

## A study of Indian Banking merger & The Relationship between GDP Growth

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### Abstract –

1. This research paper focuses on the India's recent merger of Banks and its relationship with economy condition of India. Finance Minister Nirmala Sitharaman announced that government has decided to merge / an amalgamation of 10 public sector banks into 4 public sector banks. After this merger, India will be come down to 12 banks from 27 banks in 2017. This new reform in economy of bank merger is supposed to be a stepping stone towards boosting Indian GDP Rate and boosting Indian Economy. Presently the GDP Rate of India slowing down and come down on 5% in first quarter F.Y. 2019-20. Hence, in this paper the objective of the study is to determine the relationship between mergers and financial performance, whether this changes in banking sector really promoting growth of economy of India or not.

### 1.0 Introduction -

A merger is the combination of two or more companies/banks in a creation of a new entity or formation of holding company. In case of banks, two or more banks combining their business and pool their assets and liabilities to become one bank. A merger is a similar like acquisition or takeover the only difference is in merger existing shareholder of both companies/banks involved retain a shared interest in the new bank. While is acquisition one company purchases bulk of second companies stock by willingness or unwillingness of another company.

Thereafter, the government of India issued the Banking Companies (Acquisition and transfer of undertakings) Ordinance, 1969 and nationalized 14 banks. Under this ordinance, Indian Banks mergers are took place. First merger of Banks was in 1921 to form the 'Imperial Bank of India' which upon India's Independence become the 'State Bank of India' in 1950.

### A) Public Sector Banks in India –

Sr. No.	Name of Banks	Sr. No.	Name of Banks
1	SBI and its Associated Banks	9	Central Bank of India
	1) State Bank of India	10	Indian Bank
	2) State Bank of Jaipur and Bikaner	11	Alahabad Bank
	3) State Bank of Mysore	12	Indian Overseas Bank
	4) State Bank of Travancore	13	Punjab and Sindh Bank
	5) State Bank of Hyderabad	14	Oriented Bank of Commerce
	6) State Bank of Patiala	15	United Bank of India
2	Bank of Baroda	16	Punjab National Bank
3	Vijaya Bank	17	UCO Bank
4	Dena Bank	18	Union Bank of India
5	Bank of India	19	Andhra Bank
6	Bank of Maharashtra	20	Corporation Bank
7	Canara Bank	21	IDBI Bank
8	Syndicate Bank	22	Bhartiya Mahila Bank

B)

## Merger – Recent Merger

Sr. No.	Anchor Bank	Amalgamating Bank
1	Punjab National Bank	Oriental Bank United Bank of India
2	Canara Bank	Syndicate Bank
3	Union Bank of India	Andhara Bank Corporation Bank
4	Indian Bank	Alahabad Bank

### 1.1 Statement of Problem -

In India economy is depend upon the financial markets and Banking Sector is back bone of economy. If banks are running their business smoothly ultimately economy will run smoothly in better manner. Any decision related to economic development here banking sector must be taken with deep study of market condition and overall analysis of country's position. Recently, Indian Government announced the merger of public sector banks. In announcement Finance Minister Nirmala Sitharaman said, this mega merger of Banks is for boosting India's economy growth and achieving aim of 5 trillion economy. But this is not right time of adopting this reform. Because in India, overall economy is already facing economical problems and we can see the GDP Growth Rate declining and come down on 5%. In this critical situation a mega merger of Public Sector Banks is not actually correct decision or step. If government really want to meet their 5 trillion economy aim then government should / must planned very different and take small small steps to achieve the aims. Some negative impact of this merger is as follows :

- 1) On Customer : Customers IDs, A/C No. likely to change. They will get new Account Number, Passbook, etc. This can create extra job to customers.
- 2) On Employees : mergers of employees also, it is hard to merged employees healthy work, (their mentality) can create conflict.
- 3) On Employment Opportunities : a) Disguised unemployment in merged branches if too many employees come together it affect on work.
- b) This may be create problem in new job opportunities.
- 4) Too big fail risk – (Lehman Brothers in 2008)
- 5) Destroys the idea of decentralization (No more regional focus)
- 6) How it can be developing way –

Weaker Banks merger may create problem to healthy Bank.

$$\begin{array}{ccccc}
 \text{Profit} & + & \text{Loss} & = & \\
 \boxed{\text{Making}} & & \boxed{\text{Making}} & & \text{No loss / No profit} \\
 \text{Unit} & & \text{Unit} & & \text{Neutral Position}
 \end{array}$$

Only mergers of paper work is not enough. Effective work and management does matter.

### 1.2 Opinion -

In India after Independence there was need to set up economy for development of country. So, in governance of PM Indira Gandhi, Nationalisation took place in two phases. In phase I, 14 banks were nationalised in 1969 & in phase II 6 private banks nationalised on 1 April 1980. That time this was most significant step towards development of Indian Economy. But in 2019, after 50 years India is facing lots of crisis related to many areas because of unplanned decisions of Modi Government i.e. Demonitisation and GST. And now this mega merger announced Government should do study on banking system and not take quick decisions should take small decisions to check performance of banks.



## 1.3 Suggestions :

- 1) Take over all stakes from Banks which are in loss making situation and make their privatization. (Experiment)
- 2) Establish expert committee for banking decisions/changes.
- 3) Give preference to youth, i.e. talented youth and think about age of retirement of CEO.
- 4) More focus on agriculture sector banks.
- 5) Merger is not only option, Internal Quality and Management is most important.
- 6) Do India still PSBs ? , need private banks ?
- 7) Government use their mind in another area for Indian financial sector RBI is central for
  - a. authorized and drive the financial sector. So, need of government to become intermediary or doing involvement in Banking Sector.
- 8) Governance Reforms.

## 1.4 Conclusion :

Finance Minister said the Government was planning no more bank mergers after current announcement. The Finance Minister said that this merger will play important role in making India a 5 trillion economy. Finally this will resulted in future, we can see. Ultimately, conclusion of this topic can't be judged in few lines or words but in short, 'Professionalism in Governance' is key to success, not just the size of Banks and documentary mergers.

## References :

- 1) News reports.
- 2) Narsimhan Committee in late 1990s recommendations.
- 3) Articles in newspaper.
- 4) Videos – Interviews of experts.