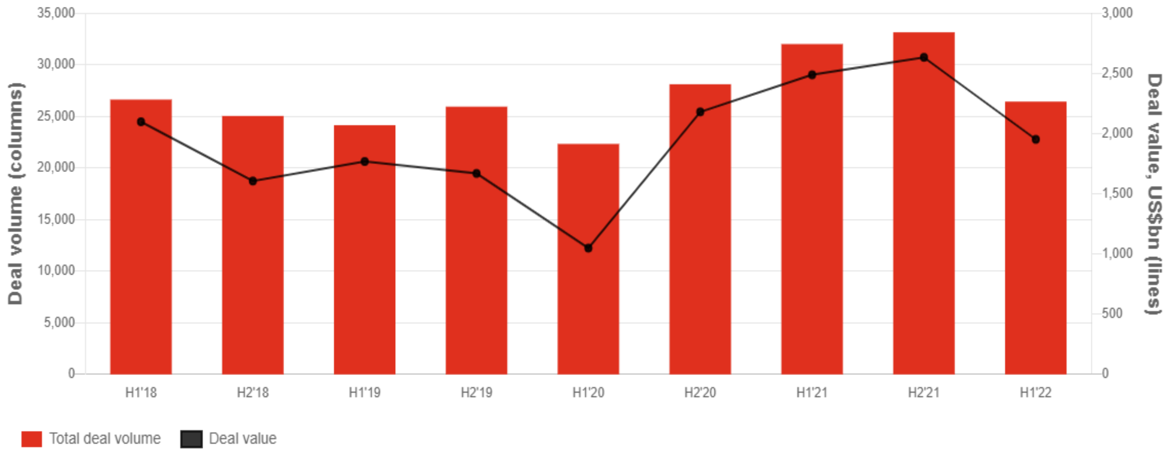
As per the ICAI (2016)

"When the assets and liabilities of the companies are pooled, as well as the interest of the companies and shareholders, is combined, then it is called amalgamation in the nature of merger. In the second category, those amalgamations in which one company acquires another company and, as a consequence, the shareholders of the company which is acquired normally do not continue to have a proportionate share in the equity of the combined company, or the business of the company which is acquired is not intended to be continued. Such amalgamations are amalgamations in the nature of purchase".

Banks now provide a wider range of financial services beyond only deposits and loans, including merchant banking, venture capital, securities trading, insurance, and more.

Similarly, banks have been expanding their operations into new fields in recent years. Banks offers their consumers with a variety of facilities, resources, and financial product & services all in one convenient location. The financial system will need to evolve in shape and structure to meet the needs of the modern world. Banks need strong financial positions to compete globally and take advantage of new opportunities. As competition heats, banks seek out opportunities to expand through inorganic means like M&A (Kumar and Bansal, 2008).

As per the Global Trend Analysis of M&A by PwC and Refinitiv, the volume and value of M&A deals have shown enormous growth since the year 2020 (Fig. 1.1).



(Source: PwC and Refinitiv Analysis https://www.pwc.com/gx/en/services/deals/trends.html)

Figure 1.1 M&A Global Deal Volumes and Values Trend - 2018–2022

According to the Group of Ten Report of International Monetary Fund (IMF, 2001b), the year 1995 was marked by the greatest number of M&A in the financial industry. On the contrary, this was not the case for developing countries, such as Malaysia, which went through a period of consolidation in the years 1997–1999 in the wake of the East Asian Financial Crisis of 1997–1998. (Hawkins & Mihaljek, 2001). Since India was spared the adverse effects of the global financial crisis, the banking sector underwent a period of structural transformation following the 1991 economic reforms. The economic reforms in 1991 were marked by the formation of a committee that was led by M. Narasimham, who had then served as the Governor of the Reserve Bank of India (RBI).

Efficiency gains from consolidation among relatively small banks were highlighted in the Group of Ten Report (IMF, 2001b), although the report also acknowledged that technological and market shifts might have an impact on both the scale and scope of economies. The IMF (2001a) proposed that consolidation in the financial industry in emerging nations allowed smaller banks to expand their operations, which in turn improved their cost and revenue effectiveness. However, the data also indicated that the consolidation of financial institutions brought about novel aspects in the oversight and control of the sector as a whole. The relationship between banking system consolidation and instability is a topic of debate, both in public policy and academic theory (Beck et al., 2005).

1.2 Theoretical Framework

1.2.1 Mergers and Acquisitions

A variety of organizational structural actions, including expansion, contraction, and ownership changes, are used by businesses to achieve their growth objectives (Chakravarthi, 2006). A firm can gain a competitive edge and boost shareholder value through structural changes. Mergers, acquisitions, tender offers, and joint ventures are the tools of choice for expanding a business.

When two or more businesses join together, it's called a merger. A merger can occur between two or more companies, or between companies that already exist. When two firms merge, their assets, liabilities, shareholder interests, and operations are all combined into a single entity. According to Greenwood et al. (1994), a merger is the coming together of two businesses, not just the joining of their operations or the absorption of one company by another. Kithinji and Waweru (2007) state that in a merger, one of the companies dissolves into the other. Kishore (2009) defined a merger as an event in which two or more companies swap securities in which only one of the original companies continues to operate. The phrases "Mergers" and "Amalgamations" are used interchangeably in Indian law, according to the ICAI’s Statement of Accounting Standards (AS-14) — Accounting for Amalgamations when discussing business combinations. The goal of a merger is to improve a company's financial and operational performance by the use of organizational synergy, and it can take place when two or more companies merge into a single one (merger through consolidation) or when one company absorbs another (merger through absorption).

