

Banks Mergers in India: Historical Perspective & Strategic Policy Issues

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Indian banks have a long history and have undergone reorganization arising from the need to strengthen or to be competitive. This study presents the historical perspective of banks mergers in India to make them undertake bigger projects and to be globally competitive. Bank mergers gained momentum after economic reforms and liberalization measures in early nineties. There were mega mergers from 2018 onwards with the objective to increase the global competitiveness and to reduce weaknesses of Indian banks. Issues like rationalization bank branches, ATMs, and non-residents shareholdings of banks are presented. Besides, internal issues such as banks' performance and governance, strategic policy issues concerning external constraints and including dual regulation, widening compensation differences with private sector banks are discussed.

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Introduction

Banks in India have a long history and have undergone reorganization arising from the need to strengthen or to be competitive. Such reorganization has led to merger of banks primarily with the objectives to:

- bailout weaker banks,
- protect customer interests, and
- create an Indian bank that would be in league of a global giant i.e. to create larger banks to be competitive globally.

Merger of state-owned banks gained momentum after economic reforms and liberalization measures in early nineties. M. Narasimham Committee (1991) recommended merger of banks to form a three-tier structure with three large banks with international presence at the top, eight to 10 national banks at tier two, and a large number of regional and local banks at the bottom. Later, Verma Committee (1996) and Khan

Committee (1997) recommended that banks and development financial institutions should go into gainful merger to have benefits of synergies and complementarities of the merging units. The merger should be between strong banks to have opportunities for pooling of strengths, to overall reduction of cost of operations with increased competitive ability, operational efficiency and better positioning and larger market share in business. The Narasimham Committee (1998) recommended that mergers be only between bigger banks, as that would lead to cost reduction and increase in business and profit. Similarly, the P.J. Nayak Committee (2014) had also suggested that state-run banks should either be merged or privatized. Mega merger exercise has been done in the last two years and the thirteen banks have been merged into five banks.

Merger can be broadly classified as a) mandatory or forced one, or b). Voluntary to cover the weak one. Forced

mergers are presented in Table 1. Table 2 presents mergers which are voluntary as notified by the government. Mega mergers during the last two years (2018 -20) are presented in Table 3.

Merger of banks can be market driven or mandated by the government. Indian banking sector has been evolving continuously; the initial phase up to WW I was a difficult period as there was no entry norm and the banks were normally small and that too private.

During the Vedic period (Dhameja & Arora, 2020) three Presidency Banks, i.e. Bank of Bengal (set up in 1806), Bank of Bombay (set up in 1840) and Bank of Madras (set up in 1843) were amalgamated into a single bank in 1921, i.e. the Imperial Bank of India. The Imperial Bank was further reconstituted with the merger of a number of banks belonging to old princely states namely, Jaipur, Mysore, Patiala and Jodhpur. The Imperial Bank performed the functions of

Table 1 Forced Merger of Banks in India

Acquirer Bank	Year	Motive	Target Bank
1 Canara Bank	1985	Restructuring weak Banks	Lakshmi Commercial Bank
2 PNB	1993	Restructuring of weak bank	New Bank of India
3 Bank of India	1993	Restructuring of weak bank	Bank of Karad Ltd
4 SBI	1995	Restructuring of weak bank	Kashinath Seth Bank
5 OBC	1997	Restructuring of weak bank	Punjab Co-op Bank
6 OBC	1997	Restructuring of weak bank	Ban Doab Bank Ltd
7 BOB	1998	Restructuring of weak bank	Bareilly Corporation Bank
8 Union Bank if India	1999	Restructuring of weak bank	Sikkim Bank Ltd
9 BOB	2002	Restructuring of weak bank	Banaras State Bank Ltd
10 PNB	2003	Restructuring of weak bank	Nedungadi Bank Ltd
11 BOB	2004	Restructuring of weak bank	South Gujrat Local Area Bank
12 OBC	2004	Restructuring of weak bank	Global Trust Bank
13 Federal Bank	2006	Restructuring of weak bank	Ganesh Bank of Kurandwad
14 IDBI Bank	2006	Restructuring of weak bank	United Western Bank

Source: Compiled from Report on Trends and Progress of Banking in India RBI Various issues

