

A Study of the Merger of SBI and Its Associate Banks: Its Probable Impact on the Banking Industry in India

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ABSTRACT

The merger of the State Bank of India (SBI) with its associate banks represents a major consolidation reform in the Indian banking sector, aimed at improving efficiency, competitiveness, and financial stability. This study explores the rationale, process, and impact of the merger on the Indian banking industry, focusing on both financial and operational parameters. The research analyses pre- and post-merger performance indicators using secondary data obtained from the Reserve Bank of India (RBI), SBI annual reports, and financial publications. The results reveal that the merger enhanced SBI's capital strength, market reach, and economies of scale while improving operational efficiency and profitability in the long term. However, challenges such as integration of human resources, technology synchronization, and short-term profitability decline were also observed. The paper concludes that the merger is a strategic step toward strengthening the Indian public sector banking system and achieving global banking standards.

Keywords: SBI merger, associate banks, banking consolidation, Indian banking industry, operational efficiency, public sector banks, financial performance, non-performing assets, bank integration, economic reform.

INTRODUCTION

The Indian banking industry has undergone significant transformation over the past few decades, evolving from a nationalized structure to a more competitive and technology-driven sector. Among the most notable structural changes was the merger of the State Bank of India (SBI) with its associate banks. The merger, completed in April 2017, combined the country's largest public sector bank with five of its associates—State Bank of Bikaner and Jaipur, State Bank of Hyderabad, State Bank of Mysore, State Bank of Patiala, and State Bank of Travancore.

This move was aimed at consolidating the fragmented public banking sector to create a stronger and more resilient institution capable of meeting the challenges of globalization, financial inclusion, and digital transformation. The merger made SBI one of the top 50 banks in the world by assets, with a vast network of over 24,000 branches and more than 400 million customers.

The merger was part of the Government of India's broader strategy to strengthen public sector banks through consolidation, reduce redundancy, and enhance capital efficiency. However, such large-scale mergers also come with challenges including workforce integration, operational disruptions, and short-term financial strain.

This study seeks to analyze the merger's probable impact on India's banking industry, considering its financial, operational, and strategic implications.

REVIEW OF LITERATURE

Bank mergers and consolidations have been extensively studied worldwide. According to Berger, Demsetz, and Strahan (1999), mergers can lead to improved efficiency through economies of scale and scope. In the Indian

context, Kumar and Suresh (2018) argue that mergers among public sector banks can help enhance competitiveness but must be managed carefully to prevent operational inefficiencies.

Singh (2019) highlights that the SBI merger aimed to create a globally competitive bank capable of financing large-scale infrastructure and industrial projects. Similarly, Das and Ghosh (2020) found that mergers among Indian banks often lead to short-term disruptions but yield positive long-term synergies.

Before the merger, SBI's associate banks operated semi-independently, leading to overlapping functions and increased costs. Studies by the Reserve Bank of India (2017) indicated that consolidation would enhance the bank's lending capacity and reduce systemic risk.

While some scholars (Chaudhuri & Banerjee, 2020) emphasize the benefits of enhanced operational efficiency and technology integration, others (Rao, 2018) caution against cultural mismatches and employee dissatisfaction following mergers. Thus, literature presents mixed views, highlighting both benefits and potential challenges.

Objectives of the Study

The key objectives of this research are:

1. To examine the rationale and objectives behind the merger of SBI and its associate banks.
2. To evaluate the impact of the merger on SBI's financial performance and operational efficiency.
3. To analyze the probable effects of the merger on the broader Indian banking industry.
4. To identify challenges faced during and after the merger process.
5. To offer suggestions for future bank consolidation strategies in India.

RESEARCH METHODOLOGY

This study adopts a **descriptive and analytical research design** based on **secondary data** sources. Data were collected from official reports of the Reserve Bank of India (RBI), annual reports of SBI, financial newspapers, journals, and government publications.

Data Period

The study covers a **10-year period (2012–2022)** to compare SBI's performance before and after the merger.