The process of acquiring another company's assets or shares, as defined by Depamphilis (2008), is known as "acquisition." To avoid the possible issue of having minority shareholders, Ross et al. (2004) explain that it is preferable to acquire the target firm's assets rather than its stock. However, the transfer of assets is typically expensive. In the words of Pandey (2011), an acquisition takes place when one firm takes over the management and/or effective control of another firm's assets and operations without merging with them.

Difference between Mergers and Acquisitions

Mergers are typically conducted amicably, with leaders from both companies engaging in due diligence to ensure a smooth transition for employees and customers. Acquisitions can also occur via hostile takeover when an outsider buys a preponderance of the target company's outstanding shares.

A company merger might involve two or more companies, or it can produce a new company entirely. The acquisition means that one corporation has obtained effective functioning control over another. To gain control of another company, one must either own a majority of its voting rights or have a majority of shares on the other company's board of directors.

If two companies decide to merge, it is because they want to become one, hence it can be viewed as a decision taken by "equals." The merger will raise the value of the businesses' shareholders by reducing costs and increasing earnings as a result of the merged company's improved structure and operations. In other words, in a normal merger, two organizations of roughly comparable size and scope join forces to form a single legal entity with the hope of becoming more successful than either of them could be individually. But a takeover, often called an acquisition, involves a larger corporation buying out a smaller one. It does not necessitate both parties to agree to this "unequal's" combination. A hostile takeover occurs when a larger company attempts to acquire a smaller company despite opposition from the target's management (Jagersma, 2005).

Legally, the acquired firm becomes the successor to the acquired company, or "swallows" the target company.

The real distinction between M&A and other forms of business consolidation is in the way they are executed. Through the exchange of shares, assets, and liabilities, two companies become one through the merger process. In acquisition, by acquiring another company or "taking over" its ownership to its own, one entity gains complete and total control of the capital. The acquired company, however, continues to function independently.

When two firms' CEOs mutually agree that merging is in their companies' best interests, the transaction is termed a merger. On the contrary, an acquisition is considered to have occurred when the target firm does not consent to the transaction.

Types of Mergers

Based on the nature of the parties involved in the merger and their level of competition with one another, there are three distinct types of mergers (Mirvis and Marks, 1992).

a) Horizontal Merger: A horizontal merger takes place when two or more companies which are engaged in the same or similar lines of business combine (Buono et al., 1989). Competition is typically stronger and the potential for synergies and market share gains for merging firms are substantially higher in industries with fewer competitors (Carey, 2000; Gaughan, 1999), hence horizontal mergers are widespread.
b) Vertical Merger: Vertical merger refers to a merger involving two or more typically independent production/distribution stages (Khan and Jain, 2014). The primary rationale for such a merger is the opportunity to improve supply chain efficiency through synergistic efficiencies achieved by the combined companies (Coyle, 2000).
c) Conglomerate Merger: A conglomerate merger is the merging of companies that are involved in a diverse line of unrelated businesses (Khan and Jain, 2014). There is no overlap in the product or service offerings of the merging firms. The entities considering a conglomerate merger typically have broad operational authority across multiple industries, each of which calls for specialized

knowledge. The goals are to maximize the use of available capital, increase the company's borrowing power, lower the company's exposure to risk through greater financial and managerial diversification, and realize cost savings through an increased volume of operations.

1.2.2 Motives of M&A

Changes in organizational structure are made to achieve synergy. The merging companies are said to have achieved synergy when their combined worth is greater than the value of either one (Jensen & Ruback, 1983; Bradley et al., 1988). This effect is typically represented as 1+2=5. Deregulation, technological advancements, globalization, and financial instability or insolvency in the banking sector are all potential drivers of bank mergers (Mohan, 2005). The primary motivation for banking M&A is to maximize shareholder value through economies of scale (Georgios & Georgios, 2011). According to research by Joash and Njangiru (2015), mergers in Kenya's banking business are typically undertaken with the goals of improving profitability, expanding market share, decreasing operating costs, and increasing shareholder value in mind. Following are some of the motives of M&A –

a) Growth: By M&A, organizations can realize their growth goals in a relatively short amount of time. Besides, banking competitiveness has increased with economic liberalization. Hence, to grow quickly and seize market opportunities, many firms opted for a merger because internal growth takes too long (Gupta, 2012).
b) Diversification: Fast expansion is one of the main draws of a merger. It is easier to diversify into new fields of business through mergers (Ghosh, 2001; Goyal and Joshi 2011). It also helps in risk mitigation.
c) Economies of Scale: Banking M&A enable financial institutions to expand their businesses while cutting costs significantly (Gaughan, 1999). When two businesses merge, they are able to share resources and cut down on duplicated efforts and expenses. Reducing expenditures as a percentage of revenue to boost profits. Thereby achieving scale economies.

d) Economies of Scope: The capacity to expand products and market segments, in addition to the possibility of making cross-sales, would boost income. This may also lead to a greater expansion of operations across geographic areas (Sufian, 2011).

e) Market Share: Firms undergo M&A to gain more market share. Mergers limit harmful competition and boost profits, allowing banks to expand their market share internationally (Mann & Kohli, 2008).