Table 2 Voluntary Merger of Banks in India (2001-2017) 2001 to 2017

Acquirer Bank	Year	MOTIVE	Target Bank
1 HDFC Bank	2000	To achieve Scale & Scale of Economies	Times Bank
2 ICICI Bank	2001	To achieve Scale & Scale of Economies	Bank of Madura
3 ICICI Bank	2002	To achieve Scale & Scale of Economies	ICICI ltd
4 Centurion Bank	2005	To achieve Scale & Scale of Economies	Bank of Punjab
5 Centurion Bank	2006	Expansion of Size	Lord Krishna Bank
6 ICICI Bank	2007	Economies of Scale	Sangli Bank
7 Indian Overseas Bank	2007	Economies of Scale	Bharat Overseas Bank
8 HDFC Bank	2008	Expansion of Scale	Centurion Bank
9 SBI	2009	Expansion of Scale	SBI of Saurashtra
10 SBI	2010	Expansion of Scale	Bank of Rajasthan
11 SBI	2010	Expansion of Scale	SBI of Indore
12 Kotak Mahindra Bank	2014	Expansion of Scale	ING Vysya Bank
13 SBI	2017	Expansion	Bharatiya Mahila Bank (BMB)SBI: Associates Bikaner & Jaipur Hyderabad Mysore Patiala Travancore

Source: Compiled from Report on Trends and Progress of Banking in India RBI Various issues

Table 3 Voluntary Merger of Banks in India (2018- 20)

Year	Acquirer Bank	Targets Banks	Purpose	Type of Merger
1 2018	Bank of Baroda	Dena Bank & Vijaya Bank	Expansion	Voluntary Merger
2 April 1, 2020	PNB	Oriental Bank of Commerce & United Bank of India	Expansion	Voluntary Merger
3 April 1, 2020	Allahabad	Indian Bank	Expansion	Voluntary Merger
4 April 1, 2020	Union Bank	Andhra Bank & Corporation Bank	Expansion	Voluntary Merger
5 April 1, 2020	Canara Bank	Syndicate Bank	Expansion	Voluntary Merger

Source: India Today, August 31, 2019

Central Bank prior to the establishment of Reserve Bank of India (RBI, 2008).

Though with the increase in economic activities, number of banks were

set up, despite severe economic problems like inflation, low productivity of agriculture sector during WW I, number of commercial banks increased to 107 by 1930. However, during Great Depression a large number of banks failed.

After Independence, banks in India faced tough financial times, i.e. low capital base, they overreached themselves by opening more branches, and by advancing large loans against property or inadequate security. This led to failure of large number of banks and also loss in faith in the banking system. Most of the savings during this period were in the form of land and gold; the household savings which constituted 66 % of the total, mostly flowed to the postal department, considered as safer avenue due to government ownership. In such a situation, deposits mobilized by commercial banks were largely lent out to security-based borrowers in trade and industry (RBI, 2008).

In the wake of such a situation, amalgamation of banks was seen as a solution and the Banking Companies (Amendment) Act 1961 was enacted; until then amalgamation was possible by a banking company with any of the State Bank of India or its subsidiary. The policy of strengthening of banking sector through a policy of compulsory amalgamation and merger helped in consolidation of the banking sector, and as a result banks reduced from 474 to 210 during 1951 - 1961 and further to 20 in 1967. The branch offices during this period reduced from 1504 to 622 and further to 203 respectively (RBI, Sept. 2008). During 1954 to 1960, as many as 83 banks were amalgamated; while during 1960 to 1966, 217 banks were amalgamated. Further, merger of 46 banks during 1961-1969 was mostly of the private banks and that found to be a successful move to reform and revive the weaker banks.

Post-nationalization & Pre-liberalization Period (1969 - 1991)

Banks were nationalized in two rounds, 14 largest commercial banks were nationalized in 1969 in the first round, and six more banks were nationalized in 1980 with the objective to give more control of credit to the government; thus the government got control over about 91 percent of the banking system. There were 13 mergers between public sector and private sector banks during this period.