TOOLS OF ANALYSIS

The following ratios and indicators were analyzed:

1. **Profitability Ratios:** Net profit margin, return on assets (ROA), return on equity (ROE).
2. **Asset Quality:** Non-performing assets (NPA) ratio.
3. **Capital Adequacy:** Capital to risk-weighted assets ratio (CRAR).
4. **Operational Efficiency:** Cost-to-income ratio.
5. **Market Share:** Advances, deposits, and customer base growth.

Limitations

The study is based solely on secondary data; therefore, it does not include qualitative inputs from employees or customers. Moreover, external factors such as economic cycles and policy changes could have influenced financial performance beyond merger effects.

ANALYSIS AND DISCUSSION

Financial Performance Before and After Merger

The analysis of SBI's financial statements indicates that the bank's total assets increased significantly post-

merger—from ₹25 trillion in 2016 to over ₹37 trillion in 2022. The net profit, which initially declined in 2018 due to merger-related provisions, rebounded sharply in subsequent years as synergies materialized.

Indicator	Pre-Merger (2016)	Post-Merger (2022)	Change (%)
Total Assets (₹ trillion)	25.0	37.0	+48%
Net Profit (₹ crore)	9,950	31,676	+218%
ROA (%)	0.41	0.68	+65%
NPA Ratio (%)	9.11	3.97	-56%
Capital Adequacy (%)	13.1	14.7	+12%

(Source: SBI Annual Reports, RBI Database)

Operational Efficiency

The merger enabled SBI to rationalize overlapping branches and streamline operations. The **cost-to-income ratio** declined from 53% (2016) to 47% (2022), reflecting efficiency gains. Technology integration also improved customer experience through unified digital banking platforms like YONO.

Impact On Market Position

SBI's market share in advances increased from 17% to nearly 23%, and in deposits from 19% to 24%, consolidating its position as India's largest bank. The merger also improved SBI's ability to fund large-scale projects and attract foreign investments.

Challenges Faced

Despite long-term benefits, the merger process faced several challenges:

1. **Cultural Integration:** Employees from associate banks experienced uncertainty over job roles and career progression.
2. **IT and Process Harmonization:** Integration of different banking systems required major investments and time.
3. **Short-Term Profitability Impact:** High provisioning for NPAs and restructuring costs temporarily affected profitability in FY2018.

Probable Impact on Indian Banking Industry

The merger set a precedent for future public sector bank consolidations in India. It demonstrated that large-scale mergers could strengthen financial stability and improve efficiency. Following SBI's model, the Government of India announced further mergers, such as the amalgamation of Bank of Baroda with Dena Bank and Vijaya Bank in 2019.

The SBI merger also contributed to:

1. **Reduction in Fragmentation:** Fewer but stronger public sector banks.
2. **Enhanced Global Presence:** SBI's global ranking improved among the top 50 banks worldwide.
3. **Financial Inclusion:** Wider branch network improved access to banking in rural areas.

FINDINGS

1. The merger significantly improved SBI's financial strength and scale of operations.
2. Operational efficiencies were achieved through cost reduction and technological integration.

3. Initial challenges related to HR integration and IT harmonization were gradually overcome.
4. The merger enhanced India's image in the global banking sector as a consolidated, stable system.
5. Public sector consolidation has become a viable policy tool for banking reform.

Suggestions

1. Future bank mergers should be phased to minimize operational disruption.
2. Greater emphasis should be placed on human resource management and employee retraining.
3. Government and RBI should ensure technological standardization before consolidation.
4. Post-merger monitoring mechanisms should be established to track integration progress.
5. Communication strategies must be transparent to maintain employee morale and public confidence.

CONCLUSION

The merger of SBI and its associate banks stands as a landmark in India's financial history. It successfully transformed SBI into a banking giant capable of competing on a global scale while contributing to the government's agenda of strengthening public sector banks. Although the process involved initial challenges, the long-term outcomes demonstrate clear benefits in financial stability, operational efficiency, and market leadership.

The merger also provided valuable lessons for future consolidation efforts—emphasizing the importance of planning, integration, and technology alignment. Overall, the SBI merger can be considered a model of successful banking reform and a stepping stone toward the modernization of India's banking infrastructure.

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