f) Technology: Both banks and their clients have grown accustomed to the benefits of cutting-edge technologies despite the high costs involved. Many of these innovations are out of reach economically unless they can be distributed across a broad user base. Banks typically need to merge to implement and keep up with the technology that their clients are demanding. Besides, with so many firms competing in the market, it's possible that these banks won't be able to achieve their desired market share on their own. As a result, to expand their capabilities, these institutions consider merging with others that possess cutting-edge technologies.

g) Customer base: Gaining a sizable customer base is a lengthy process. This has resulted in the rise in number of transactions conducted by businesses looking for "target banks" with solid customer bases (Gaughan, 1999). Once a solid clientele has been established, the bank will have a better chance of making more sales to that clientele, such as auto loans, mortgage loans, consumer loans, etc.

h) Merger of weak banks: For the benefit of the weak bank's customers, it is common practice a healthy financial institution to buy out a struggling one. The Narasimham Committee-II setup by the Government of India (GOI) has strongly advised against this. However, the Khan Group has advocated for allowing financially troubled financial institutions to join with the stronger ones (Harmelen, 2012).

i) Risk Management: Risk management is the top priority for any banking system. Financial institutions worldwide are tasked with conducting thorough risk assessments so that they can maintain a healthy deposit and credit portfolio mix. These risks can be greatly reduced through mergers. Bank M&A considerably lower the insolvency risk of the merged business (Hannan and Pilloff, 2009).

j) Tax Benefit: A tax-paying firm may purchase a loss-making firm to lessen its tax burden. There are restrictions in existence in the US and many other countries that restrict the capability of successful businesses to "shop" for failing businesses, intending to reduce the tax incentive for a potential acquirer. (Singhania, 2009).

Some motives of the four Public Sector Bank (PSB) Merger cases of 2020 as mentioned in the Press release (PIB, 2020) by the Cabinet of GOI were scope and scale economies. As per the press release, with the mega merger, Indian banks will finally reach the size necessary to compete on a global basis. The PSBs should be able to increase their competitiveness and have a favourable effect on the Indian banking sector if they can achieve greater scale and synergies by means of mergers, which would result in cost savings. With their combined resources, the merged organizations would be better able to finance loans with larger ticket amounts and run their businesses competitively. If banks could adopt best practices across merging businesses, it would increase efficiency in managing costs and risks, and bring them closer to their aim of expanding access to financial services for all. PSBs would be better positioned to acquire a competitive edge by exploiting analytics in the fast digitalizing banking sector if the merging institutions adopted the same technologies, had access to a larger database, and shared data. The objective is to put PSBs in a better position to help build a $5 trillion economy (https://pib.gov.in/PressReleasePage.aspx?PRID=1605147)

1.2.3 Problems in M&A

Many businesses look to M&A as a way to solve their issues, but this strategy shouldn't be pursued without first conducting thorough due diligence. M&A presents several challenges. Some of the issues are –

a) Human Resource Problems:

The stress caused by a merger or acquisition on employees can have a negative impact on business operations, resulting in lower output, lower profits, and slower expansion. Workers' reactions to a merger or acquisition, such as grief, resentment, and a drop in job satisfaction, may fail a merger (Appelbaum et al., 2007). Mismanagement of post-merger people integration, as detailed in the KPMG Report (2011), can have a negative impact on the realization of merger synergies by causing issues such as loss of employee morale, loss of key personnel, misaligned objectives, a muddled company culture, and disputes.

b) Cultural Difference:

The most fundamental problem in M&A is the existence of different cultures. Due to the inherent cultural differences between the two companies, cultural integration presents itself as a challenge. The question of whether a new culture should be formed or how much of each should be preserved is a complex one. As a result of cultural differences, a deal can fail even though the logic or rationale behind it is sound (Carey, 2000).

c) Customer Service:

A merger might occasionally result in disruptions in the services provided to clients. This may result in a permanent drop in the level of service provided to some consumers since the organization that is purchasing the business may be less eager or able to continue serving the clients it initially acquired. It takes time for a customer to feel like they belong at a bank, and this process is part of it. There is also the concern that the employees of the bank that will absorb the other bank's customers may not have a positive attitude toward those customers.

d) Technology Integration:

Financial institutions do not all use the same methods or technologies for making transfers. Since many financial institutions employ varying forms of technology, system integration poses significant challenges.

e) Policies and Procedure:

Each bank has established its proprietary systems, rules, regulations, and procedures, all of which have become ingrained in the culture of the institution. If the policies, processes, and procedures, as well as the laws and regulations, are not standardized, then the merger will result in confusion among the workforce.

f) Communication issues:

The deliberate withholding of data and information, as well as the existence of inconsistencies, breeds mistrust and compels workers to rely on unofficial and private sources for the collection of information, statistics, and other details. This causes rumours and misunderstandings of information surrounding the merger.

