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A Study On Merger Of SBI And Its Associates In Current Scenario

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ABSTRACT

Merger and Acquisition encourage banks to gain global reach and better synergy and allow banks to acquire the stressed assets of weaker banks. This paper deals with THE MERGER OF STATE BANK OF INDIA & ITS ASSOCIATES. Merger of SBI with its five associate banks on 1st April, 2017. The five associate banks are the State Bank of Bikaner and Jaipur (SBBJ), the State Bank of Mysore (SBM), the State Bank of Travancore (SBT), the State Bank of Hyderabad (SBH) and the State Bank of Patiala (SBP). Initially, SBI had Seven Associate banks – two of them, the State Bank of Indore in 2010 and the State Bank of Saurashtra in 2008 were merged earlier. The merger will also mean that all SBI associate bank customers will become SBI customers and associate bank employees will become SBI employees. So, all associate bank employees will be eligible for the same retirement benefits as SBI employees. SBI employees get three retirement benefits (Provident fund, gratuity and pension), while associate bank staff members get two retirement benefits.

Keywords: Merger, SBI, Banks.

Introduction

Merger and Acquisition encourage banks to gain global reach and better synergy and allow banks to acquire the stressed assets of weaker banks. This paper deals with THE MERGER OF STATE BANK OF INDIA & ITS ASSOCIATES. Merger of SBI with its five associate banks on 1st April, 2017. The five associate banks are the State Bank of Bikaner and Jaipur (SBBJ), the State Bank of Mysore (SBM), the State Bank of Travancore (SBT), the State Bank of Hyderabad (SBH) and the State Bank of Patiala (SBP). Initially, SBI had Seven Associate banks – two of them, the State Bank of Indore in 2010 and the State Bank of Saurashtra in 2008 were merged earlier. The merger will also mean that all SBI associate bank customers will become SBI customers and associate bank employees will become SBI employees. So, all associate bank employees will be eligible for the same retirement benefits as SBI employees. SBI employees get three retirement benefits (Provident fund, gratuity and pension), while associate bank staff members get two retirement benefits.

OBJECTIVES

- To find out the effects of merger both pros and cons.
- To know the reason behind the merger.
- To find out the benefits of the customers and employees of the SBI.
- To give suggestion for the improvement of SBI in future.
- To find out the impact of the merger.

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METHODOLOGY

For the purpose of this study, both primary data and secondary data are collected for the study. Primary data are collected through questionnaire. The data were collected as fresh for the first time and happen to be original in character. Secondary data means those data which were already collected and analyzed by someone else. Secondary data were from company websites, internet, books, magazines, journals.

DATA COLLECTION

The present study is undertaken to know the public opinion about the merger of SBI & Associates. For the purpose of the study, simple random sampling method is adopted to carry out the study by the researcher. A questionnaire is used for the study to know the opinion of the public who having an account in SBI. The results of the researcher reveal that majority of the customer are satisfied with all the banking services and its operations.

HYPOTHESIS

A Hypothesis is a statement capable of being tested and thereby verified or rejected. It means a mere assumption or some supposition or a possibility to be proved or disproved. But, for a researcher hypothesis is a formal question to be resolved.

- H0 = There is no significant relationship between Age and Overall Satisfaction towards SBI's Merger & Associative.
- H0 = There is no significant relationship between Income and Overall Satisfaction towards SBI's Merger & Associative.

LIMITATIONS OF THE STUDY

This study is conducted to 50 respondents only. But owing to lack of time, only limited bank customers are taken into consideration of the study. The researcher had some difficulty to getting information from the bank customers regarding to the collection of data. It was difficult to know whether the respondents are truly given the exact information. Because, their opinions are supposed to change from time to time. Hence, the findings cannot be generalized one.

REASONS BEHIND THE MERGER

GOVERNMENT AID TO MERGED SBI GROUP: Firstly the SBI and associates are one of the largest Government undertakings of the Central Government whom annual allocation of subsidy and contribution towards bad Debt recovery and Share Capital has to be made by the Indian Government. There is practically no sense of giving aid to so many banks separately when it can be given to a single entity. Government Aid is for sure to be given to these banks and not just SBI and group but all the banks. So Government Aid to a single SBI merged bank will be much easier in terms of accountability.

BAD PERFORMANCE OF BANKING SECTOR: Because of the current market situation and what will be in future, most of the Bank's profitability has come done from quite a few previous

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years. Many Banks' share prices have also fallen drastically because of the expectation of under performance of the Banks. The state Bank group is no exception to the same and the same applies to it also. SBI is the holding company and the other is its subsidiaries. So in order to show better profitability, merger of the banks is an essential requirement.

BAD LOANS & INABILITY TO RECOVER: SBI and group is the one of the largest banking sector entities who have crores and crores of Bad Loans which are not recoverable. Some entities Gross NPA has reached up to 20%. Due to huge bad loans an internal corporate restructuring is required for all the associate group entities, otherwise in upcoming few years, few of them may even not survive in the market.

CORPORATE RESTRUCTURING: Merger of the group entities of SBI is a way to restructure the Balance Sheet of the entities. Restructuring is required when the entities are facing financial crises or there is a possibility of the entity to not be able to meet out its existing liabilities. In corporate restructuring some liabilities are set off with realization of assets. In this case, some entities liabilities will be sett off against the higher revalued assets of the other entities in order to make a good and attractive Balance Sheet size of the merged entity.

BIGGER BANK: By merging all the associate entities, SBI will become a much bigger and better banks as it will be catering to all large segment of customers as from its current position. It will be able to make many services convenient to the customers through a single bank rather than approaching other associated banks. It will have large customer base, hence chance of earning good profitability over its deposits. It will have the advantage of synergy with the associated banks. No high integration cost will be paid since the set-up is almost similar. It will have good asset portfolio. All over, good report will be created amongst its customers.