Mergers during 1991 – 2017

This was the period of economic reforms allowing foreign investment, and foreign banks were permitted. About 15 mergers took place during this period to restructure weaker banks (Table I). Mergers also took place with the purpose to expand and to achieve economies of scale (Table 2). For example, Global Trust merged into the Oriental Bank of Commerce (OBC) during 2004, that enabled OBC to get an entry into the southern market and got a million depositors; and the weaker Banaras State Bank merged with Bank of Baroda in 2002. However, merger of New Bank of India with PNB in 1993 and of United Western with IDBI in 2006 did not have good effect (Bandi Ram Prasad, Sept. 2019). During April 2017, associates of the SBI merged with SBI with the objective to expand, the merged banks included, Saurashtra State Bank, Bank of Indore, State Bank of Patna, State Bank of Hyderabad, Bhartiya Mahila Bank (BMB), State Banks Bikaner & Jaipur, Hyderabad, Mysore, Patiala, and Travancore.

Mergers 2018 Onwards

As a process of banking reform, government decided in 2018 to go in for mega mergers of nationalized commercial banks with the objective “to increase the global competitiveness and to reduce weaknesses of Indian banks”. The banks so merged are presented in Table 3. The banks merger was done under the bank consolidation plan of the Union Government, so as to:

- Enhance capacity to increase credit
- Have banks with a strong national presence and international reach
- Reduce lending cost
- Have next generation technology for the banking sector
- Improve ability to raise market resources, to take up big projects and speed up economic development of the country and also to help India to be turned into a \$ 5 trillion economy by 2024.

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Bank of India and BOB was approximately 63 percent of the total meant for nine banks (Times of India, Delhi, August 31, 2019).

Further, on analysis of mergers in 2019, one finds that:

- Profit as a criterion of merger does not hold, as losses of merged banks (Andhra and Corporation banks) of Rs. 7,971 crores were higher than that of Union’s Rs. 5,247 crores.
- As against this, losses of Dena and Vijaya banks at Rs. 3,721 crores during 2016-18 were less than those of BOB at Rs. 7,828 crores.
- Similarly, losses of OBC and United at Rs. 8,701 crores were lesser than Rs. 16,256 crores of PNB; and
- Losses of Syndicate Bank at Rs. 4,683 crores were lower than that of Canara Bank of Rs. 7,034 crores.

One more issue arises that UCO, IOB, Bank of Maharashtra with respective losses of Rs. 9,086 crores, Rs. 12,614 crores, and Rs. 2,517 crores have been left out of merger exercise (Bandi Ram Prasad, 2019). Some mergers were induced by mandates and others by market forces. As a result of mega merger exercise, India has twelve nationalized public sector banks (PSBs) as : five indicated in Table 3 plus SBI, BOI, CBI, BOM UCO, PSB, IOB. (Table 4)

Banks Merger: Perspective

Merger of banks has been recommended by a number of committees with

Table 4 Credit Deposit Ratio & Profitability Ratios

	Credit/Deposit Ratio (%)	Business Per Employee (Rs. Crores)	Operating Profit Per Employee (Rs. Lakhs)	Net Profit to Total Assets (%)
PNB (PNB + OBC + UBI)	71.9	17.8	18.04	(-)1.02
BOB (BOB + Dena + Vijaya)	73.4	14.02	14.02	(-) 0.77
Indian (Indian + Allahabad)	77.0	18.87	17.86	(-) 1.5
Union (Union + Andhra)	77.9	19.36	21.8	(-) 1.26
Canara (Canara + Syndicate)	77.0	16.91	14.92	(-) 0.222
SBI	75.08	20.25	21.55	+0.023
HDFC	88.76	16.87	38.16	+ 1.69
ICICI	89.85	14.95	27.6	+ 0.35

Source: Indian Bank Association (IBA) Key Business Statistics- 2019

the objective to gain financial strength, to be competitive and to fund larger size projects. Committee on Financial System, under the Chairmanship of M Narasimham (1991) recommended that as a part of structural reorganization of the banking sector, number of banks should be reduced to achieve international standards and some to become national and universal banks. Again, Verma Committee (1996) and Khan Committee (1998) recommended that banks and development financial institutions should go into gainful merger to have benefits of synergies and complementarities of merging units. The merger should be between bigger banks to have opportunities for pooling of strengths, to overall reduction of cost of operations with increased competitive ability, operational efficiency and better positioning and

Number of banks should be reduced to achieve international standards and some to become national and universal banks.

longer market share in business. (Dhameja & Arora, 2020). Narasimham Committee (1998) also recommended consolidation through a process of merging large banks only with large banks, the large banks should not be merged with the weaker banks, “Mergers are driven by synergies – in products, costs, business, geographies or technology and the most important, cost synergies. Unless they realize cost synergies between the branch and staff rationalization, mergers may not mean much to them or to the economy. This is where the govt strategy will be tested” (Daily Excelsior, 2019).

