Synergy Benefits of Bank Consolidation

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Abstract
The Indian banking sector has seen significant transformation through deregulation, technological advances and globalization. The domestic banking industry has increasingly looked at consolidation to derive greater benefits such as: enhanced synergy; cost take-outs from economies of scale; organizational efficiency; cost of funding; and risk diversification.

The study analyzed the probable basis for the preparedness of banks for consolidation in the Indian context and the synergies actually derived post consolidation exercise. The findings of the study indicates that Economies of Scale and Economies of scope are the major benefits that emerge as a consequence of the consolidation initiatives taken up by banks as it increases the operational efficiencies. Moreover the study also exposes the fact that new technological developments have encouraged consolidation because of their high fixed costs and the need to spread these costs across a large customer base. Moreover it was found that the impact of consolidation on competition can only be assessed by using empirically supported definitions of the relevant product and geographic markets.

There should be prime importance given to the efficiency factors post consolidation as such there should be prior consideration to be made on a series of aspects. The study will be very useful for the companies willing to go for consolidation, to frame rules and regulations and also to initiate several measures for boosting the consolidation.

Keywords: Globalization, Consolidation, Banking Industry, Economies of Scale, Economies of Scope

Introduction:
Bank Consolidation is considered to be an ideal step for reducing the risk of financial instability and to face competition. A strong banking system is critical for sound economic growth so it is natural to improve the comprehensiveness and quality of the banking system to bring efficiency in the performance of the real sectors. So it is necessary to identify the whether the consolidations happening in the banking industry is being successful and how the obstacles can be overcome. This will help in the future consolidations happening in the banking industry which will take the Indian banking industry to a greater level.

Bank consolidation with respect to State Bank of India is a burning issue in the recent times as after the consolidation of two of the associates namely State Bank of Saurashtra and State Bank of Indore, State Bank of India is looking forward to consolidate all the remaining five associates in the years to come. This has created a new sense of strategy for the banking industry to emerge as strong competitors.

The study aims to understand the underlying issues of bank consolidation and behavior of the employees towards the same and also to explore the factors affecting consolidation in banking industry and also highlights problems faced by the banking industry while undergoing the changes related to the consolidation process. The study is further extended to analyze the effect of consolidation on the bank’s functioning and its lending patterns and will also try to provide an insight into the synergetic effects which such a consolidation can pose to the performance of the Indian banks and thereby boost the financial integration in the Indian Banking Industry by developing larger banks.
Reviews of Literature

Nicolo, Bartholomew, Zaman and Zephirin (2003), conducted a study titled “Bank Consolidation, Internationalisation and Conglomeration: Trends and implications for financial risk” to explore the extent to which financial firm risk and systemic risk potential in banking are related to consolidation and conglomeration. With the use of empirical analysis, the research finds that large banks and more complex conglomerate financial institutions exhibit higher levels of risk than their smaller, less complex, specialized financial firms. Moreover study conducted on the sample banks indicate that higher banking system concentration appear to be improved with higher levels of systematic risk potential. Moreover the study reflects that while there is an upward trend in conglomeration globally, consolidation and internationalization exhibit uneven patterns across world regions.

Bose, Druck and Marston (2004) conducted a research titled “Bank Consolidation and Performance: The Argentine Experience”. The objective of the research is to study the effect of bank consolidation on the performance of Argentinean banks using an econometric model between the periods December 1995-2000. The study shows that there is a positive and significant effect of bank consolidation on the bank performance. It is observed that the banks return increases with consolidation and insolvency risk is reduced. Mergers and privatization has significant beneficial effect on the bank returns. Moreover the research findings depict that healthy banks should be encouraged to absorb weak and underperforming banks.

