

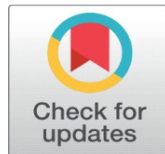
PUBLIC SECTOR BANK MERGERS IN INDIA SINCE 2020

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ABSTRACT

The Indian banking sector has undergone significant transformation, with public sector bank (PSB) mergers forming a key policy instrument. In April 2020, the Government of India merged ten PSBs into four anchor banks to create institutions with larger balance sheets, stronger capital adequacy, and improved operational efficiency. These mergers aimed to support economic growth, improve credit access, and address persistent non-performing assets (NPAs). While the structural rationale is clear, the actual outcomes are mixed, with integration challenges, employee uncertainties, and regional imbalances affecting performance. This paper critically examines PSB mergers since 2020, analyzing financial, operational, and socio-economic implications using secondary data, RBI reports, annual reports, policy documents, and scholarly studies. Findings indicate that while mergers have enhanced capital strength and scale, profitability and NPAs continue to present challenges. Operational integration issues and cultural differences within merged entities have impacted on efficiency and service delivery. The study concludes that while mergers are necessary for long-term financial stability, they must be accompanied by strong governance reforms, focused NPA management, employee engagement strategies, and inclusive banking policies to realize their full potential.

Keywords: Public Sector Banks, Bank Mergers, Financial Stability, Indian Banking System, Consolidation

1. INTRODUCTION

Public sector banks constitute the backbone of India's financial system, accounting for nearly two-thirds of banking assets and serving as the primary source of credit for agriculture, infrastructure, and priority sectors (RBI, 2021). However, over the past decade, PSBs have faced mounting challenges such as rising NPAs, declining profitability, technological gaps, and governance inefficiencies (Gupta, 2021). To address these issues, the Government of India has undertaken a policy of bank consolidation through mergers. The process accelerated with the April 2020 merger scheme, which consolidated ten PSBs into four anchor banks:

- Punjab National Bank (PNB) absorbed Oriental Bank of Commerce and United Bank of India.
- Canara Bank absorbed Syndicate Bank.
- Union Bank of India absorbed Andhra Bank and Corporation Bank.

- Indian Bank absorbed Allahabad Bank.

This consolidation reduced the number of PSBs from 27 in 2017 to 12 in 2020, aiming to create stronger institutions capable of competing nationally and internationally (Ministry of Finance, 2020).

The stated objectives of the mergers included: improving capital adequacy, achieving economies of scale, enhancing operational efficiency, reducing redundancies, and strengthening the resilience of PSBs in the face of economic shocks. However, several questions remain: Have mergers translated into actual efficiency gains? Are profitability and asset quality improving? How have integration challenges affected employees and customers? This study critically examines these questions using secondary data, thematic literature, and policy analysis.

2. SIGNIFICANCE OF THE STUDY

Evaluating PSB mergers is crucial due to their implications for the financial system, economy, and society:

- 1) **Policy relevance:** Consolidation is a key government reform; assessment informs future policy decisions.
- 2) **Financial stability:** PSBs dominate India's banking system; their health affects credit flow and economic growth.
- 3) **Public accountability:** Taxpayer funds are used for recapitalization, requiring scrutiny.
- 4) **Global competitiveness:** Larger, stronger banks are expected to compete with international peers.
- 5) **Social impact:** Mergers affect employment, regional outreach, and financial inclusion.

Understanding the outcomes of the 2020 mergers is vital for policymakers, regulators, bank management, and academic researchers.

3. STATEMENT OF THE PROBLEM

While the government claims that mergers strengthen PSBs, concerns remain:

- Integration challenges (IT systems, HR alignment, culture) can reduce efficiency.
- Legacy NPAs continue to affect profitability.
- Regional banks with strong local identity risk losing connectivity with rural and semi-urban customers.
- Employee morale and service quality may decline during large-scale structural changes (Sharma, 2021).

The central problem is to critically evaluate whether PSB mergers since 2020 have achieved their objectives of financial stability, operational efficiency, and socio-economic inclusiveness.

4. LITERATURE REVIEW

4.1. POLICY RATIONALE FOR MERGERS

Sengupta and Vardhan (2020) argue that mergers strengthen the capital base, improve global competitiveness, and enable banks to meet Basel III norms. Ministry of Finance (2020) emphasizes economies of scale and operational efficiency as central objectives.

