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Merger of the Banks : Needs & Its Benefits and Danger

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Merger of the Bank :

Bank Merger occurs when two or more banks merge in one bank. Bank merger lead to expansion of newly institution. Banks consolidate for various reasons its include to reduce competition, allocation of mass capital power, to compete with larger banks or to expand the services.

Need of Merger of the Banks :

1.Economies of scale:

In Indian Banks in terms of assets stand very small to make the optimal use of its capacities. Its difficult to Indian bank to raise the fund to compute internationally.

2.Indian Banks are too small:

Indian Banks are too small Even as India is the largest growth market for banking services after China in terms of the number of wealthy households,.

3.None of the other Indian banks features among the top :

With the terms of Size of Asset None of the other Indian banks features among the top 200 banks in the world.

4.Unable to compute globally :

Indian banks are unable to compete globally in terms of fund mobilization, credit disbursal, investment and rendering of financial services. The balance sheets of top 10 Indian banks suggest the greater scope of consolidation to reap the benefits of large sized globally competitive Indian banks

5. Increase Capital efficiency:

Merger will also increase capital efficiency. It will help to bank to expand the institution and adopt to the new technology. Merged entity will have more leg room to raise capital.

6.Would Reduce NPA:

When NPAs are goes up high, that time banks are putting more effort in recovery, the ability to recover by smaller number of banks will be higher than a Small bank's exposure may go up. This is because there are smaller number of voices … in the joint lenders' forum and they often not agree to a common recovery programme. With consolidation the recovery will be far more focused. Thus consolidation could reduce NPA in India.

Benefits of Bank Mergers:

Helps to Reduce the cost :

The merger will reduce the cost of banking operation. It is help to optimum use of capital.

Scale :

A bank merger helps your institution scale up quickly and gain a large number of new customers instantly. Merger helps to banks to achieve goals quicker. Acquisition give more capital to bank for work with when it comes to lending and investments, it also provides a broader geographic footprint in which to operate.

Better NPA and Risk Management :

It is helpful to Management to Risk Management and will result in better NPA and Risk management

Efficiency :

Merger improves efficiency of the bank. All activity of the bank running smoothly. Every bank has an infrastructure in place for compliance, risk management, accounting, operations and IT – and now that two banks have become one, you're able to more efficiently. Large scale of expertise available in every sphere of banking operation, the scale of inefficiency which is more in case of small banks, will be minimized . Acquisitions also scale your bank more efficiently, not just in terms of your efficiency ratio, but also in terms of your banking operations.

Filled Business Gaps :

Bank mergers and acquisitions empower your business to fill product or technology gaps also filled the gap of shortage of capital and shortage of employees. Merger helps to bridge the business gap of various sector of bank.

Expand the Coverage :

The Merger helps to expand the coverage globally. The merger will help the geographically concentrated regionally present banks to expand their coverage.

Assist to Integrated Growth of the Banking Sector :

Merger helps to integrated growth of banking sector to achieve the goasl of banks. Larger size of the Bank will help the merged banks to offer more products and services and help in integrated growth of the Banking sector and it will help in improving the professional standards.

Talent And Team Upgrade :

The merger or acquisition increase in talent at leadership's disposal to every Bank . An acquisition presents the possibility of bolstering your sales team or strengthening your team of top managers, and this human element should not be ignored or downplayed.

Dangers of Bank Mergers :

Large bank size may create more problems :

Large global banks had collapsed during the global financial crisis while smaller ones had survived the crisis due to their strengths and focus on micros aspects.

Weaknesses transfer : With the merger, the weaknesses of the small banks are also transferred to the bigger bank.

Poor Culture Fit :

Failure to assess cultural fit (not just financial fit) is one reason why many bank mergers ultimately fail. It is difficult to employees for adapting to the change.

Not Enough Commitment :

Execution risk is another major danger in bank mergers. In some cases, banking executives don't commit enough time and resources into bringing the two banking platforms together – and the resulting impact on their customers causes the newly merged bank to fail completely. Avoid this mistake by dedicating enough resources for a full integration of the two financial institutions.

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Impact of Customer And Perception :

Smaller community bank , customers often respond very emotionally to a bank acquisition – so it's essential that you manage customer perception with regular, careful communication. While undergoing an M&A event at your bank, it's critical that you pay attention to the impact it has on your customers. Merger impacted on customer from changing technology platforms to financial products could impact your customers negatively if don't pay attention on the customer.

Risk Consistency & Compliance : I

t is danger that the two merged banks not agree to accept the change. A final danger to consider during your next merger or acquisition is the risk and compliance culture of each bank involved. Every financial institution handles Banking Compliance and federal banking regulation differently, but it's important that the two merging banks agree on their approach moving forward. When two mismatched risk cultures clash during a bank merger, it negatively affects the profitability of the business down the road if they haven't come to a working solution.

Suggestions :

1. The govt should not rush through the process – all stakeholders must be involved in the process of merger.
2. In the event of further divestment, the govt. share shall not fall below 51% in any case.
3. Acquiring bank shall not dominate the smaller ones- good practices of both should be combined; conscious and organized efforts to synthesize the differences must be made.
4. Keep healthy environment by both banks.

Conclusion :

Merger play a vital role to increase the performance of weaker Banks. It also helps the to increase the capital power, to minimize Competition and expand the business of the Bank. But the Procedure of the merger are very Complex. Mergers need to following Uniform Business policy. Merging banks in India happens just like any other business M&A, for reasons like -to pool the resources; to widen coverage; to increase e the customer base; to reduce and avoid the competition; to reduce cost. The success of the merger are depend on the two merged bank should be agree to accept the change.

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