Alkhathlan & Ravichandran (2010) in the paper titled "Market Based Mergers- Study on Indian & Saudi Arabian Banks" analyzed the efficiency and performance of post merger using CRAMEL-type variable of selected banks in India & Saudi Arabia which are initiated by the market forces. The results suggest that the mergers did not seem to enhance the productive efficiency of the banks as they do not indicate any significant difference. The financial performance suggests that the banks are becoming more focused on their retail activities (intermediation) and the main reasons for their merger is to scale up their operations. However, it is found that the Advances to total Assets and the profitability are the two main parameters which are to be considered since they are very much affected by mergers. Also, the profitability of the firm is significantly affected after merger.

Weiss, Neumann and Bostandzic (2012), in the paper titled Systemic Risk and Bank Consolidation: International Evidence analyzed the systemic risk effects of bank mergers to test the "concentration-fragility" hypothesis. The researcher used the marginal expected shortfall as well as the lower tail dependence between a bank's stock returns and a relevant bank sector index to capture the merger-related change in an acquirer's contribution to systemic risk. In the empirical analysis of a dataset of international domestic and cross-border mergers, the study found that there is clear evidence for a significant increase in the merging banks', the combined banks' as well as their competitors' contribution to systemic risk following mergers, thus confirming the "concentration-fragility" hypothesis.

Research Methodology:

Objectives of the Study

The main objective of the study is to understand the underlying facts in the bank consolidation process and its impact with regard to the consolidating decision of State Bank of India with its subsidiaries. Further the research also aims at determining the synergy benefits the consolidation will bring out in the future prospective performance of consolidated SBI.

The present study has been undertaken with the following objectives:

1. To determine the important factors that facilitates bank consolidation and to suggest ways to overcome impediments to such consolidation exercise.

2. To know how consolidation brings about a change in the performance of the bank with regard to improved performance and to emerge as a strong competitor on the foreign front that is to understand the synergy benefits of bank consolidation.
3. To understand the underlying factors which poses difficulties in the consolidation process and its impact on the banks?
4. To identify the impact of consolidation on the subsidiary operations of the bank.
5. To study how can the lending policies be impacted by the consolidation process.
6. To study the impact of bank consolidation on the bank employees as well as customers.

**Variables of the Study**

**Dependent Variables**
Synergy benefits

**Independent variables**
Economies of scale (Greater market share, Diversified risk, Size expansion/Increased reach), Economies of scope (Cost Reduction, Operational efficiency, Revenue enhancement), Shareholders Value, Level of Technology integration, Capital adequacy, Competition with foreign banks, Lending policy.

**Sampling Procedure**

The data to be used for the analysis of the research is collected using Primary data collection method. It includes Survey comprising of direct interviews and questionnaire to the managers and senior managers of State Bank of India and its associates.

The sample has been chosen using Convenience sampling. The population includes all the top level employees and managers of State Bank of India and its subsidiaries. The sample size is taken as 50 to gather responses related to various aspects of consolidation process of State Bank of India. The area of study comprises of State Bank of India and its subsidiaries all over India.

**Hypothesis**

Hypothesis 1
H₀₁: Synergy benefits of bank consolidation is independent on the Economies of Scale achieved post consolidation
H₁₁: Synergy benefits of bank consolidation is dependent on the Economies of Scale achieved post consolidation

Hypothesis 2
H₀₂: Synergy benefits of Economies of scope is not achieved post consolidation
H₁₂: Synergy benefits of Economies of Scope is achieved post consolidation

Hypothesis 3
H₀₃: Synergy benefits of consolidation is not dependent of level of technology integration issues
H₁₃: Synergy benefits of consolidation is dependent of level of technology integration issues

Hypothesis 4
H₀₄: Synergy benefit of consolidation is independent of compliance to capital adequacy norms
H₁₄: Synergy benefits of consolidation is dependent on compliance to capital adequacy norms

Hypothesis 5
H₀₅: Consolidation does not change the lending policy decision
H₁₅: Consolidation changes the lending policy decisions

Hypothesis 6
H₀₆: Consolidation does not make national banks large enough to compete with foreign banks
H₁₆: Consolidation makes national banks large enough to compete with foreign banks.