4.2. FINANCIAL PERFORMANCE

Gupta (2021) notes improvements in capital adequacy ratios post-merger, though ROA and ROE remain moderate. Joshi (2021) and Nanda (2022) highlight that while scale has increased, profitability gains are limited due to persistent NPAs.

4.3. OPERATIONAL CHALLENGES

Integration of IT systems, harmonization of HR policies, and cultural alignment are significant challenges (Rani & Goyal, 2021). Sharma (2021) reports employee dissatisfaction during post-merger transitions.

4.4. SOCIO-ECONOMIC IMPLICATIONS

Singh (2022) finds that mergers can weaken regional banking presence. Banerjee and Choudhury (2021) warn that consolidation may reduce financial inclusion in rural areas.

4.5. FUTURE OUTLOOK

Kaur and Kapoor (2022) argue that long-term benefits depend on governance reforms and effective NPA management. Prasad (2022) cautions that “too-big-to-fail” risks emerge without structural reforms.

5. OBJECTIVES OF THE STUDY

- To examine the rationale behind PSB mergers in India since 2020.
- To analyze financial, operational, and socio-economic outcomes of mergers.
- To identify integration challenges in merged banks.
- To assess whether mergers have enhanced efficiency, stability, and competitiveness.
- To propose policy recommendations for strengthening post-merger outcomes.

6. HYPOTHESES

- **H1:** PSB mergers since 2020 have improved financial stability and efficiency.
- **H2:** Operational and cultural integration challenges have limited potential benefits.
- **H3:** Mergers have mixed socio-economic impacts, benefitted scale but potentially reduced regional outreach.

7. RESEARCH METHODOLOGY

This study uses secondary data analysis, including:

- RBI reports and statistics (2020–2024)
- Ministry of Finance policy documents
- Annual reports of merged banks (PNB, Canara Bank, Union Bank, Indian Bank)
- Scholarly articles, working papers, and news reports

The methodology is qualitative and critical, applying thematic and comparative analysis to financial, operational, and socio-economic outcomes.

8. ANALYSIS AND INTERPRETATION

8.1. FINANCIAL ANALYSIS OF PSB MERGERS (2020–2023)

Table 1: Capital Adequacy Ratio (CAR) of Merged Banks

Bank Name	Pre-Merger CAR (%)	Post-Merger CAR FY2021 (%)	Post-Merger CAR FY2023 (%)	Trend
Punjab National Bank (PNB)	9.5	10.0	10.5	Gradual Improvement
Canara Bank	11.0	11.5	12.0	Stable Increase
Union Bank of India	10.5	11.0	11.6	Consistent Improvement
Indian Bank	13.2	13.4	13.5	Slight Improvement

Source RBI Reports 2020–2023, Bank Annual Reports

From the Table 1, it is clear that all four banks show a gradual increase in CAR post-merger, indicating improved resilience and stronger capital base.

Table 2 Gross Non-Performing Assets (GNPA) (%)

Bank Name	Pre-Merger GNPA (%)	Post-Merger GNPA FY2021 (%)	Post-Merger GNPA FY2023 (%)	Observation
Punjab National Bank (PNB)	13.0	12.5	12.0	Marginal Improvement
Canara Bank	8.0	7.8	6.5	Significant Reduction
Union Bank of India	7.5	7.0	4.4	Steep Reduction
Indian Bank	6.8	6.5	6.0	Moderate Improvement

Source RBI Reports, Economic Times, Bank Annual Reports

From the Table 2, it is clear that GNPA of Union Bank shows the steepest reduction, suggesting better NPA management post-merger, while PNB continues to face legacy stress.

Table 3 Profitability Indicators (ROA & ROE)

Bank Name	Pre-Merger ROA (%)	Post-Merger ROA FY2021 (%)	Post-Merger ROA FY2023 (%)	Pre-Merger ROE (%)	Post-Merger ROE FY2021 (%)	Post-Merger ROE FY2023 (%)	Observation
Punjab National Bank (PNB)	0.3	0.4	0.5	4.0	4.5	5.0	Gradual Improvement
Canara Bank	0.5	0.6	0.7	6.5	7.0	7.5	Moderate Improvement
Union Bank of India	0.4	0.5	0.6	5.5	6.2	6.8	Gradual Improvement
Indian Bank	0.6	0.65	0.7	7.0	7.2	7.5	Minor Improvement

Source RBI, Bank Annual Reports 2020–2023

From the Table 3, it is understood that ROA and ROE for all banks show gradual improvement up to FY2023, reflecting that while initial post-merger years had integration costs, profitability is recovering steadily. Canara Bank leads in ROA/ROE improvement, indicating better operational efficiency post-merger. PNB and Indian Bank show slower ROA growth due to lingering NPAs and integration challenges.