1.3 Indian Commercial Banking Sector: An Overview

In common parlance, a bank is any institution or company recognized by the central or state government as being permitted to handle monetary transactions such as making loans, accepting deposits, and investing capital. “Banking means accepting for the purpose of lending or investment, deposits of money from public repayable on demand or otherwise and withdrawal by cheque, drafts order or otherwise as per Section 5 (i) (b) of the Banking Regulation Act of 1949” (NABARD, 1991). The Reserve Bank of India (RBI) is the governing organization in charge of overseeing the Indian banking industry and serving as the country's central bank. The types of commercial banks in India include public sector banks, private sector banks, foreign banks, regional rural banks, small finance banks, and payment banks. The RBI classifies these institutions as Scheduled Commercial Banks (SCBs) and they are listed in the Second Schedule of the RBI Act, 1934. Nationalized banks and the State Bank of India (SBI) and its Associates make up the public sector banks, which were previously held by the government in its entirety prior to reforms. In the former case, the GOI has the majority of the shares, while in the latter one, the RBI does. The Indian Govt. holds majority stake (atleast 51%) in **Public sector banks (PSBs)**, while private sector banks are characterized by predominant ownership of the bank's share capital by private enterprises and investors. There are numerous foreign banks functioning in the nation, either as wholly owned subsidiaries or representative offices. Beginning in September 1975, the RRBs, or Regional Rural Banks, were established to serve as a financial institutions for low-income individuals in rural areas, including artisans, farm workers, and small business owners (Jagan Mohan, 2004).

Table 1.1 Number of Banks (As on March, 2021)

Type of Bank	Number
Public Sector Banks	12
Private Sector Banks	21
Foreign Banks	45
Small Finance Banks	10
Payment Banks	2
Regional Rural Banks	43

(Source: RBI website)

The historical development of the Indian banking industry has two distinct phases: the time before 1991, when liberalization began, and the time after then (Sen and Vaidya, 1997). There has been a dramatic transformation in this industry since liberalization (Lawrence and Longjam, 2003; Mohan, 2007). Liberalization, privatization, deregulation, and other market reforms have been the driving forces behind the rapid development of India's banking sector (Raiyani, 2010). During this time, India began welcoming international banking institutions. Deregulatory reforms specific to foreign banks and the geographical growth of the banking system encouraged foreign banks' entry into the financial market of developing nations (Das and Ghosh, 2006).

Table 1.2 Number of Bank Branches, ATMs, and Employees in India - Financial Year 2016-17 to 2020-21

	March'2021	March'2020	March'2019	March'2018	March'2017
Branches					
Public Sector Banks	86,311	87,892	87,860	90,821	91,445
Private Sector Banks	35,791	34,794	32,375	28,805	24,661
Foreign Banks	874	308	300	286	231
ATMs					
Public Sector Banks	1,37,113	1,34,863	1,36,098	145,098	148,555
Private Sector Banks	72,394	73,052	63,340	59,165	58,833
Foreign Banks	1,825	903	914	938	966
Employees					
Public Sector Banks	783518	790659	807577	844163	857500
Private Sector Banks	570713	554418	477709	420534	403461
Foreign Banks	27752	23581	23218	24388	24868

(Source: Report on Trend and Progress of Banking in India various issues and Time-series Publications released by RBI)

With more than 116,000 branches and 133 SCBs functioning nationwide, Indian banks comprise a huge system. The aggregate deposits amounted to Rs. 15590600 crores, while the total amount of loans and advances from the commercial banking industry was Rs. 10820208 crores (excluding RRBs) as per RBI data. The net Non-Performing Assets (NPA) ratio stood at 2.4%. As of 31st March, 2021, the SCBs of India had 1490702 employees. Out of which, 86,311 were serving PSBs.

1.4 M&A in the Indian Banking Sector

Many diverse tactics have been adopted by this industry to maintain competence, endure competition, and surge forward in the global arena as the environment has changed. A common tactic is to merge and/or acquire similar businesses (Ahmad, 2011). The GOI and RBI have supported these consolidations in the Indian banking sector (Agarwal, 1996; Subbarao, 2013; Ahmad, 2011; Sharma, 2011). There were a lot of mergers in the pre-liberalization era, too, but they were ordered by RBI instead. Banks that were deemed to be too weak by the RBI were often merged with more financially stable institutions (Khan, 2011). Present-day mergers, however, are being propelled by the competitive dynamics of the marketplace.

As a result, M&A have become a widespread phenomenon throughout virtually every sector of the economy (Kumar and Bansal, 2008; Mohan, 2006). But the financial sector is where this pattern is most noticeable (Mohan, 2006). The banking industry has seen extraordinary consolidation over the past decade, with numerous significant financial firms merging or being acquired by each other (Lakshminaryanan, 2005).

The Bank of Madras, the Bank of Bengal, and the Bank of Bombay were three banks that were established before India's independence while the country was still under British administration. In 1921, these three banks merged to become the Imperial Bank of India, which was India's largest bank at the time (now, the SBI). This case is credited as being the catalyst that started the trend of bank mergers in the Indian banking sector. In the beginning, the factors that were pushing consolidations in the Indian banking sector were limited to strengthening and enhancing the financial structure. Specifically, efforts were made to consolidate banks that were sick or suffering losses into banks that were stronger and more profitable. However, over time, the primary motivators for consolidations shifted towards synergy gain, growth, expansion, etc. (Anand and Singh, 2008). In India, three distinct M&A trends have emerged: deals between private sector banks, deals between private sector banks and public sector banks, and deals between public sector banks.