BETTER MANAGEMENT: Since it will become one big merged Bank, it will have only a management system rather than having different management setup over the associate banks. Because of single management, efficiency and effectiveness of the business processes will be increased. Single circular will be issued for all the merged Banks for operational and management supervision. Better internal control and system processes will be carries on with all the merged banks.

BETTER INCREASED RECOGNITION: Those areas where SBI is not having branches but its associate banks are having, upon the merger being effected, the customer confidence and good report will be created because SBI is having a god report for all its customers but the other associate banks are not that good as the SBI. Also, they do not enjoy all those benefits as the SBI. Some of the change in the name from SBI associates to SBI will have a good market impression and will generate the goodwill.

TABLE NO 1
LIST OF SBI BANKS MERGER & ITS ASSOCIATIVE (TIME LINE CHART OF SBI**)**

Name of the Bank	Date of approved	Date of merged/complete the merger/ Start the functioning	Type of Merge/ Motive
Kashinath Seth Bank	1995-1996	1996	Forced Merger

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State Bank of Saurashtra	13th August,2008	September 2008	Voluntary Merger
State Bank of Indore	19th June, 2009	26th August, 2010	Acquisition
State Bank of Bikaner and Jaipur (SBBJ), State Bank of Mysore (SBM), State Bank of Travancore (SBT), State Bank of Hyderabad (SBH) and the State Bank of Patiala (SBP)	15th June 2016	1st April, 2017	Absorption

IMPACT OF SBI MERGER

- Technical inefficiency is one of the main factors responsible for banking crisis. The scale of inefficiency is more in case of small banks. Hence, merger would be good.
- Synergy of operations and scale of economy in the new entity will result in savings and higher profits.
- A great number of posts of CMD, ED, GM and Zonal Managers will be abolished, resulting in savings of crores of Rupee.
- As a result of the merger, the bank will have a larger pool of deposits which will benefit the consumers in the long run. With better asset and wealth management, risk practices and innovation, customer pricing will be lower.
- As overheads get consolidated in one bank, the bank will become leaner and meaner. This will enable cheaper services for customers and higher margins for the bank. Treasury and HR overheads are also expected to come down significantly.
- Presently, the government holdings stand at 61.3%, which would come down to 59.7% once the merger is completed. This will give the government headroom for a disinvestment of about Rs.10, 000 crore.

ABOUT THE MERGER

After the merger is completed, the following changes are occurred in the SBI & its Associates. They are:

- No Indian bank features among the top 50 banks globally. With the huge financing needs that the country faces, infrastructure in particular, size is important.
- With the merger, the SBI could break into the list of top 50 banks of the world, in terms of asset size.
- The SBI’s market share will increase from 17% to 22.5 – 23 %.
- SBI chairperson recently said the consolidated balance sheet of the merged entity would be 32 lakh crore from 23 lakh crore now.
- Deposits worth of SBI is Rs.26 lakh crore and nearly Rs.18.76 lakh crore worth advance on its books.
- The merging of the five associate banks is around Rs.10 lakh crore, which is almost equal to the size of the second largest bank of the county.

- SBI would have close to 24,000 branches and employee strength of 2, 71,765.
- The total customer base of the bank will reach 37 crores and nearly 59,000 ATMs across the country.

CHALLENGES TO BE FACED BY THE SBI IN THE MERGER PROCESS

Firstly, the biggest challenge posed to this merger is by the human resources management. Over-staffing is one of the key hurdles to the merger. The bank has promised employees that no one will lose jobs, but bank unions and politicians continue to be doubtful. Secondly, post the merger, the cost-to-income ratio is estimated to come down by 100 basis points a year. The cost-to-income ratio is nothing but the company's costs in relation to its income. To get the ratio, operating cost of a company has to be divided by its operating income. Also, post merger, SBI's employee costs could raise by Rs.23 crore a month.

FINDINGS

- Among 50 sample respondents, more than half of the respondents are female.
- Nearly 48 per cent of the respondents are in the age between 26-40 years.
- 28 per cent of the respondents are using the bank account nearly 2to 4 years.
- 36 per cent of the respondents earn in between rs,7,001- Rs.15,000.
- 28 per cent of the respondents are chosen SBI bank for ATM services.
- 60 per cent of the respondents are having Saving Account in SBI.
- 56 per cent have an awareness of core banking facility in their bank.
- 52 percent of the respondents are think about the merger is good.
- 70 per cent of the customers are having awareness of the merger.
- In hypothesis testing, there is no significant relationship between age and satisfaction with SBI's merger.
- In hypothesis found that, there is no significant relationship between Income and satisfaction with SBI's merger.

SUGGESTIONS

- Awareness programmes must be conducted to the public in order to impart knowledge about merger, because all customers are not educated.
- Banker should educate the customers regarding the importance of merger and its impact.
- The bank should be cautious and careful while selecting the beneficiaries/lenders before providing loans/debts. This will help them in reducing the problem of recovery.
- Customers will have access to fewer banks offering them wider range of products at a lower cost.
- Mergers can diversify risk management.

CONCLUSION

After analyzing the whole data it can be stated that, the view that profitability of SBI was going down, and it needed reconstruction, this step of merger seems to be a smart step. It has brought SBI in list of top 50 banks in the world which is a big deal. Many of the customers conclude that the merger is good in the sense of reducing the liquidations. But, at the same time, they feel the merger resembles that the lack of efficiency and lack of maintenance of the bank. So, the bank

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should educate or conduct any awareness program about the reasons of merger and its impact to the public.

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