



## Amalgamation strategy is a recent trend in Banking sector in India

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### ABSTRACT

Today the banking industry is stronger and capable of withstanding the pressures of competition. While internationally accepted prudential norms have been adopted, with higher disclosures and transparency, Indian banking industry is gradually moving towards adopting the best practices in accounting, corporate governance and risk management. Today, we are having a fairly well developed banking system with different classes of banks – public sector banks, foreign banks, private sector banks – both old and new generation, regional rural banks and co-operative banks with the Reserve Bank of India as the fountain Head of the system. During the last 41 years since 1969, tremendous changes have taken place in the banking industry. The history of Indian banking can be divided into three main phases.

**KEYWORDS:** public sector banks, Biometric Technology, new generation

### INTRODUCTION:

Today the banking industry is stronger and capable of withstanding the pressures of competition. While internationally accepted prudential norms have been adopted, with higher disclosures and transparency, Indian banking industry is gradually moving towards adopting the best practices in accounting, corporate governance and risk management. Today, we are having a fairly well developed banking system with different classes of banks – public sector banks, foreign banks, private sector banks – both old and new generation, regional rural banks and co-operative banks with the Reserve Bank of India as the fountain Head of the system. During the last 41 years since 1969, tremendous changes have taken place in the banking industry. The history of Indian banking can be divided into three main phases.

Phase I (1786- 1969) - Initial phase of banking in India when many small banks were set up

Phase II (1969- 1991) - Nationalization, regularization and growth

Phase III (1991 onwards) - Liberalization and its aftermath

With the reforms in Phase III the Indian banking sector, as it stands today, is mature in supply, product range and reach, with banks having clean, strong and



transparent balance sheets. The major growth drivers are increase in retail credit demand, proliferation of ATMs and debit-cards, decreasing NPAs due to Securitization, improved macroeconomic conditions, diversification, interest rate spreads, and regulatory and policy changes.

**Technology Trends influencing banking sector:**

We are currently in a phase of ‘Digital Darwinism’, an era where technology and society are evolving. The bang of digital forces like Social, Mobile, Analytics, Cloud and Internet of Things (IoT) are creating flow of business information in a more direct and cost efficient manner. India is not un-touched by this phase of ‘Digital Darwinism’. The new technology trends such as Cloud Computing, Artificial Intelligence and Biometrics etc, are likely to bring about significant changes in the way payments would be processed in the future. Markets for banks are completely customer driven and hence technology needs to be customer centric ease of use and safety of transactions. The major trends that are expected to influence the Indian banking sector.

**Digital-only/Virtual Banking:** Digital-only banks are paperless, branchless and signature-less. In India, these banks are running on the Aadhar’s infrastructure and providing end-to-end services through digital platforms like mobile, tablets and internet.

**Biometric Technology:** Linking of Aadhaar number to accounts has enabled banks to recognise their customer by evaluating one or more distinguishing biological traits like face, hand, retina, voice and ear features in wake of an issue. It can eliminate the requirement of multiple passwords and PINs.

**Artificial Intelligence:** Artificial Intelligence has provided personalised services by dealing with each customer and focusing on his or her specific requirements. It will be used to collect information and automatically build models based on that information. Large banks have already introduced this in their services.

**Blockchain Technology:** NITI Aayog is creating ‘IndiaChain’- India’s largest blockchain network, to reduce fraud, speed up contract enforcement and increase transparency in India. As Blockchain is virtually un-hackable due to time stamps that mark a data entry in a distributed ledger, banks will explore options to leverage the power of blockchain to transform backend operations.

**Bitcoin:** In India, the RBI hasn’t yet authorised the use of bitcoins cautioning the users, holders and traders of bitcoins about the potential financial, operational, legal, customer protection and security related risks. Despite this, bitcoin exchange platforms like BTCX India, Coinsecure, Unocoin and Zebpayare operating in India.



**Augmented Reality:** Today, AR mobile app has been launched by banks listing all dining destinations, property lists, shopping centers, bank ATMs and branches etc. with pictures along with distance and directions. It is majorly prevalent in the private banking sector as of now. Going forward, installation of Bluetooth beacons at bank branches will allow banks to integrate physical and mobile channels to provide effective communication.

**Cloud and IoT Technology:** It is the only technology that supports many other disruptive technologies such as big data, artificial intelligence (AI), and blockchain. Banks have begun to realise the degree of agility it brings into business, a fact that has already been evident through the success of fintech companies. As a result, business models for banks in the future are expected to give much greater emphasis to cloud computing. Banking innovations driven by technology, government regulations and private players are leading to greater financial inclusion, as everyone will get access to advanced banking services and a wide range of financial offerings. The aforementioned trends are sure to play a key role in banking transitions. Highly technology dependent solutions also necessitate adoption of safety and security measures, which are best in class, on a continuous basis. In order to ensure better monitoring, it is important to have unfettered supervisory access to data stored with these system providers as also with their service providers/intermediaries/ third party vendors and other entities in the payment ecosystem. It has, therefore, been decided by the Reserve Bank of India that all system providers shall ensure that the entire data relating to payment systems operated by them are stored in a system only in India.