Table 1.3 Mergers in Banking Industry Post 1991 Reform

Year of Merger	Target Banks	Acquiring Bank	Type
1993	New Bank of India	Punjab National Bank	Both Public
1993-94	Bank of Karad Ltd.	Bank of India	Private and Public
1995-96	Kashinath Seth Bank	State Bank of India	Private and Public
1996-97	Punjab Cooperative Bank	Oriental Bank of Commerce	Private and Public
1996-97	Bari Doab Bank Ltd.	Oriental Bank of Commerce	Private and Public
1999	Bareilly Corporation Bank Ltd.	Bank of Baroda	Private and Public
1999	Sikkim Bank Ltd.	Union Bank of India	Private and Public
2000	Times Bank Ltd.	HDFC Bank Ltd.	Both Private
2001	Bank of Madura	ICICI Bank	Both Private
2002	Banaras State Bank Ltd.	Bank of Baroda	Both Public
2003	Nedungadi Bank Ltd.	Punjab National Bank	Private & Public
2004	South Gujarat Local Area Bank Ltd	Bank of Baroda	Private & Public
2004	Global Trust Bank Ltd.	Oriental Bank of Commerce	Private & Public
2005	Centurion Bank	Bank of Punjab Ltd.	Both Private
2005	United Western Bank Ltd.	IDBI Ltd.	Both Private
2006	The Ganesh Bank of Kurundwad Ltd.	The Federal Bank Ltd.	Both Private
2006	Lord Krishna Bank	Centurion Bank	Both Private
2007	Bharat Overseas	Indian Overseas Bank	Private & Public
2007	The Sangli Bank Ltd.	ICICI Bank	Both Private
2007	Lord Krishna Bank Ltd.	Centurion Bank of Punjab Ltd.	Both Private
2008	Centurion Bank of Punjab	HDFC Bank	Both Private

2008	State Bank of Saurashtra	State Bank of India	Both Public
2010	State Bank of Indore	State Bank of India	Both Public
2010	Bank of Rajasthan	ICICI Bank	Private & Public
2014	ING Vyasa Bank	Kotak Mahindra	Both Private
2017	SBI Five Associates'	State Bank of India	Both Public
2017	Bharatiya Mahila Bank	State Bank of India	Both Public
2019	Vijaya Bank, Dena Bank	Bank of Baroda	All Public
2020	Oriental Bank of Commerce, United Bank of India	Punjab National Bank	All Public
2020	Syndicate Bank	Canara Bank	Both Public
2020	Andhra Bank, Corporation Bank	Union Bank of India	All Public
2020	Allahabad Bank	Indian Bank	Both Public

(Source: Compiled from Report on Trend and Progress of Banking in India, RBI, Various Issues, VIII Competition and Consolidation, 04 Sep 2008.)

There are very few instances of **mergers between Public Sector Banks**. India, experienced the first such merger post-reform in 1993 when PNB took over the New Bank of India (NBI). The merger was forced by RBI in accordance with Section 45 of the Banking (Regulation) Act, 1949 as NBI was on the verge of liquidity. Recently, a volume of mergers has taken place. As the Narasimham Committee report (RBI, 1991) recommended, the government has recently taken steps toward consolidating the PSBs, arguably the most significant development in the financial environment of the country in the recent years. "This consolidation will result in a small number of very strong banks that can compete successfully on both the national and international stages" (Das, 2019). The recent wave of consolidation among PSBs got its start in April 2017, when the SBI associates and another PSB merged with SBI, marking the beginning of the wave. Exactly two years later, in April 2019, two further PSBs (Vijaya Bank and Dena Bank) were merged into the Bank of Baroda. As stated by the GOI, the objective was to accomplish the formation of banks that are powerful and competitive through the consolidation of PSBs (PIB, GOI, 2019). The GOI merged 10 public sector banks (PSBs) into four in April 2020 and referred to the move as a "mega consolidation" (PIB, 2020). Canara Bank and Indian Bank each took on one PSB when it was merged into them, whereas PNB and Union Bank of India each incorporated two PSBs into themselves. As a direct result of this, the total number of PSBs decreased from 27 in March 2017 to 12 in April 2020. It is anticipated that the major consolidation will increase PSBs' competitiveness and boost banking activity in the country (PIB, GOI, 2020).

1.4.1 Regulations on Mergers in India

The Indian policymakers, together with the GOI and the RBI, have long discussed the need for commercial bank structural and financial improvements. The authorities have placed an emphasis on reorganizing the Indian banking system, with a primary focus on mergers. To kick off this trend, regulators encouraged mergers between strong banks (Lakshminaryanan, 2005), both in the public and private sectors.

As per the Press Information Bureau, GOI (2018),

> "The Banking Companies (Acquisition and Transfer of Undertakings) Acts of 1970 and 1980 provide that the Central Government, in consultation with the Reserve Bank of India (RBI), may make a scheme, inter alia, for the amalgamation of any nationalized bank with any other nationalized bank or any other banking institution".

"In India, an amalgamation of two banking companies is governed under the provisions of Section 44 of the Banking Regulation Act, 1949, whereas the amalgamation of a banking company with a non-banking company is governed under the provisions of Section 391 to 394 of the Companies Act, 1956" (RBI, 2005).

Procedures for a bank merger outlined in Section 44A of the Banking Regulation Act of 1949 states that,

"no banking company shall be amalgamated with another banking company unless a scheme containing the terms of such amalgamation has been placed in draft before the shareholders of each of the banking companies concerned separately, and approved by a resolution passed by a majority in number representing two-thirds in value of the shareholders of each of the said companies, present either in person or by proxy at a meeting called for the purpose". The amalgamation deal is then subject to sanctioning by RBI.

