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Do Bank Mergers, A Panacea For Indian Banking Ailment - An Empirical Study Of World's Experience

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ABSTRACT: *In the changed scenario of world, with globalization, the need for strong financial systems in different countries, to compete with their global partners successfully, has become the need of the hour. It's not an exception for India also. A strong financial system is possible for a country with its strong banking system only. But unfortunately the banking systems of many emerging economies are fragmented in terms of the number and size of institutions, ownership patterns, competitiveness, use of modern technology, and other structural features. Most of the Asian Banks are family owned whereas in Latin America and Central Europe, banks were historically owned by the government. Some commercial banks in emerging economies are at the cutting edge of technology and financial innovation, but many are struggling with management of credit and liquidity risks. Banking crises in many countries have weakened the financial systems. In this context, the natural alternative emerged was to improve the structure and efficiency of the banking industry through consolidation and mergers among other financial sector reforms.*

In India improvement of operational and distribution efficiency of commercial banks has always been an issue for discussion for the Indian policy makers. Government of India in consultation with RBI has, over the years, appointed several committees to suggest structural changes towards this objective. All those committees have emphasized on restructuring of the Indian banking system with an aim to improve the credit delivery and also recommended in favor of having three to four large banks at the all India level and the remaining at regional level. However, the thrust on consolidation has emerged with the Narasimham committee (NC-I) (1991) emphasizing on convergence and consolidation to make the size of Indian commercial banks comparable with those of globally active banks. Further, the second Narasimham committee (NC-II) (1998) had also suggested mergers among strong banks, both in the public and private sectors and even with financial institutions and Non-Banking Finance Companies (NBFCs)

This paper attempted to fill the research gap related to viability of merger process carried out in Indian Banking Sector, whether is it all set for Banking Mergers in India or not, do Banking Mergers act as a magic spell for all banking problems and also the lessons to be learned from world experience after banking mergers, by Indian Banking industry and policy makers.

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I. Introduction

Merger – Meaning

Mergers, consolidations and amalgamations are normal business phenomena across different industries. To avoid competition, among themselves, to compete with a strong opponent, to increase the market share of the business, to be benefitted with economies of large scale, generally small business concerns will unite as one or merge with the market leader. Merge or Amalgamation means a genuine pooling not only of the assets and liabilities of the amalgamating companies, but also of the shareholders' interests and of the businesses of these companies.

BANK MERGERS

Being corporate business entities, banks are not an exception for mergers. Merger is generally by a weak bank with a strong bank to improve its functioning and to widen its capital base, or group of small banks unite as syndicate to compete with stronger opponents. Similarly two equally strong banks also come together to improve their market share.

THE HISTORY OF BANK MERGERS

The South East Asian crisis of 1997 had encouraged consolidation and restructuring of banks in many Asian Countries. In US there has been consolidation of banks since 1916. Restructuring of Indian Banks through mergers and acquisitions had been recommended by various committees since 1972. Narasimham committee Report in 1991 recommended a three tire Banking structure in India through establishment of three large banks with international presence. Eight to ten national banks and a large number of regional and local banks. Narasimham Committee report in 1998 also reiterated the recommendations on NC-I. In the Budget speeches of 2016-17, 2017-18 and 2018-19, the finance minister mentioned that a road map for consolidation of Public Sector Banks would be spelt out. The desirability of consolidation in Indian Banking Sector is widely felt across the spectrum.

A major perspective of RBIs banking policy to encourage competition, consolidate and restructure the banking system for financial stability. Mergers & Acquisitions have emerged as one of the common methods of consolidation, restructuring and strengthening of banks.

Two types of banking mergers are taking place in India. One is voluntary merger and the other is compulsory or forceful merger.

(a) **Voluntary Merger:** This merger takes place in the banks for synergy, growth and operational efficiency. This type of merger is approved by RBI according to sec. 44 of Banking Regulation Act 1949. Ex. Merger of ING Vysya Bank with Kotak Mahindra Bank, and another one is acquisition of Bank of Madura in 2001 and Sangli Bank in 2007 by ICICI Bank, likewise acquisition of Centurian Bank of Punjab by HDFC Bank in 2008, New Bank of India with Punjab National Bank in 1993

(b) **Compulsory or Forced Mergers:** Section 45 of the Banking Regulation Act 1949, empowers RBI to make a scheme of amalgamation of a bank with another bank, if it is in the depositor's interest or in the interest of overall banking system. Many private sector banks have been merged with other private sector banks or with Public sector Banks under this mechanism. Earlier way back in the 1960s, post Palai Central Bank's failure there were several such mergers guided by RBI. The recent, one of this kind of merger was merger of Global Trust Bank with Oriental Bank of Commerce in 2004.

