REASONS FOR BANK MERGERS IN THE INDIAN BANKING SYSTEM

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Abstract- Worldwide, the banking industry is expanding quickly, and in India, it has a large impact on both the public and private sectors. However, in the highly competitive world of today, this industry faces several difficulties, including those related to customer relationship management, digital banking, internet banking, and financial consolidation. Banks are using mergers and acquisitions more frequently to obtain a competitive edge and have a favorable effect on the market. While combining can have many benefits, it also brings opportunities and problems that may have an impact on the effectiveness of the banking industry as well as its staff and clients. The main way for banks to improve their position in this situation is through mergers. They also create new opportunities and difficulties, though. These elements may have an impact on the effectiveness of banking as well as the staff and clients of the merged business. Financial institutions can increase competitiveness, achieve economies of scale, integrate cutting-edge technology, provide new goods and services, and improve the future of banking for the advancement of their clients by combining with powerful banks.
Keywords: customer relationship management, digital banking, online banking, and financial consolidation.

1 INTRODUCTION

The Reserve Bank of India (RBI) is actively moving in the direction of implementing the top methods in global banking. As part of this effort, the banking system's digital securities will be strengthened, strength will be increased, and standards will be shaped. A notable flood of cutting-edge technologies has been introduced into the vibrant banking industry today to provide better client service and experiences. In 1991, the government opened its doors to foreign banks, allowing them to set up shops and provide a wide range of financial services in the nation. This marked a pivotal moment for India's banking industry. This change not only opened up new possibilities but also created brand-new difficulties that the banking sector had to successfully overcome.

Over numerous decades, the Indian banking industry has seen a significant transition and evolved significantly (Raj, Jain, et al., 2018). The banking industry has undergone significant change as a result of the quickening pace of technological development. It has widened markets, ushered in cutting-edge goods and services, and transformed delivery systems. In this technological revolution, online banking, mobile banking, and Internet banking have become important forces. These platforms have not only made it easier for users to obtain financial services, but they have also given them more authority over their money. These technical advancements have allowed the Indian banking industry to reach a larger worldwide audience. Because financial services are no longer dependent on brick and mortar buildings, banking has transformed in modern times (Raj & Bansal, 2019). These days, financial organizations can offer frictionless fund transfer services across international borders. Systems such as the National Electronic Funds Transfer (NEFT), Real-Time Gross Settlement (RTGS), and Immediate Payment Service (IMPS) have greatly simplified the process of transferring funds globally, while simultaneously reducing transaction costs. The tremendous growth of mutual funds in India is mostly attributable to infrastructure improvements as well as to Indians' perceptions of mutual funds as the best investment vehicle (Raj, Verma, et al., 2018).

Investors provide support for the capital market (Agarwal et al., 2021). The level of client expectations has increased dramatically in this era of globalization. Customers increasingly expect fast, secure international fund transfers that keep pace with technological development. The RBI's devotion to satisfying these objectives is demonstrated by its effort to implement global banking standards and strengthen digital securities. The

RBI makes it simple for clients to move money anywhere in the world without any hassles by adopting these innovations. As a result, the RBI's attempts to harmonize with global banking standards and strengthen digital securities are crucial in determining the direction of the Indian banking industry. These programs make use of technology to increase market reach, improve customer service, and lower the price of international money transfers. Customer expectations have increased as a result of globalization, and the RBI's efforts pave the way for frictionless fund transfers around the world, giving clients more financial independence and connectedness.

2 EMERGENCE OF BANK MERGING

In recent years, the concept of merging banks has attracted a lot of attention and relevance. Combining two or more banks into one organization is known as merging banks, and it can have both positive and negative effects on the banking industry as well as the economy as a whole. Developing bigger, more powerful, and more robust financial institutions is one of the main drivers of bank mergers. Increased operational effectiveness, stronger risk management capabilities, and improved financial stability can all result from bank mergers. Merged banks can harness economies of scale and produce cost savings by pooling their resources, infrastructure, and experience. These savings can then be applied to technological investments, innovation, and customer service enhancements. With the active assistance of our young and the parliament, the subject of black money has currently gained public attention (Raj, Bansal, et al., 2018b).

