

Significance of Bank Amalgamation For Economic Development

^aJincy Joseph K, ^bN Ajithkumar

^aAssistant Professor, Dept. of Economics St. Albert's College (Autonomous),
Ernakulam, Cochin, Kerala, India

^bResearch Guide in Economics (Former Head of the Department of Economics The
Cochin College, Fort Kochi) Kerala, India

Abstract

In the modern, dynamic world, to keep the head high one has to follow the path of growth, which contains various challenges and issues; one has to overcome these challenges and issues to become a success story. Therefore, the aim of this article is to analyse the significance of bank amalgamation in banking development. This article is divided into three parts. The first part includes the introduction and conceptual framework and types of Bank amalgamation. The second part discusses the various reasons of bank amalgamation and followed by a review of literature. The third part deals with the various benefits associated with bank amalgamation. Finally, the article concludes that the banking firm must utilize this approach for further future expansion.

KEYWORDS: Amalgamation, Banks' Strategy, Product - Extension, Market – Extension, Human Resources, Customer base.

INTRODUCTION

Banking sector plays an important role in the modern economy. The main roles of Banks are economic growth, expansion of the economy and provide funds for investment. In the recent times banking sector has been undergoing a lot of challenges in terms of regulation and the effects of globalization. These changes have affected this sector, both structurally and strategically. With the changing Environment many different strategies have been adopted by this sector to remain efficient and to surge ahead in the global arena. One such strategy emerges through the process of amalgamation of banks as one of the most profitable strategy.

Is bank amalgamation necessary? There are various contradictory views regarding this question. Many of the scholars are of the opinion that it is an effective banking strategy to promote banking growth. But some others are of the opinion that it is not an efficient strategy, especially from the point of view of employees'. But most of them agrees with the concept of Bank amalgamation and considers it as a successful strategy that enables the banking firms to enlarge their banking business.

Especially after the introduction of economic reforms, it has widely been applied by most of the Indian banks. There is a general feeling that, this is the only approach through which the banks can become one among the leading banks. There are various significant reasons that underline the need of bank amalgamation.

Bank Amalgamation and its types

Bank amalgamation is a process by which two or more banking firms enter into the banking business as a unique entity. After amalgamation, all the assets, liabilities and all other monetary resources of two or more amalgamated banking companies will work under a single head. And they will enter as a separate legal entity. Most of the banks in India, have adopted this policy basically to progress their geographical reach and also to increase their degree of operations.

There are different types of amalgamation. They are Horizontal amalgamation, Vertical amalgamation, Product -Extension amalgamation and Market -Extension amalgamation.

1. **Horizontal amalgamation:** It refers to the amalgamation of two banking companies who are straight competitors of one another. The banking services and products of these companies are close substitutes.
2. **Vertical amalgamation:** It refers to the kind of amalgamation between two or more banking companies either with different production lines or with the different business intensions.
3. **Product - Extension amalgamation:** It is implemented between banking companies, in which deals with diverse products and services of a connected group. This type of amalgamation has been advocated basically extending the product coverage across different regions.
4. **Market - Extension amalgamation:** It takes place between two banking companies that put up for sale equal products in different markets. It fundamentally enlarges the market base of the products and services.

Reasons of bank amalgamation: Various Reviews

There are various views regarding the reasons behind bank amalgamation. Let us discuss some of the literature reviews regarding bank amalgamation.

Yelena V Smirnova, (2014) analyses the influence of domestic and foreign amalgamations in the banks of Kazakhstan and also examines the reason that stimulate amalgamation procedures in the banking industry. This paper classifies the reasons of bank amalgamation into two. It consists of internal reasons and external reasons.

Internal reasons comprise enlarge into new markets to achieve commercial growth and amplify the figure of customers, broaden the number of consumers, improve capital/shareholders' equity, raise returns and make stronger financial/market place, develop proceeds by trading more services, build up new products and/or services, enlarge dimension and strengthen market position, accomplish competence through economies of scale, to gain better access and greater capital, obtain research and development capability, develop technical proficiency, enhance the efficiency management.

External reasons include financial, lawful & political, scientific and competitive prospects. Financial aspects relay to respond to the altering economic/market conditions in a bank's surroundings. Lawful & political reasons comprise acquiring tax payback from the government. A technological motive describes to enhancing learning and obtains new acquaintance to combine superior know-how. Competitive reasons include exploiting deliberate opportunities through synergies and meeting of industries to get better the quality and quantity of products/services become more reasonable.

Rani Ladha, (2013) study stated some of the reasons of bank amalgamation and also directs the diverse, inventive approaches through which a Bank is being capable of move about for the period of the amalgamation process. The writer identifies a number of vital reasons of amalgamation. It includes, positive banking facilities in rural areas and in main product divisions, certifying energetic existence in the worldwide markets, challenging with domestic players in the home market, upholding consumer interest by giving all security requirements.

Girnara Monaben Rameshbhai, (2016) study reveals that, after bank amalgamation, banks can accomplish significant expansion in their banking operations and curtail their transaction costs up to a considerable degree. The study

also points out that the strategy of amalgamation can abolish rival from the banking business. It enhances the customer base and takes advantage of their strategic benefits. So the study identifies some of the reasons behind amalgamation. It consists of economies of scale; enlarge of branch networking system, development of a customer base, enhance in deposits and advances, admittance to global banking industry and spreading out of ATM networks.

