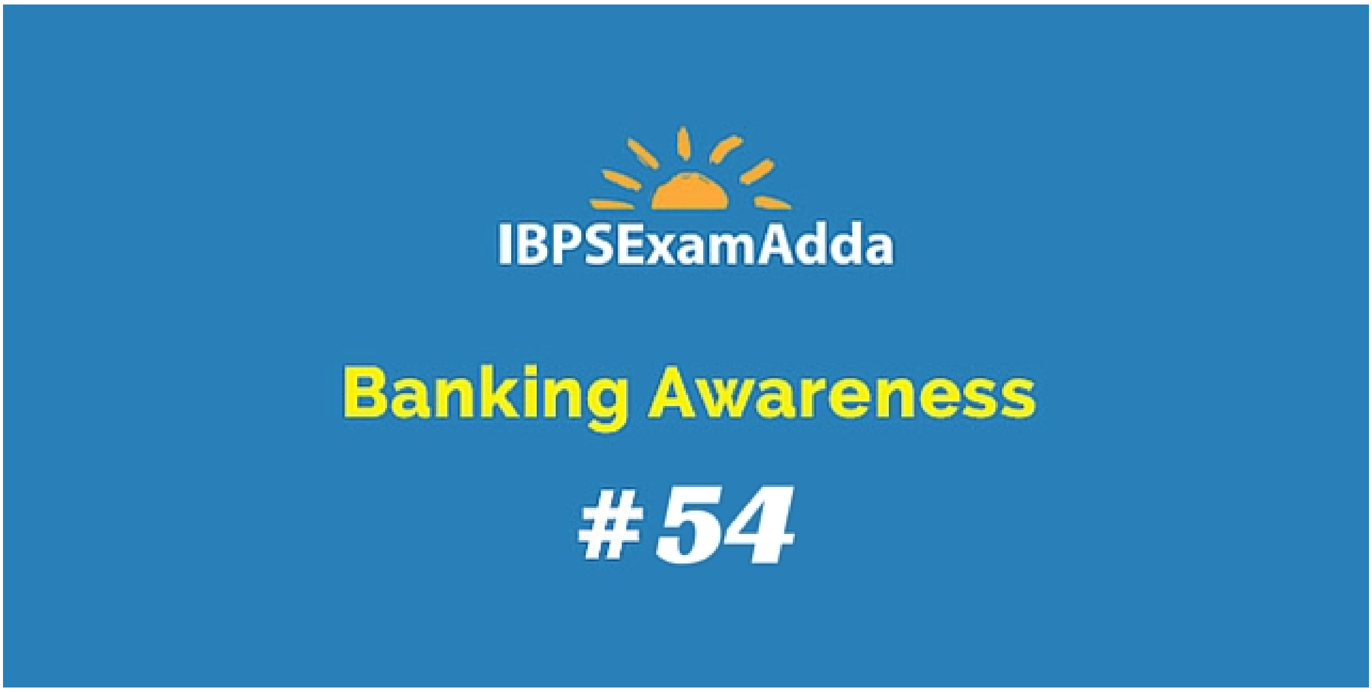
Banking Awareness #54: Top 5 Banks which Performed Better After a Merger