Hypothesis 7
H₀₇: Synergy benefits is independent of change in shareholders’ value due to revenue enhancement post consolidation
H₁₇: Synergy benefits is dependent on change in shareholders’ value due to revenue enhancement post consolidation

Hypothesis 8
H₀₈: Elimination of duplication overheads does not increase efficiency and profitability post consolidation
H₁₈: Elimination of duplication overheads increases efficiency and profitability post consolidation

Data Analysis

Factor Analysis
KMO and Bartlett’s tests have given the following results:
- KMO measure of sampling adequacy = 0.686
- Bartlett’s test of sphericity - 246.491 (approx. chi square), 78 (df), .000 (sig)

The KMO value is 0.686 which is greater than 0.5, so this is considered to be adequate to proceed with factor analysis of the data. This value clearly indicates that there high correlation among the various variables present study. The Bartlett’s test of sphericity is 246.491, it is a high value and it is significant at 0.05 levels. So it is believed that factor analysis would give reliable information.

For the further proceedings to apply other statistical tools, the factor loadings are given below in the table. The percentage of variance explained is the percentage of total variance accounted for by each factor. The first five components which are the retained factors account for 75.039 percentage of the variance. The first factor Capital Adequacy Norms accounts for 24.812 percent of variance while the remaining factors like Improved Operational Efficiencies, Economies of Scale & Economies of Scope, Competitiveness and Diversified Risk account for 17.402 percent, 13.169 percent, 11.144 percent and 8.512 percent of the total variance.

<table>
<thead>
<tr>
<th>Factors</th>
<th>Initial Eigen Values</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>% of Variance</td>
<td>Cumulative %</td>
</tr>
<tr>
<td>Improved Operational Efficiencies</td>
<td>2.262</td>
<td>17.402</td>
<td>42.215</td>
</tr>
<tr>
<td>Economies of Scale &amp; Economies of Scope</td>
<td>1.712</td>
<td>13.169</td>
<td>55.384</td>
</tr>
<tr>
<td>Competitiveness</td>
<td>1.449</td>
<td>11.144</td>
<td>66.527</td>
</tr>
<tr>
<td>Diversified Risk</td>
<td>1.107</td>
<td>8.512</td>
<td>75.039</td>
</tr>
</tbody>
</table>

Source: Secondary data

Multiple Regression Analysis
In this study Multiple Regression Analysis is used for model building. For this purpose the independent variables chosen are Capital Adequacy Norms (X₁), Improved Operational Efficiencies (X₂), Economies of Scale & Economies of Scope (X₃), Competitiveness (X₄), and Diversified Risk (X₅). The dependent variable chosen here is Enhanced Synergy Benefits (Y). The model is as follows:

Y= β₀ + β₁ Capital Adequacy Norms + β₂ Improved Operational Efficiencies + β₃ Economies of Scale & Economies of Scope + β₄ Competitiveness + β₅ Diversified Risk + ε

Regression Models
R represents the degree of correlation between the observed and predicted values of the dependent variable. The R value is 0.790, which indicates, the predicted values of dependent variable using the independent variables are strongly correlated to their observed value of dependent variables. R Square represents the degree of standard deviation in the dependent variable that can be explained using the independent variables. R Square value is 0.624 indicating that the independent variables are strongly associated with the dependent variable.

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>S.E. of the Estimate</th>
<th>Durbin-Watson</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.790</td>
<td>0.624</td>
<td>0.203</td>
<td>0.233</td>
<td>1.229</td>
</tr>
</tbody>
</table>

Source: Secondary data
Adjusted R Square indicates that if there is an addition of extraneous predictors to the model it can add significant predictability to the dependent variable. As the value is 0.203, it can be concluded that the models are good fit in nature. The Durbin-Watson Statistic is used to test for the presence of serial correlation among the residuals and the value 1.229 signifies that the residuals are mostly uncorrelated.

Table 3: ANOVA

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>17.486</td>
<td>12</td>
<td>1.457</td>
<td>5.138</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>10.514</td>
<td>37</td>
<td>.284</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>28.000</td>
<td>49</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Secondary data

This table shows that the p value is less than the significance level of 0.05. Hence we reject the null hypothesis. As all the Sig. values are less than the significance level i.e. 0.05, it can be concluded that independent variables are significantly different from each other.

