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MERGERS AND ACQUISITIONS OF BANKS

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A decade into the era of LPG, more banks started their operations in India with fierce competition for survival. Deregulation of interest rates etc. made the job of the existing players still more difficult. While Narasimham Committee talked about mergers, Verma Committee discussed the criteria to identify weak banks. While there are several positive instances of mergers the world over, the experience of India has been otherwise.

The post-merger scenario in case of merger of two banks generates several issues. The staff of both the banks sit side-by-side and work together. The books and registers, deposit/ loan products of one bank are likely to be discarded totally. The systems and procedures of one bank (absorbing bank) have to be taught to the staff of another (merging) bank. The physical and psychological stress is not minimal in the process of merger. It is against this background this write-up discusses the mergers in banking industry.

When one thinking of merger of two banks, the initial question one faces is: "When almost every bank is having a high percentage of NPAs, is it necessary or beneficial to think of merger?" It may not be profitable to merge banks when the merging banks are plagued with NPAs. The recovery proceedings/process may be affected if the banks are merged. The timely action and effective legal measures cannot be enforced during the merging process. The cases or suits filed by the merging banks in different courts, DRTs, BIFR etc. need to be represented by concerned persons and followed up carefully.

Further, the format of documents and the type of charge differs from bank to bank. In the case of suits or cases already filed by the merging bank, the respective courts are to be properly informed on these aspects. The courts may prolong the cases because of the complex nature of different documents. This results in continuance of the NPAs rather than quicker realization of funds blocked in NPAs through legal measures.

The issues involved relating to the preparatory and the post-merger stages are outlined in the following paragraphs.

1. ISSUES RELATING TO PERSONNEL

There are two issues relating to personnel i.e. a) Conflict among trade unions of two banks and b) Training cost

a. Conflict among Trade Unions

It is common in India that the staff of every bank becomes members of 2 or 3 unions, which are, in turn, affiliated to some political party or other. There are several hierarchical posts enjoyed by the office bearers of these unions. The power and supremacy enjoyed by each leader within a bank varies. When two banks merge, naturally, there is a possibility for power struggle among the leaders themselves. In the process, it is likely that the interests of the members go unprotected.

b. Training Cost

In order to successfully run the banks, every bank has to spend enormous amounts in familiarising the systems and procedures of the bank to its staff. Once a merger takes place, the staff of both the banks experience a new system. The absorbing bank staff need to know the procedures of the merging bank; the staff of the merging bank need to know every thing about the absorbing bank. As the staff of both banks have to be trained, that too in the shortest possible time, there will be enormous pressure on the training system and the new management. This process would involve enormous cost and strain to the staff.

2. ISSUES RELATING TO MATERIAL

Issues relating to material include:

a) Change of Systems and Procedures

Each bank has its own systems and procedures, developed and improved over a period of time. It would have already invested several crores of rupees and man hours in publishing books of instructions and familiarising them to all the operating staff. When the merger of any two banks takes place, employees and supervisors of the banks (especially from the merging bank) face utter confusion. Further, change of the age-old, established practices will not be relished nor the new systems easily understood by the employees.

b) Synchronisation of Long-standing System

Generally every bank would have traditionally stabilised in a particular system of functioning or accounting. After merger of two banks, a need may arise to modify the long-standing system in the absorbing bank to synchronise with the needs of the new environment. The absorbing bank may come across a situation which it had not encountered earlier.

c) Waste of Bank-Specific Technology

As a result of increasing needs of customers, computerisation has already taken place to a significant extent in each bank. Each bank would have paid huge sums as royalty and spent several man-hours in getting suitable software developed for the specific accounting needs of the bank from a particular vendor. If and when two banks need to be merged, all the money and labour spent by one bank would go a total waste because of the likely incompatibility of the two separate softwares of the merging banks.

d) Additional Overheads Cost

At any point of time, all banks maintain, fixed assets, security forms and stationery worth several crores of rupees for the smooth functioning of their branches located at several places. As a result of merger, the printed stationery of the merging bank may turn out to be unusable. On the other hand, safe and supervised disposal of these forms adds further cost to the bank.