The mega merger done in the last two years is expected to increase the capital base so as to undertake financing of bigger projects, to improve service delivery, to undertake technology upgradation, to offer wide array of products like mutual funds, insurance in addition to traditional loans and advances, reduce recapitalization needs of banks, and the ministry would be able to focus more and better with lesser number of banks. However,

it would need attention on human resources management and development and swapping of bank branches and the number of ATMs.

Financial Analysis

Of the twelve PSBs, three largest in terms of business size namely, SBI, PNB,

BOB have respective business size of Rs. 52.65 lakh crores, Rs. 17.94 lakh crores and Rs. 16.13 lakh crores. Their respective (pre-merger) market capitalization was 167.6, 31.8, and 21.7, Rs. Lakh crores respectively. The market capitalization of HDFC and ICICI was Rs. 5.44.1 and Rs.228.8 lakh crores respectively. (Table 5)

Table 5 Market Capitalization, Business Size, P/BV, Beta

	Mkt. Capitalization (Rs. Crores)@	Business Size (Rs. Lakh Crores) ##	Mkt. Price Per Share/Book Value Per Share (P/BV)@	Beta @
PNB	31,854		0.76	1.75
OBC	5,926		0.34	1.82
United Bank	<u>4,063</u>		0.33	0.89
Total	41,843	17.94		
BOB	21,717		0.282	1.81
Dena	2,844		0.31	1.31
Vijaya	<u>6,012</u>		0.61	1.65
Total	30,573	16.13		
Allahabad	3,450		0.346	3.56
Indian	<u>2,723</u>		0.2346	1.94
Total	6,173	8.08		
Union	9,824		0.48	2.03
Andhra	2,817		0.4	1.18
Corporation	<u>5,874</u>		0.35	0.9
Total	18,515	14.59		
Canara	15,240		0.206	1.9
Syndicate	<u>10,030</u>		0.2	NA
Total	25,270	15.20		
SBI + Associates & Subsidiaries	167,604	52.65	0.8	1.49
HDFC	544,133	NA	3.1	0.71
ICICI	228,844	NA	1.88	1.26

Sources: ## Times of India, August 31, 2019

@ Individual Company Network Price (June 30, 2020, or no-trading 30 days)

From the analysis of financial health in terms of ratios in Tables 4 and 5, we find that:

- I. Credit to deposit ratio, which indicates the number of advances from

the deposits, is higher in the range of 88 % and more for HDFC and ICICI, while for the public sector banks (PSBs) this ratio is 71 -78% (Table 4)

- II. While business generated per employee is the highest in the case of SBI, Indian Bank and Union Bank; operating profit per employee is the highest for HDFC (Rs. 38.16 lakhs) and ICICI (Rs. 27.6 lakhs), while it is lower in the range of Rs 14- 21 lakhs for PSBs (Table 4)
- III The profitability ratio i.e the ratio of net profit to total assets for SBI, HDFC and ICICI is positive figures of 0.022 %, 1.69% and 0.35 % respectively; while for PSBs it is negative. (Table 4)
- IV. Comparison of market value per share (P) with book value per share (B) (P/B ratio) reflects the value placed by the market on the share of the bank. For banks in India, P/B ratio is low, reflecting the heavy discount placed on public sector banks. For SBI, PNB, and Vijaya Bank the ratios were just close to one i.e. 0.8, 0.76 and 0.61 respectively; for other PSBs, the P/B ratio was lower, even below 0.4. On the other hand, private banks namely ICICI and HDFC had ratios greater than one (1.88 and 3.88 respectively), reflecting that their shares command premium in the market (Table 5).
- V. BETA, a common measure of risk of an individual security in relation to the whole stock market, indicates that for PSBs in general (except for United Bank and Corporation Bank) was greater than one indicating that these securities were more volatile than the market. For HDFC beta being only 0.71, indi-

cates that its stock is less volatile. (Table 5).