**Big Reform for Public Sector Banks - Key highlights:** In another round of boosters for the economy, Finance Minister Nirmala Sitharaman today announced amalgamation of 10 public sector banks into four big banks. After this the total number of Public Sector Banks in the country will come down to 12 from 27 banks in 2017. Apart from this the government announced Rs 55,250 crore upfront capital infusion in the PSBs.

Table – 1: Here are all the key announcements:

Profile of PNB + Oriental Bank of Commerce + United Bank				
	PNB	OBC	United Bank of India	Amalgamated Bank
Total Business (in crores)	11,82,224	4,04,194	2,08,108	17,94,526
Gross advances (in crores)	5,06,194	1,71,549	73,123	7,50,867
Deposits (in crores)	6,76,030	2,32,645	1,34,983	10,43,659
Domestic Branches	6,992	2,390	2,055	11,437
Net NPA Ratio	6.55%	5.93%	8.67	6.61
Employees	65,116	21,729	13,804	1,00,649

Source : RBI Reports



\* Canara and Syndicate Bank will also be merged. Canara is anchor Bank. To become the fourth largest PSB with Rs. 15.2 lakh crore business and third largest branch network in India.

**Table – 2**

Profile of Canara Bank + Syndicate Bank			
	Canara Bank	Syndicate Bank	Amaigamated Bank
Total Business (in crores)	10,43,249	4,77,046	15,20,295
Gross advances (in crores)	4,44,216	2,17,149	6,61,365
Deposits (in crores)	5,99,033	2,59,897	8,58,930
Domestic Branches	6,310	4,032	10,342
Net NPA Ratio	5.37%	6.16%	5.62%
Employees	58,350	31,535	89,885

Source : RBI Reports

\* Merger of Union Bank of India, Andhra Bank and Corporation Bank merged. The anchor is Union Bank of India. It will create India's fifth largest PSB with Rs 14.6 lakh crore business and fourth largest branch network.

**Table – 3**

Profile of PNB + Oriental Bank of Commerce + United Bank				
	Union Bank	Andhra Bank	Corporation Bank	Amaigamated Bank
Total Business (in crores)	7,41,307	3,98,511	3,19,616	14,59,434
Gross advances (in crores)	3,25,392	1,78,690	1,35,048	6,39,130
Deposits (in crores)	4,15,915	2,19,821	1,84,568	8,20,304
Domestic Branches	4,292	2,885	2,432	9,609
Net NPA Ratio	6.85%	5.73%	5.71%	6.30%
Employees	37,262	20,346	17,776	75,384

Source : RBI Reports \* Indian Bank and Allahabad Bank merged. Anchor Bank Indian Bank. The new bank will be seventh largest with Rs 8.08 lakh crore business.

**Table – 4**

Profile of Indian Bank + Allahabad Bank			
	Indian Bank	Allahabad Bank	Amaigamated Bank
Total Business (in crores)	4,29,972	3,77,887	8,07,859
Gross advances (in crores)	1,87,896	1,63,552	3,51,448
Deposits (in crores)	2,42,076	2,14,335	4,56,411
Domestic Branches	2,875	3,229	6,104
Net NPA Ratio	3.75%	5.22%	4.39%
Employees	19,604	23,210	42,814

Source : RBI Reports



\* Government also announced Rs 55,250 crore upfront capital for credit growth & regulatory compliance to support economy. PNB will get Rs 16,000 crore; Union Bank Rs 11,700 crore; Canara Bank Rs 6,500 crore; Indian Overseas Bank Rs 3,800 crore; Central Bank of India Rs 3,300 crore; Bank of Baroda Rs 7,000 crore; Indian Bank Rs 2,500 crore and Uco Bank Rs 2,100 crore.

**Strategic benefits for Banking Sector :**

- ✓ Big banks with enhanced capacity to increase credit and bigger risk appetite, with national presence and global reach.
- ✓ The government is trying to create big next generation banks.
- ✓ No retrenchment has taken place post merger of Bank of Baroda, Dena Bank and Vijaya Bank; staff has been redeployed and best practices in each bank have been replicated in others.
- ✓ Non-official directors to perform role analogous to independent directors.
- ✓ Government's intention not just to give capital but also give good governance.
- ✓ There is no government interference in commercial decisions of banks.
- ✓ Gross NPA level has come down heavily.
- ✓ Govt monitoring large loans to avert frauds.
- ✓ Sanctioning and monitoring of loans are separated.
- ✓ Special agencies formed to monitor loans above Rs 250 crore to avoid a Nirav Modi like situation.
- ✓ Eight public sector banks have launched repo-rate linked loans in the last one week.
- ✓ NBFC have already found liquidity solution through a settlement with banks.

Govt taking steps to make a clear path to achieve a target of \$5 trillion economy.

**Conclusion:** In the days to come, banks are expected to play a very useful role in the economic development and the emerging market will provide business opportunities to harness. As banking in India will become more and more knowledge supported, capital will emerge as the finest assets of the banking system. By the government support and a careful re-evaluation of existing business strategies can set the stage for Indian banks to become bigger and stronger, thereby setting the stage for expansions into a global consumer base.

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