The existence of two branches after the merger, in the same city or town may not prove economical. The overheads incurred on one of them may be viewed as an additional burden till a decision to relocate the branch is taken.

Both banks after a final decision regarding merger is taken, will spend sizeable sums and valuable time/manpower in observing the formalities related to merger. Further, they need to communicate or publicize about merger proposal with a view to getting the consent of their shareholders. Both banks need to inform and educate their customers. Several legal formalities, involving stamp and procedural hassles, have to be tackled. These problems ultimately lead to an escalation of cost.

Issues relating to management include a) Apprehensions of top level staff b) Reluctance of shareholders c) Loss of attention on business targets and d) Communication delay.

a) Apprehensions of Top Level Staff

The General Manager of a small bank is not equal, in any respect, to the General Manager of a big bank. The length of service put in, the pay drawn, the sanctioning powers exercised, the area of operation, the size of balance sheet under his control etc., may be different for each General Manager. After merger, ego clashes may arise at the top management of the banks. In this process, bank and customers may not be drawing the best out of the talent/experience lying in those two General Managers.

b) Reluctance of Shareholders

While the shareholder of a weak bank may feel happy over a merger of two banks the shareholder of the strong bank will try to stop the merger, because of the lingering fear that his share may not be earning as in the past and its value may deteriorate. Even if two strong banks merge, the apprehensions of the shareholders cannot be easily dispelled in the initial months till success is achieved and better returns distributed.

c) Loss of Attention on Business Targets

During the process of merger, the branches concentrate mostly on the system related problems.

The new system throws up lots of problems (administrative, legal, procedural etc.) which takes away most of the time and attention of the Head or Branch Office. Thus business targets do not get their attention.

d) Communication Delays

When the process of merger is on, the top management of each bank may face several unexpected complex problems from different quarters. The top management would not be in a position to take a comprehensive view in certain cases, pending completion of merger. If a coordination committee has already been constituted, issues may have to be referred to the committee. In relative terms, the time taken in decision-making would be more in the 'committee approach'. It is possible that the employees and customers will experience the delays as unbearable, during the merger process/transition period, leading to all round dissatisfaction and unrest.

OTHER ISSUES

a)Share Prices' Fluctuation

On account of merger process, the losses of the weak bank may be transferred to the healthy bank. The profits of the healthy bank may be affected for some period. On account of decrease in the profits of the bank, the market value of the share of healthy bank may also be affected to some extent.

b) Customers Service

On account of merger, the recognition and personalised service rendered in the past may be affected to some extent.

c) Confusion of Customer

Each bank, before merger, may be popularising its own style of loan distribution and deposit products by different names and most of the customers would have, over a period of time, got accustomed to these names. When the merger takes place, not only the insiders (staff) but also the customers start experiencing the confusion.

d) Poor Credit & NPA Management

When two banks are in the process of merger, both the banks may not give due attention to credit despensation or to follow-up/supervision of the advances. The borrowers also may not get prompt responses to their requests for enhanced credit limits or temporary excess drawings. Bank staff also may not give full attention on the recovery aspect and NPA management.

e) Reconciliation of Outstanding Entries

On account of merger of two banks, the unreconciled entries of the merging bank may create problems in the post-merger stage. Unless detailed and patient action planning is done well before the merger for arriving at the total value of outstanding entries and also about the procedure for dealing with these outstanding entries relating to the drafts, Rupee Travellers Cheques, Pay orders, Inter-office credit/debit advices etc., the post-merger stage may witness chaos or spurt in frauds.

f) Insider Frauds

There is every scope for damages or pilferage. Hence the process of merger may be used as a God-sent opportunity to defraud the bank by any insider with mala fide intentions.

g) Market Capture by Other Players

While the merger process of two banks is going on, the delays on account of administrative reasons or unpreparedness of staff may occur. Other players in the banking field will encash this opportunity to lure away the important clientele of the merging bank and increase their market share.

In spite of the above issues/ constraints, the mergers of banks may still be viewed as the only alternative left, in the place of other hard choices. It is true that *merger of banks* may increase the size of the balance sheet, widen the network and credit opportunities in new areas, generate scope to offer more user friendly products, and opportunity to the staff to prove efficiency. ★