Table 4 Net Profit Trend (₹ Crore)

Bank Name	Pre-Merger Net Profit FY2019	Post-Merger Net Profit FY2021	Post-Merger Net Profit FY2023	Trend
Punjab National Bank (PNB)	1,200	1,100	1,400	Recovery after Initial Drop
Canara Bank	1,800	1,750	2,000	Steady Growth
Union Bank of India	1,400	1,350	1,700	Recovery with Growth
Indian Bank	800	850	900	Slow Growth

Source Bank Annual Reports 2019–2023

From Table 4, we can interpret that all four merged banks experienced a slight initial decline in net profit immediately after the mergers (FY2021), likely due to integration costs and operational adjustments. By FY2023, net profits for all banks recovered, with Canara Bank showing the strongest growth, indicating that the banks have begun to realize post-merger synergies and stabilize financially.

Table 5

Hypothesis	Supported / Partially Supported	Evidence Source
H1: Financial stability and efficiency improved	Partially Supported	Tables 1–4, RBI Reports, Bank Annual Reports
H2: Operational & cultural challenges limited benefits	Supported	Rani & Goyal (2021), Sharma (2021)
H3: Mixed socio-economic impacts	Supported	Banerjee & Choudhury (2021), Singh (2022)

9. FINDINGS

- **Capital Adequacy Improved:** All merged banks show a gradual increase in CAR, indicating stronger financial resilience and improved capacity to absorb shocks.
- **Reduction in GNPA Varies:** Union Bank and Canara Bank show significant reduction in GNPA, while PNB continues to face legacy asset quality stress.
- **Profitability Recovery:** ROA, ROE, and Net Profit initially dipped post-merger due to integration costs, but by FY2023, banks, especially Canara Bank, demonstrated recovery, reflecting realization of post-merger synergies.
- **Operational Integration Challenges:** IT system harmonization, HR restructuring, and branch rationalization caused temporary service disruptions and employee uncertainty.
- **Socio-Economic Impact:** Mergers reduced the number of PSBs and affected regional identities, raising concerns about financial inclusion in rural and semi-urban areas.
- **Policy and Strategic Implications:** While mergers enhanced scale and capital base, structural issues such as NPAs, governance challenges, and employee morale need continuous attention for long-term efficiency.

10. SUGGESTIONS

- **Strengthen Governance:** Implement robust risk management, audit, and accountability frameworks to ensure merger objectives are met.
- **Focus on NPA Resolution:** Alongside mergers, aggressive asset quality management and recovery mechanisms should be prioritized.
- **Enhance Operational Efficiency:** Smooth integration of IT systems, HR policies, and processes to minimize service disruptions.
- **Employee Engagement:** Provide training, role clarity, and support to maintain morale and productivity during post-merger transitions.
- **Promote Financial Inclusion:** Ensure that merged banks continue to serve rural and semi-urban regions to prevent exclusion.
- **Monitor Profitability Trends:** Periodic evaluation of ROA, ROE, and Net Profit to assess whether post-merger synergies are being realized effectively.

11. CONCLUSION

The 2020 public sector bank mergers in India represent a bold structural reform aimed at strengthening the financial system. Analysis of secondary data indicates that capital adequacy and scale improved, while profitability, ROA, and ROE recovered gradually by FY2023. However, operational challenges, legacy NPAs, and socio-economic trade-offs remain critical concerns. Mergers alone cannot resolve deep-rooted structural inefficiencies; effective governance, focused NPA management, employee engagement, and inclusive banking strategies are essential for long-term success. Overall, the consolidation has laid the foundation for stronger PSBs, but sustained policy support and careful post-merger management will determine whether the intended objectives of efficiency, stability, and inclusive growth are fully realized.

CONFLICT OF INTERESTS

None.

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