Since the onset of reforms, there have been about 41 mergers/amalgamations in the banking sector till 2017. Prior to 1999 maximum mergers used to be under section 45 of the Banking Regulation Act, 1949. However, after 1999, voluntary mergers under section 44A of Banking Regulation Act 1949 are increasing. Most of these sections 44A mergers were among private sector Banks. Public Sector Banks have bypassed this trend despite the fact that, there might have been ample opportunities of creating value through strategic mergers and acquisitions among two Public Sector Banks.

CURRENT SCENARIO OF BANK MERGERS IN INDIA

After years of hand-wringing the great Indian banking consolidation kicked off in Financial year 2019, with the consolidation of Vijaya Bank and Dena Bank with Bank of Baroda on 1st April,2019.Experts predict still there would be more action during the coming years by showing the evidence of repeated statements insisting the country needs few large banks and several small banks to pursue the path of financial inclusion and spur credit growth, by several government officials, including former finance minister Arun Jaitly.

MERGERS & ACQUISITIONS IN THE BANKING SECTOR SINCE NATIONALIZATION

Table 1: FROM 2010 TO 2017

NAME OF THE BANKS ACQUIRED MERGING	NAME OF THE BANKS GOT MERGED	YEAR OF MERGING
State Bank of India	Bharatiya Mahila Bank	2017
State Bank of India	State Bank of Travencore (SBT)	2017
State Bank of India	State Bank of Bikaner and Jaipur (SBBJ)	2017
State Bank of India	State Bank of Hyderabad (SBH)	2017
State Bank of India	State Bank of Mysore (SBM)	2017
State Bank of India	State Bank of Patiala (SBP)	2017
Kotak Mahindra Bank	ING VYSYA Bank	2014
ICICI Bank	Bank of Rajasthan Ltd.	2010

Table 2: FROM 2000 TO 2009

NAME OF THE BANKS ACQUIRED	NAME OF THE BANKS GOT MERGED	YEAR OF MERGING
HDFC Bank	Centurian Bank of Punjab	2008
ICICI Bank Ltd.	Sangli Bank	2007
Indian Overseas Bank	Bharat Overseas Bank	2007
Centurian Bank of Punjab	Lord Krishna Bank	2006
Federal Bank	Ganesh Bank of kurandwad	2006
National Bank	Bank of Baroda	2006
IDBI Ltd.	United Western Bank	2006

IDBI Ltd.	IDBI Bank	2005
Bank of Baroda	South Gujarat Local Area Bank	2004
Oriental Bank of Commerce	Global Trust Bank	2004
Punjab National Bank	Nedungandi Bank Ltd.	2003
ICICI Bank	ICICI Ltd.	2002
Bank of Baroda	Benaras State Bank Ltd.	2002
ICICI Bank Ltd.	Bank of Madura Ltd.	2001
HDFC Bank Ltd.	Times Bank Ltd.	2000

Table 3: FROM 1990 TO 1999

NAME OF THE BANK ACQUIRED	NAME OF THE BANKS GOT MERGED	YEAR OF MERGING
Bank of Baroda	Bareilly Corporation Bank Ltd.	1999
Union Bank of India	Sikkim Bank Ltd.	1999
Oriental Bank of Commerce	Bari Doab Bank Ltd.	1997
Oriental Bank of Commerce	Punjab Cooperative Bank Ltd.	1996
State Bank of India	Kashinath State Bank Ltd.	1995
Bank of India	Bank of Kard Ltd.	1994
Punjab National Bank	New Bank of India	1993
Bank of India	Parur Central Bank Ltd.	1990
Central Bank of India	Purbanchal Bank Ltd.	1990
Indian Bank	Bank of Tanjavur Ltd.	1990
Indian Overseas Bank	Bank of Tamil Nadu Ltd.	1990