Table 4: Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>UC</th>
<th>SC</th>
<th>B</th>
<th>Std. Error</th>
<th>Beta</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>-2.910</td>
<td>0.246</td>
<td>3.244</td>
<td>0.002</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Capital Adequacy Norms</td>
<td>0.249</td>
<td>0.091</td>
<td>0.568</td>
<td>5.891</td>
<td>0.001</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Improved Operational Efficiencies</td>
<td>0.312</td>
<td>0.051</td>
<td>0.29</td>
<td>3.059</td>
<td>0.004</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Economies of Scale &amp; Economies of Scope</td>
<td>0.374</td>
<td>0.045</td>
<td>0.07</td>
<td>0.743</td>
<td>0.002</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Competitiveness</td>
<td>0.242</td>
<td>0.052</td>
<td>0.255</td>
<td>2.739</td>
<td>0.009</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Diversified Risk</td>
<td>0.181</td>
<td>0.047</td>
<td>0.169</td>
<td>1.726</td>
<td>0.021</td>
<td></td>
</tr>
</tbody>
</table>

Source: Secondary data

The first variable is the constant which represents the intercept of the regression line on the Y-axis i.e. the Y-intercept. It also represents the predicted value of the dependent variable when all the independent variables are 0.

The regression equation for the above case can be given as

Demand for Financial Inclusion(Y) = -2.910 + β1 0.249 +β2 0.312 + β3 0.374 + β4 0.242 + β5 0.181

This model will help us to predict the dependent variable given the independent variables.

Hypothesis 1:
H01: Synergy benefits of bank consolidation are not dependent on the Economies of Scale achieved post consolidation.
H11: Synergy benefits of bank consolidation depends on the Economies of Scale achieved post consolidation.

Table 5: Chi square results

<table>
<thead>
<tr>
<th>Value</th>
<th>df</th>
<th>Asymp. Sig. (2 sided)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Chi-square</td>
<td>10.924</td>
<td>9</td>
</tr>
<tr>
<td>Likelihood Ratio</td>
<td>12.734</td>
<td>9</td>
</tr>
<tr>
<td>Association</td>
<td>.203</td>
<td>1</td>
</tr>
<tr>
<td>N valid case</td>
<td>50</td>
<td></td>
</tr>
</tbody>
</table>

Since the observed value is less than the value at critical limit at significance level (0.05) at 9 degrees of freedom, hence Null Hypothesis is rejected and it can be concluded that synergy benefit of bank consolidation depends on the economies of scale achieved post consolidation.

Hypothesis 2
H02: Synergy benefits of Economies of scope is not achieved post consolidation
H12: Synergy benefits of Economies of Scope is achieved post consolidation
Table 6: Chi square results

<table>
<thead>
<tr>
<th></th>
<th>Value</th>
<th>df</th>
<th>Asymp. Sig. (2 sided)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Chi-square</td>
<td>10.224</td>
<td>9</td>
<td>.029</td>
</tr>
<tr>
<td>Likelihood Ratio</td>
<td>12.434</td>
<td>9</td>
<td>.171</td>
</tr>
<tr>
<td>Association</td>
<td>.201</td>
<td>1</td>
<td>.650</td>
</tr>
<tr>
<td>N valid case</td>
<td>50</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Since the calculated value is less than the value at the critical limit at significance level (0.05 at 9 degrees of freedom), hence Null Hypothesis is rejected and it can be concluded that synergy benefit of bank consolidation is dependent on economies of scope achieved post consolidation efforts.

**Hypothesis 3**

H<sub>03</sub>: Synergy benefits of consolidation are not dependent on level of technology integration issues.

H<sub>13</sub>: Synergy benefits of consolidation are dependent on level of technology integration issues.