Branches & ATMs Rationalization

- a) On amalgamation of PSBs, there will be the need to rationalize branch offices and ATMs and other offices to provide better services and also to take care of any overlapping in any particular region. For example, OBC merged with PNB, both are located in NCR Delhi region; similarly, Syndicate and Canara Banks, both are based in Mangalore, south India; similar is the situation of BOB and Dena banks, both being in the western India; many branches possibly in the same vicinity in urban and metro urban cities, would have to be rationalized, this could be finalized by mapping their areas of locations and the customer base.
- b) Similarly, merger would enable the banks to expand their business abroad; since many banks have branches and operating offices abroad; there would be need to rationalize the foreign offices, many offices would require upgradation depending on the volume of business expected. As indicated in Table 6 many banks have branches and operating offices abroad, there would be need to rationalize or upgrade these.

Many banks have branches and operating offices abroad, there would be need to rationalize or upgrade these.

c) Non-resident shareholding in the PSBs is another issue which banks have to attend too. How such shareholding would get affected after merger? For example, PNB and BOB have foreign shareholdings of 9.1% and 14.4% respectively, as per pre-merger data, these will be affected after merger. (Table 6)

d) Banks have branches in rural, urban and metro urban areas; the emergent need would be to rationalize the branch offices at least in urban and metro urban areas. Similar will be the exercise for ATMS (Table 6)

How many banks does a big and growing economy need? In India after merger, we have 12 PSBs, plus 20-odd private banks and 35 foreign banks. As against that China has 136 in the World's Top 1000; a small economy like the Philippines has 45 big universal banks, 54 mid-sized thrift banks and hundreds of rural banks,

Table 6 Banks: Head Offices, Branch Locations, ATMs and Non-resident Shareholding

	HQ	Appendix IV 5			Appendix IV 6			BRANCHES			ATMS		
		Non-Resident Indian Shareholding%	Overseas OperationsNo.	Total	Urban + Metro	% total	Total	Off-side	% Total				
PNB	Delhi	9.1	11	6581	2304	35	9440	4142	43.9				
OBC	Gurgaon	4.6	1	2399	1212	50.5	2635	298	11.3				
UBI	Kolkata	0.1	2	2018	831	41.1	2138	1098	51.4				
Syndicate	Manipal	3	1	4033	1663	41.2	4345	400	9.2				
Canara	Mangalore	5.2	10	6222	2420	38.9	9221	4218	45.7				
Andhra	Hyderabad	2.7		2919	1405	48.1	3934	792	20.1				
Corporation	Manglorae	1.3	2	2464	1081	43.8	3091	734	23.7				
Union	Mumbai	5.1	8	4290	1755	40.9	7556	3011	39.8				
Allahabad	Kolkata	3.4		3243	1273	39.2	1112	262	23.6				
Indian	Chennai	6.6	4	2750	1238	45.0	3381	650	19.2				
BOB	Vadodara	14.4	70	5474	2101	38.4	9615	3352	34.9				
Dena	Mumbai	1.5	1	1792	786	43.9	1646	320	19.4				
Vijaya	Bangalore	0.5		2135	1075	50.3	2173	493	22.7j				
SBI		12.6	92										
HDFC		72.6											
ICICI		60.9											

Source: Reserve Bank of India, Report on Trends & Progress of Banking in India, 2017-18

with Moody's rating them as stable in the medium. As per 2019, S & P Global Market Report of the 100 largest banks in the world, based on total assets, only SBI ranked 43 with total assets of US \$ 730 billion; however, in terms of market capitalization, the two Indian banks included in the top 100 banks were HDFC (ranked 21, with US \$ 88.435 billion) and SBI (ranked 61, with US \$ 40.562 billion). Thus, after merger of PSBs in 2020 with the objective to be a giant bank in India, no bank other than SBI comes within the purview of the largest as per the Global Market Report (S & P Global Market Report, Wikipedia). Thus, will such merger make the Indian banks competitive?