Table 4: BEFORE 1990

NAME OF THE BANK ACQUIRED	NAME OF THE BANK GOT MERGED	YEAR OF MERGING
Allahabad Bank	United Industrial Bank Ltd.	1989
Bank of Baroda	Traders Bank Ltd.	1988
Punjab National Bank	Hindustan Commercial Bank Ltd.	1986
State Bank of India	Bank of Cochin Ltd.	1985
Canara Bank	Lakshmi Commercial Bank Ltd.	1985
Union Bank of India	Miraj State Bank Ltd.	1985
State Bank of India	National Bank of Lahore Ltd.	1970
State Bank of India	Bank of Bihar Ltd.	1969

II. REVIEW OF LITERATURE

1. In his paper, 'Do Mergers Improve the X- Efficiency and Scale-Efficiency of US banks', written for the Federal Reserve Bank of Newyork revised draft, June 1996, Staros Peristiani, finds that improvements in post merger performance depends on the ability of the bank to strengthen asset quality and also finds no evidence that in- market mergers lead to significant improvements in efficiency.
2. Robert De Young, in his working paper, 'Determinants of cost efficiencies in Bank Mergers (Aug 1993), finds that, cost-efficiency improved in the majority of mergers, but gains were small and were not related to the acquiring bank's efficiency advantage over its target. Efficiency improved most often when both merger partners were relatively cost inefficient, suggesting that cost savings depend more on the opportunities facing management than the quality of that management. Banks that made acquisitions frequently were relatively successful at capturing post merger efficiencies, suggesting a role for experience effects.
3. K. Ravi Chandran et al., in their research paper, 'Market Based Mergers in Indian Banking Institutions', studied mergers for the selected public and private banks, which are initiated by the market forces, observed, that the merger did not seem to enhance the productive efficiency of the banks as they do not indicate any significant difference. The financial performance suggests that the banks are becoming more focused on their retail activities (intermediation) and the main reasons or their merger is to scale up their operations. However it is found that the total advances to deposits and profitability are the two main parameters which are to be considered since they are very much affected by mergers. Also the profitability of the firm is significantly affected giving a negative impact on the returns.
4. Rubi Ahmed et al, in their research paper, 'Factors determining mergers of banks in Malaysia's banking sector reform', the paper which studied post merger effects of government-guided merger, a unique banking sector reform implemented in 2002 by the Central Bank of Malaysia guiding a larger number of depository institutions to for 10 large banks. This paper finding reveals, larger banks became acquirers and low risk banks had higher probability of becoming an acquiring bank while high risk banks became targets for takeover. Banks closely connected to government had a greater chance of becoming acquiring banks while the reverse is true of target banks.
5. In their paper- 'In the Eye of the Asian Financial maelstrom: Banking sector reforms in the Asia-Pacific Region'- Ma.Scocorro Crochoco-Bautista et al discussed about the Asian financial crisis of the 1980s and how banking mergers adopted as one of the measures to control financial crisis. Restructuring the banking

sector and resolution of reducing non-performing loans, flow & stock solutions were taken up as measure. Many countries brought financial, operational and structural reforms as solution for financial crisis. As a part of those recapitalizing banks, restructuring debt, raising capital requirements, improving bank supervision standards, reduction of costs of financial intermediation, liquidating insolvent banks, de facto nationalization or merged with healthy banks. Korea for example closed 16 out of 30 merchant banks. In Indonesia, the government nationalized a few large banks and also closed 16 financial institutions. In Thailand, more than half of the 91 finance companies have been closed.