1.4.2 Committee Recommendations on Bank Merger in India

Numerous steps have been taken by the GOI and the RBI since 1992 to improve the country's banking infrastructure. The government also established several committees for accomplishing this goal.

1) Narasimham Committee

   After the economic reforms of 1991, a committee led by M. Narasimham, then-Governor of the RBI, was formed, and the banking industry underwent significant structural changes. Narasimham Committee–I in 1991 recommended a 3-tier model under which 3-4 large banks in tier 1 will operate at the international level, tier 2 will be covered by 8-10 banks with a national presence and the remaining banks will confine their operations to regional and local level at tier 3 (RBI, 1991). Again, in 1998, a second committee led by Narasimham envisaged the importance of megabanks as an effective instrument to conquer domestic and international financial markets. Mergers were used as a mechanism to bail out weak banks and consolidate them with the stronger ones. Narasimham Committee–II discouraged this practice. Strong bank mergers in both public and private sectors were encouraged by the committee (RBI, 1998b).

2) Khan Group

   In December 1997, the RBI established the Group, with Shri S.H. Khan, the then-Chairman of IDBI, serving as its Chairman. Prior to the implementation of Universal Banking, the Group was tasked with analyzing the current state of both commercial banks and Development Financial Institutions (DFIs) and making recommendations for how to better coordinate and harmonize their lending practices. About M&A, the group recommended that banks and DFIs should be able to pursue and enter into mutually beneficial mergers if their management and shareholders so choose (RBI, 1998a).

3) Verma Group

   The RBI convened a Working Group on Restructuring of Weak PSBs in February 1999, with Shri M.S. Verma serving as its chairman. The group's charge was to propose a plan for the restructuring and revitalization of the country's struggling PSBs. The panel concluded that improving the banks' operating efficiency was necessary before the merger option for privatization could be considered. The committee suggested that failing banks' last resort would be to combine with stronger institutions or be privatized (Ghosh, 1999).

1.5 An Introduction to the Four Bank Merger Cases included in the Study

India's finance minister declared in August 2019 that the country's 10 PSBs would be merged into four, with effect from April 1, 2020 (Table 1.4); hence, leaving the country with only 12 PSBs.

Table 1.4 Banks under the study

Amalgamating Bank(s)	Anchor Bank
Oriental Bank of Commerce, United Bank of India	Punjab National Bank
Syndicate Bank	Canara Bank
Andhra Bank, Corporation Bank	Union Bank of India
Allahabad Bank	Indian Bank

(Source: www.pib.gov.in)

Table 1.5 presents the status of banks as of 31st March, 2019 and Table 1.6 presents banks' status as of 31st March, 2022.

Table 1.5 Status of Banks (as of 31st March, 2019) released by the Ministry of Finance, Government of India

Banks	Business Size (in lakh crore)	Bank Rank by Size	Core Banking Software (CBS)	Branch Network	No. of Employees
PNB + OBC + United Bank	Rs. 17.95	2nd largest	Finacle	11,437	100,647
Canara + Syndicate	Rs. 15.20	4th largest	IFlex	10,342	89,885

Union Bank + Andhra Bank + Corporation	Rs. 14.59	5th largest	Finacle	9,609	75,384
Indian Bank + Allahabad Bank	Rs. 8.08	7th largest	BaNCS	6,104	41,814

Table 1.6 Status of Banks Post Amalgamation (as of 31st March, 2022) as per the Annual Reports published by respective Banks

Banks	Business Size (in lakh crore)	Core Banking Software (CBS)	Branch Network	No. of Employees
Punjab National Bank	Rs. 19.31	Finacle	10,098	100,647
Canara Bank	Rs. 18.27	IFlex	9,734	89,885
Union Bank of India	Rs. 17.48	Finacle	8,870	75,384
Indian Bank	Rs. 10.09	BaNCS	5,735	41,814

1.5.1 The merger of Oriental Bank of Commerce and United Bank of India (UBI) with Punjab National Bank (PNB)

Due to the merger, PNB is now the second-largest public sector bank in India, with total assets of Rs. 17.95 lakh crore ($250 billion) and a total of 100,647 employees (as of March, 2019). The merged bank has the 2nd largest bank branch network with 11,437 branches. As per the Department of Financial Services, Ministry of Finance (MoF), GOI, “same Core Banking Solution (CBS) platform (Finacle) in all three banks will enable the quick realization of gains". The combined business is equivalent to 1.5 times of PNB. Some synergy gains cited by GOI were – “high Current Account and Saving Account (CASA) deposits and lending capacity combined in the consolidated bank, large cost reduction potential due to network overlaps, cost saving and income opportunities for JVs and subsidiaries”.

1.5.2 The merger of Syndicate Bank with Canara Bank

Canara Bank is now the fourth largest public sector bank in terms of size post-amalgamation. The merged firm has an asset size of Rs. 15.20 Lakh Crore, with roughly 90,000 workers operating, as shown by the official data (as of March, 2019). The merged bank has the 3rd largest bank branch network with 10,342 branches. As per the MoF, GOI, the usage of the same CBS platform (iFlex) by both financial institutions will expedite the realization of benefits. The combined business is equivalent to 1.5 times of Canara Bank. Some scale and synergy benefits of this merger as mentioned by GOI were – “large cost reduction potential due to network overlaps, similar culture to enable smooth consolidation and cost saving and income opportunities for JVs and subsidiaries”.

