

## Mergers of Public Sector Banks: An Impact Kempegowda P.

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### ABSTRACT:

Banking system is considered to be a major sector which pumps money to the business, commercial activities that facilitate the growth of the economy. Banks collect deposits from the public and extend advances to the business activities of the economy. The study aims at understanding and analyzing the process of merger as banking institution plays a pivotal role in supplying finance into economic activities of the nation and also to what extent the economy is affected by the merging process. The study is taken based on the secondary data which is collected from the related journals, working papers and various websites. The study intends to understand the process, causes, advantages and impact of merger of public sector banks on the banking system and economy as a whole. It is found that the merger increased the working efficiencies of banks, reduced operational costs and improved risk management and created a larger capital base, created larger entities and enhanced credit growth and better global competitiveness but the study found that merging has not facilitated the efficient management of non-performing assets to a greater extent due to improper policy to handle the NPAs. Hence the study paper outlines briefly the entire process of merging and its effects on the economy as a whole and banking operations.

### KEYWORDS:

Public Sector Banks (PSBs), Merger of Banks, Non-Performing Assets (NPAs), Banking System, Economic Growth.

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### Introduction:

Banking sector forms a strong base of any economy and it is of more importance to keep the banking sector healthy, stable and strong. Merger is done on the basis of business growth and profitability of financial institutions. Banking sector provides financial assistance to the business initiatives of the nation and facilitates the attainment of economic development.

After the implementation of New Economic Policy introduced in the 90th decade the concept of merging of public sector banking is also a

major policy decision that central government took to bring in changes in the banking sector considering some critical issues of public sector banking institutions. It has been a national issue which was widely debated across country in the media and academic sector. Banking system is considered to be a major sector which pumps money to the business, commercial activities that facilitate the growth of the economy. Banks collect deposits from the public and extend advances to the business activities of the economy. Among different types of banks in India commercial banks play a very crucial role in the entire banking system. These banks have a huge network of banks with number of branches across the country and affect the economy to a greater extent with a set of financial activities. Commercial banks activities include receiving the deposits and extending the advances. They function as per the regulations of reserve banks. If we discuss the creation of public sector banks in India the history PSUs goes back to the decade of 1968–69 where private banks exceeding the amount of 50 crores were declared as government undertakings and nationalized with intention of considering the financial requirements of needy people of the nations. There were totally 27 PSUs which are now reduced to 12 after merger of banks in India. Here in this study the discussion is mainly focused on the process, challenges, benefits and impact of the merger which was initiated by the government of India in 2017–18. These nationalized banks assist the central government in attaining the planned economic growth of the country through their financial activities.

### **Objectives of the Study**

#### **Following are the objectives of the study**

1. To understand the process, causes, benefits of the merger of banks
2. To examine the effects of merging process

### **Methodology of the study**

The study is descriptive in nature. Data is collected from the various secondary sources like journals, websites, and working papers and analyzed.

### **Process of Merger**

The merger involves complex process and various steps. It was the central government decisions to initiate the merging of banks with the approval of reserve bank of India to mainly form larger banks to bring

changes in the banking functionalities like maintain the non-performing assets reduce operational costs, increase profitability, competitiveness among banks and create strong capital base. Some of the following steps involving in the process of merger are discussed below.

**Approval of government and Reserve Bank of India;** Government of India and reserve bank of India have to approve the merger plans in such a way that merged banking institutes should comply with the banking laws, capital and regulatory norms.

**Customer Transition:** Customers of Merger banks have to be transitioned into new banks system. New bank operations need to update accounts of customers with new account holder names if required or continue with earlier ones. Communication with regard to any changes must be brought to the notice of customers and ensure that they are well informed

**Asset Management:** Asset management is one of the key challenges of merged banks as the question of controlling the obligations of banks. Merger banks will generally take the control of the assets of small or weaker banks. Stronger banks also need to manage the non-performing assets of weaker banks.

