Abstract

The focus of the study is the most recent mergers in Indian banking during financial year 2019-20 and 2020-21, wherein thirteen public sector banks (PSB) were merged to create five large banks having robust and efficient banking businesses. The thesis has empirically validated three different and diversified objectives; (a) the impact of mergers of PSBs on the overall financial stability of the banking system in India; (b) the causal inference of merger on the financial performance of PSBs in India; and (c) understanding the challenges in the merger in Indian banking sector and the learning therefrom through a case study approach.

The first objective of investigating the impact of mergers of PSBs on the overall financial stability of the banking system in India is empirically tested using both qualitative as well as quantitative information. Using factor analysis technique, a new index, CAMELSS, has been created. The index is developed in three stages to capture the financial stability of the banking system. It is seen that the new index is more robust in comparison to the existing CAMELS index available in the literature, as the new index has not only considered an additional parameter 'size' that has high significance in merger, but also identified the best suited variables for components of the index. The stability of the banking system measured via CAMELSS index for the five PSBs, all PSBs and all scheduled commercial banks (SCB) have improved in post-merger period compared to pre-merger. This leads to the conclusion that mergers have improved the financial stability of the banking system in India.

The second objective of investigating the causal inference of mergers on the financial performance of PSBs in India is carried out through the application of synthetic control methods in evaluating the effect of intervention in comparative case studies. Given the superiority of the synthetic control methods in studying the causal relation, the study has quantified the impact of the mega consolidation in the Indian banking space. Deploying balanced panel data on quarterly frequency from March 2010 to March 2024, i.e., 41 quarters of pretreatment for all banks except Bank of Baroda (37) and 16 quarters of post treatment period for all banks (Bank of Baroda 20 quarters) for the analysis, the study observed that merger has significant positive impacts on financial performance of the banks. The sensitivity of the results is validated using both in-time as well as in-place placebo effect, and leave-one-out analysis, further establishing robustness of the output.

The final objective of the challenges confronted during the mega merger exercise in Indian banking in the financial year 2019-20 and 2020-21 and the learning therefrom, is studied via a case study approach. The merger was meticulously executed by the respective banks, ensuring seamless banking services to customers of the merged entities. This involved, inter alia, harmonizing and standardizing products, processes, IT integration, and aligning human resources. Following the case study approach, the journey of merger is documented in this chapter, covering the road map, challenges encountered, strategies to overcome those challenges, unforeseen issues post-merger, and valuable learnings for the future. Given the nature of the problem, the study has deployed exploratory case study approach.

Keywords: Asset Quality; Merger; Bank; Profitability; Capital Adequacy; Financial Inclusion; Efficiency; Stability; Management; Synthetic Control; Factor Analysis