6. In their research paper, 'Merger and acquisition in Banking Industry: A case study of ICICI Bank Ltd.,' Dr. K.A.Goyal and Vijay Joshi establishes that from the inception of ICICI bank in 1994, it went through various mergers and amalgamations (9 banks & institutions by 2010) and made it as a path of growth for it.
7. In their research paper, 'Mergers in Banking Industry of India: some emerging issues', Dr. K.A. Goyal & Vijay Joshi, establishes that, M&A is proved as a useful tool for survival of weak banks by merging into large banks. It is found that small and local banks face difficulty in bearing the impact of global economy therefore they need support and it is one of the reasons or mergers. Some private banks used mergers a strategic tool for expanding their horizons. Through mergers only ICICI bank could penetrate into rural India. Any action of the object leads to the reactions on the other hand. Same is the case with banking mergers also. Banking mergers face employee retention, stress among employees, fear among customers etc., Benefits of merger include, survival of sick banks after merger, enhancement of branch network geographically, larger customer base (rural reach) increased market share, attainment of infrastructure etc.,
8. In their research paper, 'Impact of Mergers on the cost efficiency of Indian commercial banks', Prdeep Kaur and Gian Kaur investigated the effects of mergers and acquisitions on the cost-efficiency of Indian banks that have merged during 1991-92 to 2007-08. Overall results indicate that mergers led to higher level of cost efficiencies for the merging banks. Over the entire study period average cost efficiency of public sector banks found to be 73.4 and for private sector banks is 76.3 percent.
9. 'Mergers in Indian Banking: An Analysis' by M. Jayadev and Rudra Sen Sarma reveals that in Indian banking sector force mergers are more in comparing with voluntary mergers. They strongly argued that to face domestic & global challenges Indian financial system requires very large banks. They also opined that, to make merger successful, several critical issues to be handled carefully. Ex. Valuation of target bank loan portfolio, valuation of equity, integration of IT platforms and issues of HRM. Banks are optimistic about realizing the merger gains such as exploration of new markets and reduction in operating expenses. Post merger issues identified are issues related to organizational culture, managing human resources, customer relationship, integration of branches and IT net work etc.,

RESEARCH GAP

As many as studies are there about bank mergers, still a complete discussion about the solutions for the problems faced by Indian banking sector, offered by Mergers, is not discussed on complete basis. In a nutshell, how far banking mergers are useful to bring banks out of their problems or do banking mergers form a one step solution for all banking problems is not perfectly discussed. This paper is intended to focus on the statement, mergers as a one step solution to banking sector problems or not or do bank mergers act as a panacea for Indian banking ailment

OBJECTIVES OF THE STUDY

1. To study the viability of merger process carried out in Indian Banking Sector
2. To study whether all set for banking mergers in India or not
3. Do Bank Mergers act as a magic spell for all banking problems
4. To study the world banking sector experience after bank mergers

III. METHODOLOGY

Sources of Data: Secondary data is used from different sources include RBI data base, different articles, journals and websites

Period of Study from 1969 to 2017

STUDY OF OBJECTIVES

I. Viability of Merger process

Mergers and acquisitions, the stuff of News Paper headlines, quite often fail. Around 50% of mergers don't achieve their business objectives and takeovers cause the shareholders of most acquirers to lose money, according to several studies conducted over the past four decades.

Bank mergers also often fail. They end up with no use or where the outcomes of mergers are not encouraging. Example, National Bank of India (NBI) was taken over by Punjab National Bank (PNB) in 1993

(First bank merger after Narasimham Committee Recommendations in 1991). By the time of merger PNB was a solid Bank then with a solid track record of profitability, and many times larger than NBI in terms of Assets & employees. Post merger PNB recorded its first loss (of Rs. 96 Crores) in 1996, and remained embroiled in employee issues for a very long time.

But at the same time non-banking giants of India, even amidst of world economic crisis could manage their mergers profitably. Ex. Te Indian Technology major TCS picked up CitiGroup global Services (The North American Bank's India based outsourcing division) for $505 million in October 2008. Another Company HCL bought Britain's Axon group for $672 million in December 2008. The fact behind this is that many emerging giants are cash rich. Reflecting those companies bloated Balance sheets, a survey conducted by HBR and world economic forum in 2008, found that 50% of CEOs from developing economies plan to finance their bids with internal resources and 46% by issuing fresh equity. They are not worried about diluting share holdings.

EMERGING NON BANKING GIANTS APPROACH TO MERGERS & ACQUISITIONS

1. Unlike in traditional approach, which uses merger to lower costs, emerging giants aim is to obtain new technologies, brands, and consumers in foreign countries
2. Unlike the traditional merger, where acquirer and acquisition usually have the same business model, but in new model acquisition, the acquirer is often a low-cost commodity player, while the acquisition is a value-added branded products company.
3. In new age mergers, instead of making several changes in the acquisition after the takeover, which slows the quest for synergies, integration is slow moving at first. After a while the buyer starts pulling the acquisition closer.
4. Instead of high executing turnover and headcount reduction, soon after the acquisition, little interference; executive turnover or headcount reduction could reduce the tensions in the long run.
5. Instead of short-term aims of acquisition, the long-term vision for the acquisition must clear.