Table 7: Chi square results

<table>
<thead>
<tr>
<th></th>
<th>Value</th>
<th>df</th>
<th>Asymp. Sig. (2 sided)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Chi-square</td>
<td>43.563</td>
<td>12</td>
<td>.000</td>
</tr>
<tr>
<td>Likelihood Ratio</td>
<td>43.516</td>
<td>12</td>
<td>.000</td>
</tr>
<tr>
<td>Association</td>
<td>4.084</td>
<td>1</td>
<td>.043</td>
</tr>
<tr>
<td>N valid case</td>
<td>50</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Since the calculated value is less than the critical limit at two significance level (0.05, 12 degrees of freedom), we conclude that Null Hypothesis is rejected and hence it is proved that synergy benefits of consolidation is dependent on level of technology integration issues.

**Hypothesis 4**

H<sub>04</sub>: Synergy benefits of consolidation are independent of compliance to capital adequacy norms.

H<sub>14</sub>: Synergy benefits of consolidation are dependent on compliance to capital adequacy norms.

Table 8: Chi square results

<table>
<thead>
<tr>
<th></th>
<th>Value</th>
<th>df</th>
<th>Asymp. Sig. (2 sided)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Chi-square</td>
<td>34.691</td>
<td>16</td>
<td>.004</td>
</tr>
<tr>
<td>Likelihood Ratio</td>
<td>24.062</td>
<td>16</td>
<td>.088</td>
</tr>
<tr>
<td>Association</td>
<td>.392</td>
<td>1</td>
<td>.531</td>
</tr>
<tr>
<td>N valid case</td>
<td>50</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Since the calculated value is less than the value at critical limit at significance level (0.05 at 16 degrees of freedom), we conclude that Null Hypothesis is rejected and hence it is proved that synergy benefits is dependent of the compliance to capital adequacy norms.

**Hypothesis 5**

H<sub>05</sub>: Consolidation does not change the lending policy decision.

H<sub>15</sub>: Consolidation changes the lending policy decisions.

Table 9: Chi square results

<table>
<thead>
<tr>
<th></th>
<th>Value</th>
<th>df</th>
<th>Asymp. Sig. (2 sided)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Chi-square</td>
<td>22.637</td>
<td>12</td>
<td>.031</td>
</tr>
<tr>
<td>Likelihood Ratio</td>
<td>19.390</td>
<td>12</td>
<td>.080</td>
</tr>
<tr>
<td>Association</td>
<td>.486</td>
<td>1</td>
<td>.486</td>
</tr>
<tr>
<td>N valid case</td>
<td>50</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Since the calculated value is less than the value at critical limit at significance level (0.05 at 12 degrees of freedom), we conclude that Null Hypothesis is rejected and Bank consolidation changes the lending policy decisions.
Hypothesis 6

H$_{06}$: Consolidation does not make national banks large enough to compete with foreign banks.

H$_{16}$: Consolidation makes national banks large enough to compete with foreign banks.

<table>
<thead>
<tr>
<th>Table 10: Chi square results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
</tr>
<tr>
<td>Pearson Chi-square</td>
</tr>
<tr>
<td>Likelihood Ratio</td>
</tr>
<tr>
<td>Association</td>
</tr>
<tr>
<td>N valid case</td>
</tr>
</tbody>
</table>

Since the calculated value is less than the value at critical limit at significance level (0.05 at 6 degrees of freedom), we conclude that Null Hypothesis is rejected and consolidation makes national banks large enough to compete with foreign banks.

Hypothesis 7

H$_{07}$: Synergy benefits are independent of change in shareholders’ value due to revenue enhancement post consolidation.

H$_{17}$: Synergy benefits are dependent on change in shareholders’ value due to revenue enhancement post consolidation.

<table>
<thead>
<tr>
<th>Table 11: Chi square results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
</tr>
<tr>
<td>Pearson Chi-square</td>
</tr>
<tr>
<td>Likelihood Ratio</td>
</tr>
<tr>
<td>Association</td>
</tr>
<tr>
<td>N valid case</td>
</tr>
</tbody>
</table>

Since the calculated value is less than the value at the critical limit at the significance level (0.05 at 9 degrees of freedom), we conclude that Null Hypothesis is rejected and Synergy benefits is dependent of change in shareholders’ value due to revenue enhancement post consolidation.