A balance sheet is a statement of an organization's financial situation at a specific point in time (Raj, Bansal, et al., 2018a). The banking industry may become more competitive as a result of bank mergers. With larger organizations, banks may access new markets, provide a wider choice of goods and services, and compete with major international competitors more successfully. As merging banks expand their reach to underdeveloped regions and customer categories, giving them access to a wider choice of banking services, this improved competition can promote greater financial inclusion. Additionally, better governance and risk management procedures may result from bank mergers. Due diligence and a thorough examination are frequently performed on merging banks to find and fix any operational flaws or vulnerabilities. A more reliable and open banking system can be achieved by the deployment of strong risk management frameworks, stronger compliance requirements, and improved corporate governance practices.

The process of combining banks is not without its difficulties, though. The integration of cultures, system and process harmonization, and human resource management are crucial issues that must be carefully considered during the merger process. Managing potential workforce redundancies, integrating disparate technological platforms, and aligning diverse organizational cultures are common issues faced by merging institutions. To successfully navigate these issues, it is essential to implement effective change management techniques, transparent communication, and staff engagement programs. Furthermore, effective regulatory oversight and support are necessary for the successful execution of bank mergers. With a focus on preserving financial stability, safeguarding depositor interests, and maintaining healthy competition in the banking sector, regulatory bodies are essential in ensuring that mergers are done fairly and transparently. To protect the interests of all parties concerned, the regulatory framework should include recommendations on topics including capital sufficiency, governance, risk management, and client protection.

Several significant bank mergers have taken place in India in recent years as a result of the government's desire to build up stronger, bigger banks that can withstand economic shocks and meet the nation's expanding aspirations. These mergers attempted to streamline the banking industry, lessen fragmentation, and increase the broader financial system's resilience. Finally, the concept of bank mergers in India has enormous potential to alter the banking sector. Operational effectiveness, increased competitiveness, and improved risk management capabilities can all result from mergers. The banking industry, the economy, and most crucially the clients can all gain from successful mergers, despite hurdles. This can be achieved by careful planning, strict regulatory scrutiny, and effective change management methods.

3 REASONS FOR BANK MERGERS IN INDIA

In recent years, the Indian banking industry has seen a lot of bank mergers. In a merger, two or more banks are combined to create a larger organization. The main goal of bank mergers is to increase the stability and efficiency of the banking system while guaranteeing the long-term viability of the participating institutions. This essay examines the causes of bank mergers in India as well as their effects.

1. **Enhancing Financial Strength:**

The need to strengthen financial position is one of the primary motivators for bank mergers in India. Combining banks with complementary skills can assist build a more stable institution with a larger capital base and better shock absorption capabilities. Merged banks are better able to meet regulatory requirements, facilitate credit expansion, and weather economic downturns because of their improved financial strength.

2. **Cost Rationalization:**

Mergers between banks present chances for cost reduction and economies of scale. Significant cost reductions can be achieved by streamlining operations, eliminating unnecessary branches, and maximizing staffing. Economies of scale in technology infrastructure, risk management systems, and back-office operations are possible for combined institutions, leading to increased operational effectiveness.

3. **Synergies and Business Diversification:**

By combining the skills and strengths of the merging entities, bank mergers can produce synergies. These synergies could result from complementary product portfolios, larger clientele, and expanded geographic reach. To provide a wider range of goods and services, appeal to a larger customer base, and investigate new business opportunities, combined banks can take advantage of these synergies.

4. **Improved Risk Management:**

Bank mergers can improve risk management capabilities by combining resources and knowledge. A better way to monitor and mitigate risks, including operational, market, and credit risks, is through the convergence of risk management systems and processes. The combined company may apply the best practices from both institutions, creating a framework for risk management that is more effective.

5. **Consolidation of Weak Banks:**

To address the problem of weak and financially troubled institutions, bank mergers are frequently utilized as a method. The asset quality can be improved by combining weaker banks with stronger ones so that the new business can take on the non-performing assets (NPAs) and other stressed assets of the weaker bank. This consolidation strategy contributes to preserving financial stability and fostering investor and depositor confidence (Nag, 2020).

4 CONCLUSION

The need for financial strength, cost reduction, synergies, business diversification, enhanced risk management, and consolidation of weak banks are some of the causes that motivate bank mergers in India. These mergers can have positive effects on operational stability and efficiency, but they can also be difficult to integrate and align culturally. Therefore, for successful bank mergers in India, thorough planning, good implementation techniques, and regulatory assistance are essential.

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