IS ALL SET FOR BANKING MERGERS IN INDIA

Since 1969, till 2017, there have been as many as 41 mergers and amalgamations in Banking and finance sector. There were at least 25 cases where Private Sector Banks merged with Public Sector Banks and some of them were induced mergers, while the others were voluntary. Post 1999, however, even healthy banks were merged driven by the business and commercial considerations. Post reforms private sector has seen giant size banks taking shape in that sector.

Post recession global financial architecture required RBI to identify the systemically important Banks like SBI & ICICI.

Emerging developments and the changes that occurred during the last two decades with digital banking making deep inroads, demand a different alchemy of structural transformation in Indian Banking.

Implementation of BASEL III of capital procurement to Public Sector Banks by Government of India and confining its shareholding to 51% leads alter the structure of Public sector Banks.

The diversity of Indian Banking system is also a challenge for consolidations as a part of reformation.

Financial inclusion demands the proximity of Banking system, to vast and semi illiterate customers in rural areas. Several experiments like the business correspondents, business facilitators, PACS, RRBs, LABs have not made a big dent in the most deserving inclusive sphere.

Financial Stability Report of RBI 2015 holds that the weakness in asset quality and profitability remains high compared to the previous period.

Need exists but the move requires lot of cleansing the operating environment. Ex. Many banks do not devote enough attention on measuring the risks of new products introduced by the banks.
Human resource issues related to stoppage of recruitment and outsourcing must be answered properly.

However the eternal questions remain are:
a. Do we need global size banks or Indian Banks that meet the growing needs of the Indian Economy?
b. Can those giant banks provide depositors their due place?
c. Will mergers be an answer for improving the health of the financial system or will give rise to more systemically important banks providing greater strain for the regulator than now?

Why Need of Mergers in banking industry felt now in India?

Apart from Nationalized banks, a number of other players operate in the sector today. This includes private, foreign, regional, rural, payments and small finance bank apart from the NBFCs. With all of them chasing the same customer base, the amalgamation of banks with similar frameworks can lead to operational efficiency and economies of scale. "Consolidation will help by marrying, two banks that have similar structures and are chasing the same goal. The banks will be able to better channelize the resources and functions more smoothly if they are being controlled by one strong management team, said Kalpesh Mehta, partner at auditing firm Deloitte Haskins & sells.

The Mergers are also expected to reduce the pressure on the Government to secure capital for Public Sector Banks. State owned lenders may need Rs. 1.8 Lakh Crores of capital infusion by financial year 2019 (estimated), of this Rs. 70,000 Cr. Will be pumped in by their largest shareholder, the Government. The onus to raise the balance is with the banks themselves. The merged, stronger and competitive entities will, thus be better placed to attract funds. Along with these internal things some external things also made our experts to think about mergers.

(a) Though India is the 6^{th} largest economy of the world, no Indian bank is listed in the top 70 large banks of the world in terms of asset size. Anyone can say a large bank can have advantages in terms of efficiency, risk diversification and capacity to finance large projects. This efficiency can be shown through lower cost but higher quality of services.

(b) Large banks are less risky compared to smaller banks, as they diversify their investment on different priorities (risk spreading) which we can observe with different countries experience.

(c) In March 2016, Fitch rating agency mentioned as "More stable banking system tend to be structured around a number of large 'Pillar' banking groups. These large banks in a consolidated banking system enjoy scale benefits leading to a better diversification of risks and stronger overall profitability contributing to higher credit ratings".

(d) Indian Banking System is too fragmented and defuse, which is far below the level of ability to get profits. This is cleared by Herfindahl-Hirshmann Index (HHI) for Indian Banking Sector using square of on balance3 sheet market share of all banks in the system which works out to be 518.53. In fact this index is following over the years.

(e) There are 48 domestic banks (including RRBs and LABs) out of which there are 27 PSBs having a market share around 70% in terms of asset size. A comparison of the performance of large PSBs perform better. Under Indian conditions there is a lot of scope for banks to grow in size to become efficient and diversify their risks.