Vinod Rai, former C & A G and Chairman of the Banks Board Bureau (BBB) claimed government decision to merge banks and create four large and stronger banks as a good move that would lead to greater synergy among banks (Vinod Rai, 2019). With a smaller number of banks, government can save time and efforts in monitoring, the costs apart from creating synergy from the vast branch network. There was some rationalization in work force and even before the amalgamation was given effect to. For example, SBI launched VRS for nearly 1299 employees and about half were expected to avail that. Similarly, some banks advanced the promotions and transfers of employees, which would be effective April, 2020. Further, some banks formed independent committees, comprising officials from the banks to

be merged, to harmonize all products, both asset and liability sides, policies and processes to ensure that pre-amalgamation activities are properly handled. Similarly, the process of development of IT infrastructure will continue for a few months after the completion of the amalgamation. On the technology front, the banks worked out a model, where bank's data center will remain. With not much recruitment in PSBs in the last two years, need for offering VRS may not be required. (ETBFSI, 2020)

Way Ahead: Strategic Issues

The challenge is to improve the performance of banks. Though consolidation has made the banks bigger and the banks number is reduced, as stated earlier, the recommendation of the Narasimham Committee (1991;1998) had been that merger should be of bigger banks and weak banks, if not amenable to be revived, should be closed down. Here it will be of interest to note that, a Resolution Corporation proposal, to revive the stressed banks as an alternative to merger of strong bank with stressed ones, was mentioned by the Reserve Bank of India (RBI) Governor Shaktikanta Dass during SBI's online Economic Conclave on July 11, 2020. However, the bill proposing the Resolution Corporation in 2017 was dropped due to the controversial 'bail-in' clause, where creditors sacrifice part of their dues in an insolvency process; while the merger pulls down the balance sheet of the larger bank and the depositors' interest is protected (TOI, Times News Network, July 12, 2020).

Points for consideration are:

- Does consolidation of banks help in achieving the objectives of mergers stated above?
- Will we have banks with a strong national presence and international reach?
- Will it result in reduction of lending cost?
- Will the performance of bank improve?

Besides internal issues concerning performance, governance issues in PSBs arise from externally imposed constraints. Duvvuri Subbarao (former RBI Governor) raised the issue of corporate governance of public sector banks, “whether effective and autonomous corporate governance is compatible with public ownership of banks. The question arises because publicly owned banks render accountability to the government and to the democratic institutions. The government judges them on criteria quite different from those used by the market. How can we resolve this dilemma? Is it possible to stay with public ownership but still give near total autonomy to the boards? Is it, in particular, possible to cede the power to appoint the CEO to the board, but make the board accountable to the government and the shareholders for the performance of the bank?” (Duvvuri Subbarao, 2011; 2016). In this regard, the Banks Board Bureau (BBB), a public advisory authority (autonomous and self-governing) of the Central Government was established to im-

prove the governance of PSBs. The Bureau has the objective to help prepare the banks in the public sector to take on the competition, to help build capacity to attract, retain and nurture both talent and technology - the two key differentiators of business competencies in the days to come. The Bureau has evolved a relative performance rating system to assess the performance of PSBs, its directors and employees; and performance evaluation system based on which decision-making for the extension/termination of a whole-time director can be undertaken objectively (Banks Board Bureau, undated).

P. J Nayak Committee was appointed to review governance of boards of banks in India and it made far reaching recommendations. The Committee observed that the financial position of public sector banks is fragile, partly masked by the regulatory forbearance. Forbearance delays, but does not extinguish the recognition of this fragility (Nayak, 2014).

Findings of the committee are:

- The boards are disempowered, and the selection process for directors is increasingly compromised. Board governance is consequently weak. The Central Government, as banks’ shareholder, has suffered deeply due to negative returns over decades and it is in the interest of the Central Government to bring in reform in banks governance in total and not in piecemeal, to have the benefits of fiscal consolidation.

- Governance difficulties arise from several externally imposed constraints, including dual regulation, by the Finance Ministry in addition to RBI; board constitution, wherein it is difficult to categorize any director as independent; significant and widening compensation differences with private sector banks, leading to the erosion of specialist skills.
- RBI should be the sole regulator for banks, with regulations continuing to be uniformly applicable to all commercial banks; the Government should cease to issue any regulatory instructions applicable only to public sector banks, as dual regulation is discriminatory
- The committee suggested a radical and an involved model of moving all the government shareholding in PSBs to a special vehicle similar to a holding company, called Bank Investment Company (BIC). This structure would have the basic function of protecting the company interests of the State. This committee will have the power also to make appointments of whole-time directors and directors that represent the State, while the rest of the independent directors would be inducted through the process of identification of skill gaps and through a nomination process of the board.
- Bank Investment Company (BIC) should be constituted as a core investment company under RBI registration and regulation, and the government shareholding of the banks should be vested with the BIC headed by a professional banker. BIC should have the autonomy, and carry out the ownership functions and sets its objective in terms of financial returns from the banks it controls. The Government should distance itself from several bank governance functions which it presently discharges with necessary legislative changes including repealing the necessary statutes under which banks are constituted and registering them under the Companies Act
- The Government stake in banks should be brought down from 50 percent and that will take care of external vigilance enforcement through the CVC and CBI; and limited applicability of RTI Act. This would be a beneficial trade-off for the Government because it would continue to be the dominant shareholder without any diminishment of its control in banks diminishing.
- The Report recommended wide-ranging human resource policy changes, to get younger people into top management, significant and widening compensation differences with private sector banks, leading to the erosion of specialist skills.
- The process of board appointments, including appointments of whole-time directors, needs to be professionalized and a three-phase process was recommended. In the first phase, until BIC becomes operational, a Bank Boards Bureau (BBB) comprising former senior bankers should advise on all board appointments, in-