Categories : Daily Banking Awareness Capsules, Uncategorized

Date : November 9, 2015



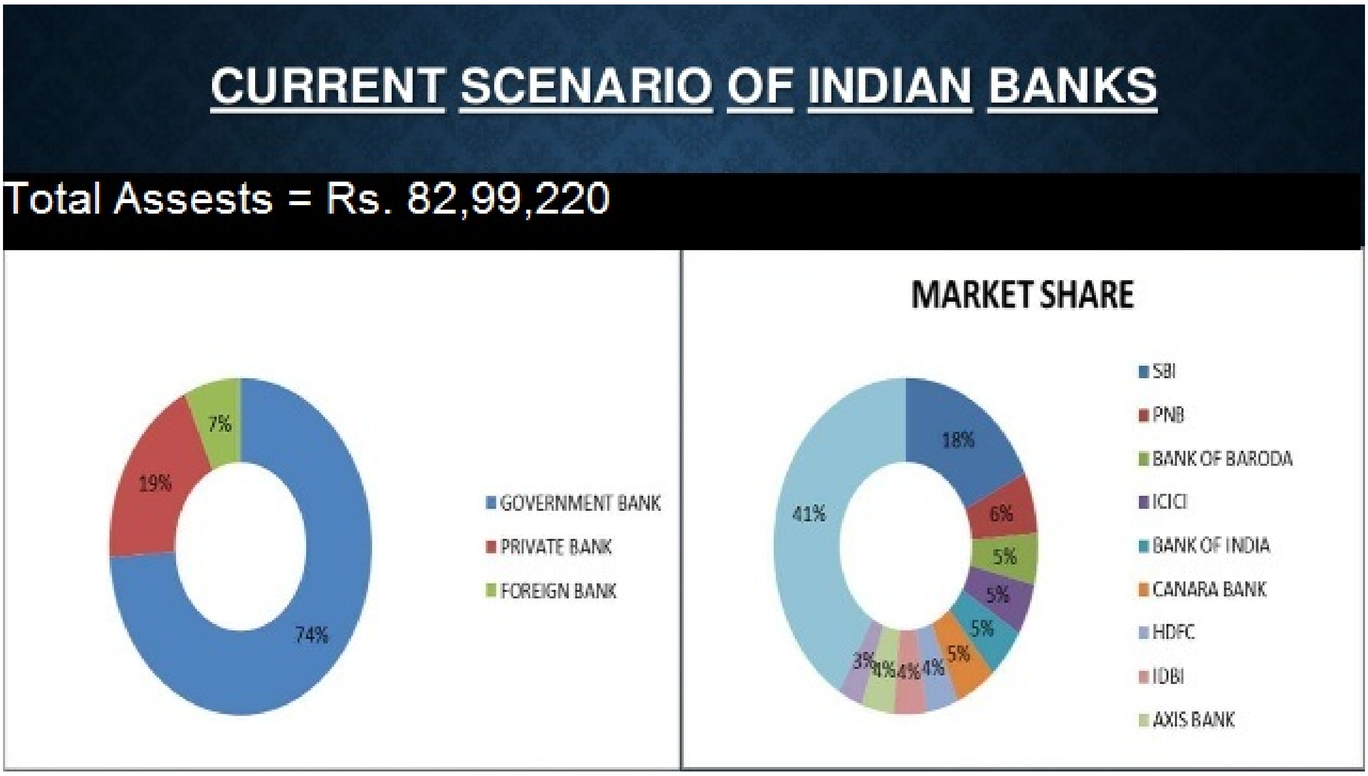
Mergers and acquisitions have been long known to direct the merging entities towards positive synergies, enhanced resources and hence, overall increase in the profit statements. Mergers among different banks are classified as horizontal mergers. The deal is always expected to be beneficial for both merging firms. Mega amalgamations raise hopes to redefine the scenario. Each time we witness **bank mergers**, a heated debate regarding consolidations in the banking sector is triggered.

Banking Awareness: Chief findings regarding Mergers and Acquisitions in general

- **Transparency** – Banks must insist on making the complete process transparent for their shareholders. Banks should try not to merge at the stake of the value of shareholders. Shareholders own the amount they invest in the bank and hence, they have all rights to have necessary details such as the financial conditions, details of merger, etc. with regard to the merger that is to take place.
- At times, the **commission may raise an objection to merger of banks** so as to safeguard the interests of the nation. This nature of restriction has been noticed primarily where cross border bank mergers are concerned. This is due to the fact that consolidation of bank with a foreign entity which has a strong hold might eliminate the local banks and hence create unwanted issues.
- Commissions have generally not been seen restricting any merger based on the deposits held by the bank or its total number of branches. But, there may be certain situations in which they might if the merger has the potential to raise competition related issues, etc.
- When to big entities undergo a merger then in attempt **to decrease the potential confrontational effects** on the competition due to low market shares of the bank in a particular area, the commission may notify the merging firms to decrease the shares and deposits they hold.
- Mergers in any area if creating problems, they can be offset by **divestment**.