(f) Another important point is the growing demand for credit in the market, force3s the banks to grow in size to meet the higher demand of credit.

(g) After the crisis, internationally, there has been a significant tightening of regulatory norms. These regulatory requirements have compelled many internationally active banks to reframe their business strategies into downsizing, quitting some business and some jurisdictions. This provides an opportunity to EME banks, who gave global ambitions, a ready business, and market space. If we have good large banks, such banks can tap these opportunities and can become global banks.

Do Bank Mergers act as a magic spell for all banking problems?

The straight answer for this question is difficult. Merger may be a solution for few problems but not for all.

1. **Capital Adequacy:** First to talk about capital adequacy, merger of weaker bank with stronger bank will enable effective management of NPA and allow for greater credit availability. But it is not true. In India Public Sector Banks as a category are short of equity capital by an estimated Rs. 2.5-3.5 lakh crores. There is n't a single bank, not even the giant SBI that has the kind of spare Balance sheet capita to make even. a small dent in the capital requirement of the category as a whole.

2. **Economies of Scale:** Larger banks derive efficiencies of scale, reduce risk and improve returns. But global experience is different. In 2011, Harry Huizinga of Tilburg University and Asli-Demirguckunt of the World Bank evaluated a sample of banks from 80 countries from 1991-2009. They looked at the impact of size on risk and return profiles of banks. The results were interesting. Large size of Banks implied a trade off between risk and return. Systematically larger banks on average have lower return on assets, but no discernible impact on bank riskiness. In a nut-shell therefore, mergers won't have any obvious benefits on either risks or returns. Rather in case we end up creating 4 or 5 systematically large banks that would make the banking system more vulnerable, while making lesser returns.

From technology perspective too, the assumption of larger being better stands on tenuous grounds. A study by Dean Amel et al in the 'Journal of Banking and Finance', in 2004 showed that the tipping point for banks in North America was $50 billion, beyond which there were negative impact of larger size on operating costs.

3. **Large Sized Banks are required in a growing economy:** The third one, as many pro-bank mergers argue large sized banks are required to meet the requirements of large projects in a growing economy. But the reality is, at the core of risk management is diversification, risks of larger projects should be ideally spread across multiple institutions rather than being with one (or few). At a conceptual level, highest risk exposures (especially in large projects) should be diversified away to non-banking pools of capital-like PE funds, Mutual funds, overseas pension funds etc.,
4. **Concept of Too Big To Fail:** The biggest challenge confronted by regulators globally, since the financial crisis in 2008 has been the issue of Too Big To Fail (TBTF) banks. Regulatory action since then has been focused towards ensuring that banks do not reach TBTF levels, and the ones that are already there are regulated tightly. In India, we have been incredibly fortunate in not having very concentrated banking system. Any effort to shoehorn consolidation of Banks merely reverses this welcome feature, without any mitigating benefits-either in terms of conceptual objectives or in terms of past experience(in India or abroad).

World Banking Sector experience towards mergers:

(a) **Columbian Experience:** Between 1997 and October 2000, there were 42 financial institutions merged in Colombia. Thirty-seven of these mergers (88%) were between private institutions and five of them (12%) between state owned institutions. In the case of the absorption of institutions specialized in mortgage loans or commercial financing companies by a bank, the resulting institution was a bank. Most mergers procedures have been the outcome of financial difficulties inside the institutions.

(b) **The Czech Republic experience:** For the first time major rounds of cleaning up banks' balance sheets were undertaken in order to establish a healthy banking industry in Czech in 1991. For this purpose Konsolidacni banka (KOB) was established and larger banks were freed from bad loans. In the second step emphasis was shifted to smaller banks with the stabilization programme in 1997. The main impact of these programmes has been a marked decrease in the number of banks, because of the license revocations, mergers, acquisitions, liquidations and bankruptcy proceedings involved. The total cost for the entire programme is estimated at roughly CZK 200billion. The overall impact of banking sector reforms in Czech is the large number of banks that went out of business contrasts with their low share in the total assets of the banking sector. This peaked at around 5% in 1994 and then steadily decreased to about 3% at the end of 1997. Consequently, the loss-making business of these small banks presented no systemic risk in itself. Nevertheless, the possibility of a negative impact on the public could not be ignored and costly preventive measures were necessary. Customers were indemnified up to a limit of CZK 4 million, although a Deposit Insurance Fund was in place with a maximum indemnity of CZK300, 000.