1.5.3 The merger of Andhra Bank and Corporation Bank with Union Bank of India

As a result of the merger, Union Bank of India is now the fifth largest public sector bank in India, with total assets of Rs. 14.59 lakh crore with more than 90,000 employees serving the entity (as of March, 2019). The combined business is equivalent to 2 times of the Union Bank of India. The merged bank has the 4th largest bank branch network with 9,609 branches. As per the MoF, GOI, “same CBS platform (Finacle) in all three banks will enable the quick realization of gains". Some scale and synergy benefits of this merger as mentioned by GOI were – "business to become twice to 4½ times existing bank business, large cost reduction potential due to network overlaps and cost saving and income opportunities for JVs and subsidiaries".

1.5.4 Merger of Allahabad Bank with Indian Bank

Indian Bank is now the seventh largest public sector bank in terms of size post-amalgamation. The merged entity has an asset size of Rs. 8.09 Lakh Crore with 42,814 employees at 6,104 branches (as of March, 2019). The combined business is equivalent to 1.9 times of the Indian Bank. The merged entity has extensive reach across the country, particularly in the South, North, and East. As per the MoF, GOI, “same CBS platform (BaNCS) in both banks will enable the quick realization of gains”. Some scale and synergy benefits of this merger as mentioned by GOI were – “doubling of business size, major scaling up of reach due to complementary networks and high CASA and lending capacity in the consolidated bank”.

1.6 Statement of the Problem

There are innumerable cases of M&A around the globe. These structural changes are undertaken to improve competitiveness through the expansion of market share and reducing business risk (Kemal, 2011), increase shareholders' value (Sudarsanam, 2003), and increase profitability while lowering down cost of operations (Joash & Njangiru, 2015). The banking sector which is said to be the backbone of an economy is very fragile. Any changes in this sector affect the economic growth of a nation.

As per many research reports and articles, mixed results have been found in relation to mergers in the banking sector. In many cases, banks were performing better before the merger. Kumar (2013) studied "the merger case of Bharat Overseas Bank with Indian Overseas Bank and revealed a considerable improvement in Business per Employee, Advances, and Interest Income post-merger". But with regard to Profit per Employee and NPA ratio the figures showed no positive impact. In the case of HDFC acquiring Times Bank Ltd., there was a significant decline in net profit margin after the merger (Kalaichelvan, 2011). Sahni & Gambhir (2018) concluded that ratios relating to "capital adequacy, earning quality and asset quality" were favourable for bank mergers in India however; ratios relating to management quality and liquidity were not favouring mergers. India has witnessed several bank mergers, however; Merger 2020 is certainly a big phenomenon since the onset of 1991 reform, consisting of four big consolidations involving ten PSBs at the same time.

The Indian economy is currently undergoing a cyclical downswing and structural slowdown. Also, the world is facing large uncertainties, and India is at a soft patch (RBI Annual Report 2018-19). Former RBI Governor Y. V. Reddy at the 6th SBI Banking & Economic Conclave 2019 stated that "Global experience in the banking system shows that only half of the bank mergers have been successful. If the purpose is governance, it will not be solved by merging two banks. However, if it's for economies of scale namely operational efficiency it could happen" (The Economic Times, September 06, 2019). He considers the merger 2020 as a commercial decision based on synergy rather than reform.

A similar opinion was shared by Raghuram Rajan, former RBI Governor, "the recent merger of 10 state-run banks into four entities was 'unnecessary', given that the economy is in a downturn and these banks are grappling with high levels of bad debt" (The Print, October 12, 2019). He said that instead of concentrating on better loan making, banks will be swamped with merger management over the next few years.

As quoted by Shri R. Gandhi, Deputy Governor, RBI (2014-2017), "merger of a weak bank with a strong bank may make combined entity weak if the merger process is not handled properly. The problems of capital shortages and higher NPAs may get transmitted to stronger banks due to unduly haste or a mechanical merger process. Consolidation should not be seen from the sole perspective of creating larger-sized banks" (Gandhi, 2016).

It has also been seen that, while dealing with M&A, the human resource aspect is ignored at the expense of the financial aspect, which becomes one of the important contributing factors in merger failure (Holbeche, 1998). Capturing customers' views on banking merger plans is important since today's market has evolved to be customer-centric and satisfaction of customers is of utmost importance, especially in the case of service industries like the banking sector. Bank mergers may result in customer attrition or churn as a result of customers' anxiety over changes to service levels, costs, and availability of credit (Mclelland et al., 2014; Broaddus, 1998). Nowadays, customers exhibit a reduced tendency to establish long-term affiliations with specific banks. Rather, in the event of dissatisfaction with a bank's services, consumers are more motivated to actively pursue alternative options that offer greater satisfaction (Gerrard and Cunningham, 2004). In the merger case of Sangli Cooperative Bank with ICICI Bank in the year 2006, it was found that the lending procedure became complicated, lengthy, and time consuming for pre-merger clients. Also, after the merger, banking relationships were affected (Petkar, 2014). Hence, the present study aims to find out the impact of the merger on its stakeholders.

1.7 The Rationale of the Study

Studies related to mergers were focused on financial figures, employees, and customers separately. The literature review did not reveal any study that took into account employees' and customers' views and experiences alongside financial figures. In the context of the above issue, it is significant to capture the views of stakeholders in combination with financial figures as the study may provide a different dimension relating to mergers in the banking industry. Studies have been undertaken concerning the human resources of banks; however, addressing the views and experiences of both internal (employees) as well as external stakeholders (customers) along with the financial aspect of merger could not be found from the extant literature review done.