Hypothesis 8

H$_{08}$: Elimination of duplication overheads does not increase efficiency and profitability post consolidation.

H$_{18}$: Elimination of duplication overheads increases efficiency and profitability post consolidation.

<table>
<thead>
<tr>
<th>Table 12: Chi square results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
</tr>
<tr>
<td>Pearson Chi-square</td>
</tr>
<tr>
<td>Likelihood Ratio</td>
</tr>
<tr>
<td>Association</td>
</tr>
<tr>
<td>N valid case</td>
</tr>
</tbody>
</table>

Since the calculated value is less than the value at critical limit at the significance level (0.05), we conclude that Null Hypothesis is rejected and infer that elimination of duplicate overheads increases efficiency and profitability post consolidation.

Findings

The findings of the study are made on a general perspective about the financial sector however with special reference to State Bank of India and its associates. The findings are made on aspects such as the causes for consolidation, impact of consolidation and the synergy prospects of consolidation.

Fundamental Causes

The fundamental causes of consolidation are examined using the extensive body of research literature and interviews conducted with 50 experts from the banking sector. The analysis distinguishes between motives for consolidation and the environmental factors that influence the form and pace of consolidation. In practice, motives and environmental factors are intertwined, but analysis is facilitated
by treating each separately. Environmental factors are divided into two categories: those encouraging and those discouraging financial consolidation.

Response to benefits of Consolidation of the banks

- According to the questionnaire responses it is found that both motives and environmental factors vary over time, across countries, across industry segments, and even across lines of business within a segment and the contrast in the responses across categories was indeed substantial. Nevertheless, some common themes emerge.
- Majority of the respondents indicates economies of scale and economies of scope as a synergy factor of such consolidation exercise.
- Research suggests that consolidation may provide some opportunities for revenue enhancement either from efficiency gains or from increased market power.
- Respondents indicated that revenue enhancement due to increased size was a moderately important factor motivating domestic within-segment mergers, while revenue enhancement due to increased product diversity was a moderately to very important factor underlying domestic cross-segment mergers. Revenue enhancement was also viewed as a fairly important motivator for cross-border consolidation.
- New technological developments have encouraged consolidation because of their high fixed costs and the need to spread these costs across a large customer base. At the same time, dramatic improvements in the speed and quality of communications and information processing have made it possible for financial service providers to offer a broader array of products and services to larger numbers of clients over wider geographic areas than had been feasible in the past.
- Respondents perceived technological advances to be a moderately to very important force encouraging consolidation in the financial services industry.
- Increased competition has helped to squeeze profit margins, resulting in shareholder pressure to improve performance. Importantly, shareholders have gained power relative to other stakeholders in recent years. This development is expected to continue, as it is the result of a structural move towards the institutionalization of savings.

Obstacles on the path to Consolidation of banks

- Technological integration issues and cultural differences, which include different corporate cultures and corporate governance regimes, as well as differences in language or national customs, appear to be important impediments to consolidation, especially on the cross-border and cross-product levels.
- When consolidation occurs, the larger bank resulting from the merger is able to expand its lending capacity with respect to larger borrowers and it may restructure its portfolio, discontinuing credit relationships with smaller borrowers. To the extent that credit relationships between banks and small businesses are characterized by a greater degree of information asymmetries, small firms could face difficulties in finding credit from other sources.
- The impact of consolidation on competition can only be assessed by using empirically supported definitions of the relevant product and geographic markets. Because financial markets are constantly changing, these definitions have to be scrutinized regularly, also taking into account the differential impact on different classes of consumers, such as households and small firms.