(c) **The Indonesian experience:** The deregulation packages in the 1980s and 1990s might have contributed to the fragility of the banking sector in Indonesia due to lack of prudential regulation, good governance, market discipline and law enforcement. Given the inherent fragility, the industry was prone to a crisis, which was triggered by a sharp depreciation of the rupiah in mid 1997. Experience shows that large banks with wide networks encounter more difficulties than small banks, which are less exposed to foreign exchange rate and interest rate risks. As a part of privatization foreign investors were allowed up to 99% ownership in Indonesian banks.

(d) **The Korean Experience:** Mergers have been the typical form of consolidation in Korean banking industry. This is because the top priority in financial sector restructuring was originally given to the resolution of unsound financial institutions. The government believed that large banks have many competitive advantages in the new financial environment, in which universal and internet banking are flourishing while the internationalization of the domestic financial market accelerates. It also expected that mergers will increase the efficiency of bank management as a result of downsizing to eliminate the duplicate organizational structures and staff. Traditionally, there had been strict turf boundaries between the various types of financial business in Korea, and commercial banks could engage only to a very limited extent in the securities business, while being in principle prohibited from carrying on insurance business. But as a result of mergers in Korean banking industry commercial banks have sought numerous ways to circumvent boundary lines by setting up subsidiary companies or entering into cooperative alliances with other related companies and could increase their business.

(e) **Saudi Banking Industry's Experience:** Following the resolution of the Gulf Crisis in 1991, there was a mini boom in the economy. During 1991 there was a massive surge of about 20% in the deposits of the banking system. Bank's domestic loans and advances grew 90% in 190-95 and all other banking indicators, such as rates of return on equity and assets, continued to show solid and stable growth and strong profitability during and second half of the 1990s. The trend towards increasing the banks' capital base continued and three Saudi banks went to the market during 1993-97. The capitalization objectives were largely achieved and, with a risk/asset ratio of 20% at the end of 2000. Saudi banks are now highly capitalized by international standards. The restructuring of the banking system continued with the 1997 merger of United Saudi Commercial Bank and

Saudi Cairo Bank into United Saudi Bank. In 1999, United Saudi Bank merged with Saudi American Bank to form the third largest bank in the kingdom. This consolidation of Saudi banks is primarily driven by shareholders who wish to maximize share values and believe that size matters. The trend towards mergers may continue as banks may require more capital to invest in technology, in new products and services and in risk management systems.

IV. FINDINGS AND CONCLUSIONS

a. With changing banking scenario, mergers in the banking sector, not only in India but in the world became inevitable.
b. All most all bank mergers in India are forced mergers.
c. The only bank that got highly benefited through mergers is ICICI Bank.
d. Without fulfilling the prerequisites, mergers are taking place in India
e. Many mergers did not achieve their objectives.
f. Post merger issues are not attended properly in many banks.
g. The procedure adopted for merger is sound and effective in other kinds of industries than banking industry.
h. Bank mergers in India are only targeting international competitiveness, but not the expansion of their domestic horizons.
i. In the countries like Malaysia, Korea and Thailand government strategically participated in Bank mergers and made them successful.

Suggestions

1. Before going for bank mergers, possibilities and impossibilities should be analyzed carefully, a slow but steady and strategic merger procedure must be followed.
2. The M&A methods and procedures followed by non-banking entities must be adopted by banking sector also
3. Merger must result in asset quality, cost efficiency, quality of management, market leadership, spreading of risk, economies of scale and scope, enhanced rural base etc.,
4. Voluntary mergers are needed more than forced mergers in Indian Banking Sector
5. Bank mergers must not only aim at international competency but also look after the domestic viability of them.
6. Loss making banks while merging with profit making banks, it must be thoroughly studied about the future profitability of the newly amalgamated bank.
7. For perfect Bank mergers in India, a strong policy and legal framework is the need of the hour
8. For carrying out banking mergers, a separate autonomous or constitutional body must be created, as in the case of Czech Republic.

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