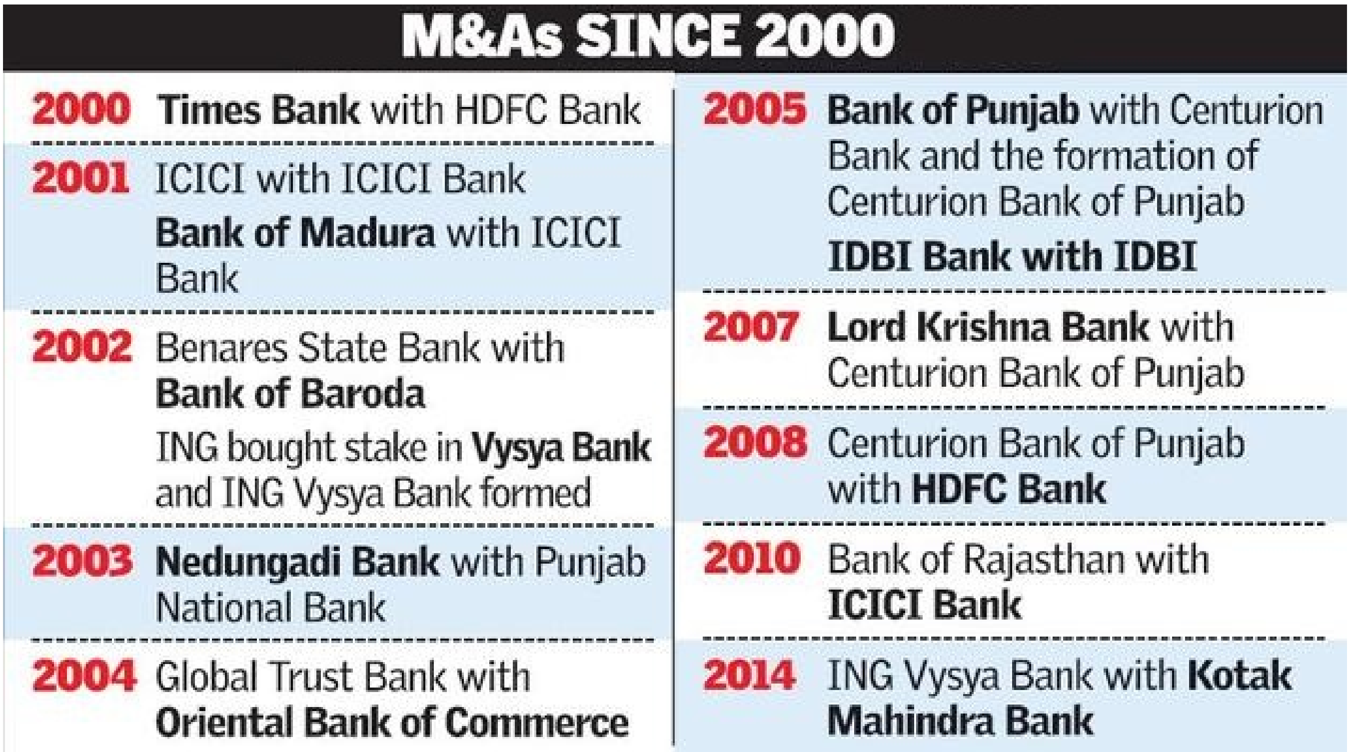
Current scenario with respect to the Indian Banking System

Rs. 82,99,220 (during FY 122) is the total assets of Banks in India. These all are regulated by the Indian Ministry of Finance, as well as the Reserve Bank of India (RBI).