**Integration of Operations** of the banks after merge is also a challenging process, after merging merged banks need to take of the functional operations like combining the branches, workforce, technological infrastructure and accounts its but entire transformation needs to be managed with minimal disruption to customers.

**Workforce:** Smooth integration of banks needs to be ensured as merging result in restructuring the workforce. Employees of merged banks have to be redeployed. While restructuring the workforce some of the employees may lose job and responsibilities also would change.

### **Reasons for Merging Public Sector Banks**

Many small banks had high levels of non-performing assets and low capital base. This kind of financial weakness of weaker banks gave scope for the concept of merger. Government and central bank considered the necessity of merging small weaker public sector banks into strong banks so that the financial weakness can be managed. Hence provide scope for the merger banks developing completeness and stabilizing the resource base and operations of merged banks. Larger banks can benefit

from the merger which included the reduction of operational costs and improve the efficiency. Merging can enhance the lending capacity with the strong capital base, increase the competitiveness, profitability and contribute for the overall economic growth of the nation.

### **Challenges Faced in the process of merging**

It is believed that merging of public sector banking posed a lot of benefits but it came with the equal share of challenges. Each bank as everyone knows each bank has its own work culture, management operations and system integration of the same becomes difficult and challenging which consume more time in processing the merger. Banks operate on a different set of banking platforms, integrating these technologies can be a complex process which needs careful efficient planning without much disruption in the continuous services to be provided to the customers. Employees resistance is the another issue which cause the delay in the process of merging. Merger leads to transfer or changes in roles of employees which can create dissatisfaction among employees. Maintenance of trust of customers is also crucial as the process of merger cause disruption in the service due to customer's accounts update. Complying with the regulatory procedures is another hurdle might create during the process of margining.

### **List of Banks Considered for the merger and Merged into**

Sl. No	Considered for merger	Merged into
1	Allahabad Bank	Union Bank
2	Oriental Bank of Commerce	Punjab National Bank
3	United Bank	Punjab National Bank
4	Andhra Bank	Union bank of India
5	Corporation Bank	Union Bank of India
6	Syndicate Bank	Canara Bank
7	Vijaya Bank	Bank of Baroda
8	Dena Bank	Bank of Baroda
9	State Bank of Bikaner	State Bank of India
10	State Bank of Jaipur	State Bank of India
11	State Bank of Hyderabad	State Bank of India

12	State Bank of Mysore	State Bank of India
13	State Bank of Patiala	State Bank of India
14	State Bank of Travancore	State Bank of India
15	BharatiyaMahila Bank	State Bank of India

### **Impact of Merger**

It is argued and believed that merger has both positive and negative effects here it is discussed more on the positive impact in general and economy as a whole. At the outset it is found that there has been considerable reduction in the levels of Non-performing assets. NPAs are a very critical issues of banking system demoralizing the entire banking operations and system in India and also affecting the trust among public and also hampering the growth of the country. NPAs weakened capital base for the banks causing non profitability and also inefficiency. It was a challenging and complex task for the government to maintain the trust of banking among public and also reduce the NPAs of some of the public sector banks and also create a strong financial base for the banks. Considering the significance of merger government took a strong initiative of merging all small and weaker banks into stronger banks. This historical decision of merge to greater extent improved the banking system in many ways. It is found that decision of merger reduced the operational costs and legal costs. The merged banks would become bigger and stronger financially and become more competent to extend the banking service to a wide range of customers; with strong client base the merged banks become profitable and viable. Merger addressed the issues of management of operational inefficiencies, in competitiveness at globally and weak financial base and improved global presence of the strong banks.

### **Conclusion**

Government of India with the approval of Reserve Bank of India initiated the process of merger which was necessary to bring reforms in the banking system of India and address the serious issues mentioned in the above discussion. It can be found that government succeeded to a greater extent in its efforts of merging process which brought major impact on the economy.

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**Conflict of interest:**

The Authors have no conflict of interest to declare that they are relevant to the content of this article.

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