Findings from the study based on the questionnaire facts

- The chief reason for consolidation in the financial sector is basically dependent on the long term objective put forward by the regulatory bodies as well as the company management. The consolidation among the SBI & its associates are results of the objective of the finance ministry to bring up a bank with strong financials competent enough to compete against the foreign banks.
- Among the restricting factors to consolidation, the technology integration problems plays the major role in integrating the subsidiary company with the parent company. Cultural issues related to
employees also pose an obstacle because it’s the employees who are the main resources and thus the Human Resources management plays an essential role for a smooth consolidation process.

- There should be prime importance given to the efficiency factors post consolidation as such there should be prior consideration to be made on a series of aspects.
- There should be better offerings in terms of products as well as a better geographic reach to the customers such that customer satisfaction is ensured. An improved operational efficiency will definitely gets reflected in the overall efficiency of the company.
- Competition within the banking sector has emerged as an important consideration for consolidation. Through consolidation banks look forward to emerge has a super power in terms of their financials such that they stand first on the competitive front.
- Customer is the king in any kind of business and it has to be ensured that the process of consolidation will bring about such changes which will enhance the satisfaction of customers. There should be better offerings given to the customer such that it gives a feeling to the customers that consolidation will act as good for them.

Suggestions
The suggestions of the study are mainly pertaining to the financial sector for which the change can be made only from political aspect from the part of government forming the finance Ministry and the regulatory side such as RBI through their monetary policies. The suggestions on consolidation are with regard to the aspects of efficiency, competition and credit flows are:

- Policymakers should carefully examine claims of substantial efficiency improvements by financial institutions proposing major consolidations, especially in cases in which a merger could raise significant issues of market power.
- The impact of consolidation on competition can only be assessed by using empirically supported definitions of the relevant product and geographic markets. Because financial markets are constantly changing, these definitions have to be scrutinized regularly, also taking into account the differential impact on different classes of consumers, such as households and small firms.
- The impact of technological changes could be more powerful for households than for small firms, because standardized techniques such as credit scoring models are more suited to the former. The analysis of relevant markets for antitrust purposes should take into account changes due to technological forces in the geographic and the product dimensions as well as changes in demand.
- In order to increase competition in an environment that is reducing significantly the number of providers of financial services, consideration could be given in some nations to removing obstacles to the mobility of customers across financial service providers. This could be done, for example, through greater transparency regarding products and prices, or by simplifying the process of changing providers.
- Policies that encourage transparency and promote awareness of financial markets would probably be helpful in this respect. Effective antitrust policy implementation needs data on market shares, prices and volumes of activity in key financial services and products. The financial services industry already regularly provides some of the relevant data; however, it would be helpful to enrich the available information, especially at the firm level. The burden of these added reporting requirements should be minimized; authorities should explore ways to encourage financial institutions to contribute the needed data on an ongoing basis and authorities should focus on collecting data only in areas where consolidation is likely to occur.

Conclusion
This research study mainly focuses on understanding the process of consolidation in the financial sector with respect to the Indian economy. This research aimed at studying the underlying impact of consolidation on a general perspective also tries to establish the need to address to the various integration issues and changes in lending patterns of banks post consolidation. The financial sector reforms have brought about significant improvements in the financial strength and the
The prudential norms, accounting and disclosure standards, risk management practices, etc are keeping pace with global standards, making the banking system resilient to global shocks.

The consolidation and convergence of banks in India has, however, not kept pace with global phenomena. The efforts on the part of the Reserve Bank of India to adopt and refine regulatory and supervisory standards on a par with international best practices, competition from new players, gradual disinvestment of government equity in state banks coupled with functional autonomy, adoption of modern technology, etc are expected to serve as the major forces for change. In the emerging scenario, the supervisors and the banks need to put in place sound risk management practices to ensure systemic stability.

The Indian banking sector is at a critical juncture and is faced with several challenges/issues. These relate to nature and extent of further consolidation, the changed environment for public sector banks and the capital constraints faced by them due to Government ownership and further opening of the banking sector to foreign competition. There is definitely a scope for consolidation in the financial sector. The empirical analysis also suggests that the scope for achieving economies of scale exists for banks operating at the lower end. However, the process of consolidation even of small banks should be driven by the market.

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