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A Legal and Economic Study of Selected Private Sector Bank: Performance Evaluation Pre and Post-merger

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ABSTRACT: Private banking in India was practiced since the beginning of banking system in India. After the nationalization of 14 larger banks in 1969, no banks were allowed to be set up in the private sector. In the pre-reforms period, there were only 24 banks in the private sector. The Narsimha Committee in its first report recommended the freedom of entry into the financial system only if certain guidelines were followed. The Reserve Bank of India considered the above recommendations and allowed banks to be set up in private sector. Thus in this way private sector banks entered the Indian Financial System. The first Private Bank in India to receive an in principle approval from the Reserve Bank of India was Housing Development Finance Corporation Limited, to set up a bank in the private sector as a part of the RBI's liberalization policy regarding Indian Banking Industry. It was incorporated in August 1994 as HDFC Bank Limited with registered office in Mumbai and commenced the banking operations as Scheduled Commercial Bank in the year January 1995.

KEY WORD: Reserve Bank of India, Merger & Acquisition, Banking Industry

I. INTRODUCTION

As far as the present scenario is concerned the industry is in a transition phase the private sector banks are consolidating themselves by using the technique of mergers and acquisitions. Moreover private sector banks are forging ahead and rewriting the traditional banking business model by way of their sheer innovation and service.

The private players however cannot match the PSB's great reach, great size and access to low cost deposits. Therefore one of the means for them to combat the PSB's has been through the merger and acquisition (M&A) route.

Over the last years, the industry has witnessed several such instances. For instance, HDFC Bank's merger with Times Bank. ICICI Bank's acquisition of ITC Classic, Anagram Finance and Bank of Madura. Centurion Bank, Indusland Bank, Bank of Punjab, Vysya Bank are said to be on the lookout. The UTI bank- Global Trust Bank merger however opened a Pandora's box and brought about the realization that all was not well in the functioning of many of the private sector banks which forced the concerned banks to opt for the route of merger and acquisition so that they can solve the crucial financial crises.

Private sector Banks have pioneered internet banking, phone banking, and mobile banking, debit cards, Automatic Teller Machines (ATMs) and combined various other services and integrated them into the mainstream banking arena, while the PSBs are still grapping with disgruntled employees in the aftermath of successful VRS schemes. Thus great opportunities lie ahead for the private sector banks and such the economy hopes that the private sector banks will contribute in its growth and development.

II.

III. LEGAL AND ECONOMIC PERSPECTIVE : MERGER AND ACQUISITION

Merger is an external strategy for growth of the organization. A merger is a combination of two or more organizations in which one acquires the assets and liabilities of the other in exchange for shares or cash, or both the organizations are dissolved, and the assets and liabilities are combined and new stock is issued. For the