cluding those of Chairmen and Executive Directors. In the second phase this function would be undertaken by BIC, which would also actively strive to professionalize bank boards. In the third phase BIC would move several of its powers to the bank boards. The duration of this three-phase transition was expected to be between two and three years

- The Committee also suggested that the position of the Chairman and Managing Director of banks be split, with a fixed term of 5 years for the chairman/managing director and a term of 3 years for a whole-time director

In short, consolidation, no doubt, will raise the volume of banks, increase their size and capital base, but to improve their financial performance, make them globally competitive, and to achieve objectives to speed up economic development, challenges are to address concerns both relating to internal as well as of external factors such as:

- Consolidation, if only of bigger banks, as recommended by various committees', would lead to the challenge: how to revive and rehabilitate smaller banks, or to rationalize their resources including human resources, or to make them competitive at national level?
- Governance of external concerns would necessitate the separation of ownership from regulation, and that too regulation not by two agencies- RBI and the central government.

RBI should be the single regulator and the government should desist from issuing of instructions.

As a management principle, one should guard against dual regulations, RBI should be the single regulator and the government should desist from issuing of instructions. For safeguarding the ownership interest of the government, there could be a separate professionally managed agency, which would oversee that financial interest. As regards co-operative banks, which were until now jointly governed by the RBI and respective governments; now, as per the Ordinance, government banks including 1482 urban co-operative banks and 58 multi-state co-operative banks have been brought under the supervisory power of the RBI with effect from June 29, 2020. Thus, the Ordinance enables the RBI to get "control over management" of co-operative banks registered with a state government, too, apart from multi-state co-operative banks; the Ordinance will help in doing away with the duality of regulatory control over co-operative banks, along with allowing them to raise capital from other avenues (Somesh Jha, 2020; Dhameja, 2019). The real issue is how the above issues are to be resolved?

Summary & Conclusions

Banks in India have a long history and have undergone reorganization arising

from the need to strengthen or to be competitive. The study presents the historical perspective of banks mergers in India to make the banks undertake bigger projects, to be globally competitive and to help Indian economy to be turned into a \$ 5 trillion economy by 2024. Merger of state-owned banks gained momentum after economic reforms and liberalization measures in early nineties. Mega mergers 2018 onward wherein thirteen banks merged into five. The analysis has been in terms of financial ratios like, credit-deposit ratio, business and profit per employee, profitability of banks, and the ratio of market price of share to book-value per share (P/A); and also, rationalization of bank branches, ATMs, non-residents shareholdings of banks. Though the consolidation has made the banks bigger and the number is reduced, despite the recommendation of the Narasimham Committee that the merger should be of bigger banks, point for consideration is: does consolidation of banks help in achieving the objectives of mergers?

Besides internal issues concerning performance and governance of banks, strategic policy issues concerning governance arising from externally imposed constraints, as recommended by P. J Nayak Committee, including dual regulation, board constitution; significant and widening compensation differences with private sector banks, leading to the erosion of specialist skills; external vigilance enforcement through the CVC and CBI; are discussed. The other recommendations included that RBI should be the sole regulator for banks; shareholdings by the Government should be transferred to a

newly created professional body namely, Bank Investment Company (BIC). The recent Ordinance enables the RBI to get “control over management” of co-operative banks registered with a state government, too, apart from multi-state co-operative banks; and it does away with the duality of regulatory control over co-operative banks,

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