1.8 Research Questions

Based on statement of the problem (refer Section 1.6) and research gaps identified from the literature review (Section 2.4), the research questions have been framed. These research questions aim to explore the financial, employee, and customer perspectives on bank mergers, particularly focusing on the Merger of 2020 in the Indian banking sector. Additionally, the questions aim to address the identified research gaps related to financial performance analysis, stakeholder perceptions, and differences between acquiring and acquired entities.

This thesis tries to address the following research questions:

1. How does the financial performance of anchor banks involved in the Merger of 2020 in India compare before and after the merger?
2. What are the perceptions and experiences of employees regarding Bank Mergers 2020, and how do these perceptions differ between employees of acquiring and acquired banks?
3. How do the perceptions and experiences of employees regarding Bank Mergers 2020 differ across demography?
4. What are the perceptions and experiences of customers regarding Bank Mergers 2020, and how do these perceptions differ between customers of acquiring and acquired banks?

1.9 Objectives

The objectives of the study are:

1. To analyze and compare the pre-merger and post-merger Financial Performance of Anchor Banks involved in the Merger of 2020.
2. To investigate employees' perception and experience on Bank Mergers 2020 after the event, with reference to Assam.

3. To investigate customers' perception and experience on Bank Mergers 2020 after the event, with reference to Assam.

1.10 Scope of the Study

The study covers the four cases of mergers involving ten public sector banks, with effect from 1st April, 2020. The study analyses and compares the pre-merger and post-merger financial performance of banks using the CAMEL model. Views and experiences of employees and customers on the merger have been studied via primary survey. Views of employees were studied based on five dimensions. To assess the perception and experience of customers after the merger five dimensions were studied including service quality experience post-merger. To measure service quality SERVPERF model was adopted, along with the accessibility dimension. Samples of employees and customers were taken from Assam. Four districts having the presence of all ten banks under four merger cases were selected for the study.

1.11 Limitations of the Study

Despite best attempts, some limits may emerge during the research process, attributed to the study being for academic purposes with a defined tenure and specific fieldwork constraints.

The limitations of the study are:

i. The scope of this study is limited to the Banking Industry, and therefore, it is not appropriate to make broad generalizations about the implications of M&A in other service sectors based on the findings of this research.
ii. Perception and experience of customers and employees are concentrated in the four districts of Assam only.
iii. Non-response from the employees of PNB.

1.12 An Overview of the Thesis Layout

This study consists of ten chapters. The first chapter, Introduction, provides an overview of the study. It outlines the theoretical framework of the study, an overview of Mergers and Acquisitions in the Indian Banking Sector, statement of the problem, scope, research questions, objectives and limitations of this study. Review of Literature on Mergers and Acquisitions on Banking sector constitutes the second chapter. This chapter analyses previous literature for each of the study's three objectives. For each of the three objectives, literature from India as well as literature from around the globe has been discussed. The third chapter provides an overview of the objectives and the methodologies used in this study. It specifies the sample elements, sample units, sampling techniques, sample size, geographical extent, academic scope, time period of data collection, model used, the formulae, the variables, reliability & normality test results and the statistical tools to achieve the study's three objectives. The fourth chapter presents the detailed analysis of Objective 1. The first objective of the study was to evaluate the financial performance of the anchor banks before and after the merger. The study used the CAMEL Model consisting of five parameters, i.e., capital adequacy, asset quality, management efficiency, earnings, and liquidity. Financial data for four years, i.e., two years before and two years after the merger has been assessed using twenty financial ratios using paired t test. Chapter five deals with the sub-part of the second objective of the study related to employees. It begins with the brief discussion on the demographic profile of respondents. Then the analysis and comparison of employees' perception and experience on merger across the type of bank, i.e., anchor and amalgamating banks has been discussed using independent sample t test. Chapter six and seven deals with the sub-parts of the second objective of the study related to amalgamating bank employees and anchor bank employees respectively. The amalgamating and anchor bank employees' experience and perception has been analysed separately across demographic variables namely - gender, marital status, designation, age, educational qualification and length of service in these two chapters. Chapter eight presents the analysis of third objective of the study, i.e., views and experience of customers on the bank mergers of 2020. The views and experiences regarding merger were analysed across the type of bank, i.e., anchor and amalgamating bank. The ninth chapter describes the major findings of the study and provide suggestions based on the findings. The theoretical and practical contributions of the study are also pointed out in the chapter. The scope for future research is also stated in this chapter. Chapter 10 provides Conclusion to the thesis.

1.13 Chapter Summary

A basic overview on mergers and acquisitions is provided in the first section of this chapter. This chapter provides a brief comparison between mergers and acquisitions, the types of mergers, the reasons for consolidations, and the challenges that arise as a result of such changes. The chapter provides a brief on the Indian Commercial Banking Sector, M&A in the Indian Banking Industry, regulations and various committee recommendations on mergers on mergers and an introduction of the four bank merger cases that forms part of the study. This chapter also outlines statement of the problem, scope and research questions. This chapter presents the three main objectives of the study, along with its scope and limitations. It was inferred from this chapter, that mergers and acquisitions are cases required to be studied from three different perspectives – financial aspect, employees' aspect, and customers' aspect. Based on this, the following chapter outlines the review of the literature.