Nand Lal, (2014) studies the various reasons and benefits of bank amalgamation and explains that through this process banks can accomplish their targets. According the author, One of the significant reason behind amalgamation was to endow with self sufficiency to low achieving banks by the leading efficient banks. Other important reasons include

- i. Give sustainable strategies to the low achieving banks for development.
- ii. Enhance competitiveness and raise the market share and value, especially in the world market.
- iii. Maximising the economies of scale of amalgamated banking companies.
- iv. Human capital formation through skill alteration
- v. Favourable influence created by globalisation
- vi. Provide diversified business products and services to the customers
- vii. Avoid all the entry restrictions
- viii. To minimise the operational expenses
- ix. Optimisation of returns
- x. Stimulate positive synergy among firms
- xi. Enhance operational and financial efficiency

The writer also emphasized that many increase in the number of bank amalgamations will not benefit the economy to a great extent. It can cause many monetary failures. It does not imply absolute restriction towards amalgamations, but put a ceiling on it. The writer concludes that the banks can definitely follow this strategy, but should have pre-defined objectives and implementation ways.

Stefan Ebner, (2013) examines the trends, reasons and effects of bank amalgamation. The study observed that the most important reason behind amalgamation was connected towards strategic empowerment. It covers maximisation of market control, gaining of harmonizing possessions, to build up the firm's commodities and services and capture multiplicity, economies of scale, monetary synergies, etc.

The author argued that the second significant motive behind amalgamation was to reorganize the active entities with full possible and take full advantage of banking development. The author further underlines that bank amalgamation will also occur in anticipation of maximising returns. And the ultimate reason behind bank amalgamation will be the maximisation of economic growth. The study also emphasises the growth prospects and productivity targets achieved by the amalgamated companies, which again underline the significance of amalgamation in economic development.

Benefits of bank amalgamation

According to some scholars, amalgamation increases the financial resources and there by improves the viability of the banking company, maximises revenue from various banking transactions, minimises cost in terms of employees', reshuffle the credit mixture of the banking firm, abolish competitions in the banking industry, improves the economies of large scale operations, greater managerial efficiency, higher return on equities, ultimately maximization of monetary gains and the end

result will be company's growth. So in anticipation of getting those benefits most of the banking firms will undertake this strategy.

Michal Kowalik, Troy Davig, Charles S. Morris, and Kristen Regehr, (2014) in their article "Bank Consolidation and Merger Activity Following the Crisis," reports that amalgamation facilitates the banks to accomplish market extension and extensive geographical reach, improved economies of scale, boosts competence and prosperity, decline of expenditure through operational efficiency, encouragement of sound banking system and enables the proficient operation of monetary assets.

Amalgamation strengthens product diversification and their by risk in terms of the banking industry can also be curbed up to a greater extend. The Bank amalgamation has several inferences in the centre of population as well. It can help to encourage the realistic pour on the stock of assets, advance resource allotment efficiency. Also, it proposes a multiplicity of monetary products and full-services to the community.

The concept of bank amalgamation has many favourable outcomes and benefits. They are as follows:

1. Maximizes the efficiency of the banking firm

Amalgamation enlarges the performance of the banking firms by expanding the efficiency ratios. The Bank will optimally allocate the resources and their by the efficiency of the banking operations enhances up to a large extent. So productivity also rises, as a result bank's operational infrastructure will become competent. There by amalgamated banks can handle their risk within their convenient degree. And ultimately, amalgamated banks have lower operational risks in terms of their banking products and services.

2. Increases the scale of operations

Amalgamation enables the banking firms to enlarge the economies of scale of operation by expanding their customer base. It also increases the various benefits of the extension of their stock of capital. So the banking firms can perform efficiently their banking operations, can sell their business products without much effort and resources. There by the amalgamated banks achieve their organisational objectives very easily and quickly.

3. Bridge the gap in the banking business

Most of the banking firms have to experience a wide number of bottlenecks, especially related to their technology and product aspects of the banking business. Many scholars are of the opinion that most of the big banks can remove many of their technology and product related gaps with the help of bank amalgamations. So after amalgamation, they can provide a wide range of diversified business products and services to the customers. And many of the experiences also reveal that after amalgamation, banks capability, especially in terms of their banking quality and performance increases very immensely.

4. Enables human capital formation

According to some others, the strategy of bank amalgamation also increases the extent of human capital formation. It enables the employees to be expertise in their jobs. It will boost the sales group of the banking firm. Skills, talents and group efforts as a team will also increase and the employees will become more efficient and effective to face many banking challenges. So the problems related to the performance failures can also determine. In short, bank amalgamation will definitely strengthen the managers and staffs by following some revamping mechanisms.

5. Maximises customers' satisfaction

Bank amalgamation as an important strategy enables the banking firms to enlarge the customer base by providing diversified business products and efficient, standardised banking services to them. Many of the studies reveal that after amalgamation, the customers' satisfaction increases up to a large extent basically due to the improvements in the service quality of the banks.

A study on "The Impact of Mergers and Acquisitions on Service Quality of Banks in Ghana: Case Study of Eco bank and Access Bank Ghana" analyses the influence of amalgamation on the service quality of the banking industry of Ghana. Empirical facts state that, the process of bank amalgamation between Eco bank and Access Banks in Ghana accelerated the overall performance of the bank in terms of service quality. Amalgamation facilitates the banks to supply higher excellence of services to their customers and thereby greater enlargement in the services all the way through advanced economic options. The post amalgamation trend also states that the financial competence of banks in terms of outlay and services has enhanced to a great extent.

CONCLUSION

From the above discussions, it is clear that bank amalgamation is necessary on certain grounds. And in many of the cases, it works as an effective strategy for banking sectoral development and it also support the weak banks to overcome their bottlenecks. In spite of this, banks can provide well diversified business products and services after amalgamation. In short, bank amalgamation has confirmed to a number of the advocating effects on banks' ability to earn profits and building on assets for future growth.

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