Banking Awareness: Top Bank Mergers in India

[The Indian Banking system has witnessed some great bank mergers](#).



M&As SINCE 2000

2000	**Times Bank** with HDFC Bank
2001	ICICI with ICICI Bank **Bank of Madura** with ICICI Bank
2002	Benares State Bank with **Bank of Baroda** ING bought stake in **Vysya Bank** and ING Vysya Bank formed
2003	**Nedungadi Bank** with Punjab National Bank
2004	Global Trust Bank with **Oriental Bank of Commerce**
2005	**Bank of Punjab** with Centurion Bank and the formation of Centurion Bank of Punjab **IDBI Bank with IDBI**
2007	**Lord Krishna Bank** with Centurion Bank of Punjab
2008	Centurion Bank of Punjab with **HDFC Bank**
2010	Bank of Rajasthan with **ICICI Bank**
2014	ING Vysya Bank with **Kotak Mahindra Bank**

Here is the list of top 5 banks in India that have performed better after mergers.

- **HDFC Bank** – The HDFC Bank has witnessed two bank mergers till date. These are the ones with Centurion Bank of Punjab in 2008 and the one with Times Bank Ltd. In the year 2000. Both these spurted the growth in the bank and it has now reached the zenith.
- **ICICI Bank** – ICICI Bank has undergone various mergers of banks. It has targeted a lot of banks till date and emerged as a leading bank in India. Here is a list of bank mergers ICICI has had in the past.

	Name of the Bank Targeted by ICICI	Year of merger
1.	Bank of Rajasthan Ltd.	2010
2.	Sangli Bank	2006
3.	ICICI Ltd.	2002
4.	Bank of Madura	2001

- **Axis Bank** – Bank merger has been beneficial for Axis Bank too. It has seen record increase in business.
- **Kotak Mahindra Bank and ING Vyasa Bank Merger** – The most recent merger of banks was in 2014 between these two banks. This consolidation will surely give an upgraded geographical reach for the unit that has been formed after the much debated merger.
- **IndusInd Bank** – It too witnessed positive synergies after the merger. Also there has been progressive increase in its business.

Why there exists need to consolidate Indian Banks?

The Financial Sector Reforms that were triggered in the year 1991 and there have greatly altered the Indian Banking scenario. The regulated economy has reformed into a deregulated yet improved, due to risk taking, market environment. Indian banks have recently been taking long strides towards –

- **Consolidations of different firms by policies of mergers and acquisitions.**
- **Universal banking approaches.**
- **Development as well as acceptance of new and advanced technological approaches.**
- **Globalization of the operations.**

Top bank mergers indicate that there has been potential improvement after merger of banks. Here are some reasons that justify the need for consolidation of banks in India.

- As we are moving in a steady pace towards international banking, the need for a large number of banks stands out to be a must. These will be required to play a meaningful and important role in the economy which will emerge as a result. Also, these must have a firm base to withstand competition and live up to the rising expectations.
- Bank mergers often include enhancement in technological approaches; deregulation of functional, geographical as well as the product related restrictions; emergence of new opportunities; and consolidating the banking markets across borders. Government policies regarding incentives too may pace up top bank mergers.
- Major benefit from the merger of banks is incorporation of strength to withstand the pressure that emerges because of the competition at the global level. Also, the ability of the bank towards acceptance of technology is enhanced. Besides all this, human resources increase and thus there is a fine tuning of the skills and experience.
- A significant observation from the past experience with mergers of banks is that consolidation between unequal entities results in greater gains than that among equals. Also, in case a merger is followed by appropriate technological advances in the firm and also diversification in the range of products and policies, the banking industry as a whole receives huge gains.
- A character unique to the banks in India is their display of similar performance characteristics despite the differences in their size, ownership, policies and experience. This trend in the society has also highly fueled the scope for bank mergers.