

History of Merger and Acquisition of Banking Sector in Nepal

Dr. Sabita Bhandari

Assistant Manager, Rastriya Banijya Bank

Abstract:

Merger and Acquisition is a relatively a new concept to the Nepali Banking and Financial Institutions (BFIs). Nepal Rastra Bank introduced the Merger Bylaw 2068 (B.S) grounded on the Company Act 2063(B.S) article 177, BAFIA 2063 (B.S) article 68 and 69, and encouraged all the BFIs to undergo merger as a consolidation. 2019, the Government of India announced that 10 PSBs were to be merged into 4. In this massive consolidation, Vijaya Bank and Dena Bank were merged with the Bank of Baroda. Oriental Bank of Commerce and the United Bank of India were merged with the Punjab National Bank. Syndicate Bank was merged into Canara Bank. In the present Scenario, there are some reasons that forced the Nepalese Banking Sector to go into the process of Merger and Acquisitions. They can be explained as below: -Competitive advantage Merger is that in this process, competition is reduced because merger eliminates competitors from the banking industry. With the help of mergers and acquisitions in the banking sector, the banks can achieve significant growth in their operations and minimize their expenses to a considerable extent. -Capital requirement The paid-up capital requirement of the Nepalese bank is have to increase minimum paid-up capital from existing Rs 2 billion to Rs 8 billion. It may not be difficult for large banks to meet the requirement set by the government but for the middle and small scaled banks, it may be very hard and sometimes impossible. So, mergers and acquisitions can be a solution to this requirement. Open Financial Market Due to liberalization policy of govt. of Nepal financial market opened up for international investment too. Many foreign banks has already applied to start operation. It concerns about the capacity of local banks to compete with its foreign counterparts. Hence, mergers and acquisitions will minimize costs, increase the economies of scale, and increase institution's capacity, thus being able to compete at international level. - Increase capabilities Capability may not just be a particular department, the capability may come from acquiring a unique technology. The financial technology is becoming advanced and costly which increases cost of capital of banks and financial institutions. In this context, merger and acquisition in Nepalese banking sector would help adopt the advanced financial technologies and provide modern banking services to the people even in the rural areas. Name of Merged Banks in Nepal: The following data clears the picture of mergers in Nepalese Banking Industry. Commercial Banks Source- NRB Financial statement Report, Mid Jan, 2020. The list of mergers in Nepalese Banking Industry. Commercial Banks Source- NRB Financial statement Report, Mid Jan, 2020. Name of Banks Year of Merged Machhapuuchhre Bank Ltd. 2012-07-09 2 NIC Asia Bank Ltd. 2013-06-30 3 Prabhu Bank Ltd. 2016-02-12 4 Bank of Kathmandu Ltd. 2016-07-14 5 Siddhartha Bank Ltd. 2016-07-21 6 Civil Bank Ltd. 2016-10-17 7 Nepal Credit and Commerce Bank Ltd. 2017-01-01 8 Rastriya Banijya Bank Ltd. 2018-05-02 9 Mega Bank Nepal Ltd. 2018-05-13 10 NMB Bank Ltd. 2019-09-28 11 Global IME Bank Ltd. 2019-09-04. Shine Resunga Development Bank Ltd 2013-03-17 2 Sangrila Development Bank Ltd 2014-07-13 3 Deva Development

Bank Ltd 2015-07-10 4 Kailash Bikash Bank Ltd. 2016-04-04 5 Jyoti Bikas Bank Ltd 2016-08-12 6 Garima Bikas Bank Ltd 2016-09-20 7 Mahalaxmi Bikas Bank Ltd 2017-07-02 8 Gandaki Bikas Bank Ltd 2017-07-05 9 Lumbini Bikas Bank Ltd. 2017-07-09 10 Kamana Sewa Bikas Bank Ltd 2017-08-04 11 Saptakoshi Development Bank Ltd. 2019-07-07 12 Tinau Mission Bikas Bank Ltd. 2019-07-16 .The banking sector will see the successful completion of mergers of four commercial banks - Nepal Investment Bank-Mega Bank, Global IME Bank-Bank of Kathmandu, and an acquisition - Prabhu Bank-Century Commercial Bank . A bank merger helps your institution scale up quickly and gain a large number of new customers instantly. Not only does an acquisition give your bank more capital to work with when it comes to lending and investments, but it also provides a broader geographic footprint in which to operate advantages in M&A – cost cutting, efficient use of resources, acquisition of competence or capability, tax advantage and avoidance of competition are among the few. Income Tax Act of Nepal does not define the Term 'Merger' and 'Acquisition'. Banks merged in 2023:

List of Banks	Closed	Details
Bank of Kathmandu	2023	Merged with Global IME Bank
Century Commercial Bank	2023	Acquired by Prabhu Bank
Commerz & Trust Bank	2014	Merged with Global IME Bank
Grand Bank Nepal	2016	Merged with Prabhu Bank

So far, Commercial Banks in Nepal have gone into 62 merger or acquisition with other BFIs. The table below shows the list of BFIs Involved in Merger and Acquisition with the commercial banks. Global IME and Bank of Kathmandu : A merger agreement was signed between Global IME Bank and BOK on June 2. The agreement was signed by Global IME Bank Chairman Chandra Prasad Dhakal and Bank of Kathmandu Chairman Prakash Shrestha. Both the banks agreed to merge on a 1:1 swap ratio. Mergers seek to improve income from services, but the increase is offset by higher staff costs; return on equity improves because of a decrease in capital. Acquisitions aim to restructure the loan portfolio of the acquired bank; improved lending policies result in higher profits. An acquisition is a cycle wherein one organisation assumes or takes over the responsibility for another organisation. A merger is a cycle wherein more than one organisation's approach functions as one. No new shares are issued in case of acquisitions. New shares are issued in case of mergers. Merger and Acquisition is considered a vital tool to facilitate the sound and efficient performance of the financial industry while subjugating the problems underlying the system. The instrument also plays a key role in bringing down the cost of operations and increasing the market competitiveness and profitability of the firms . In the international financial markets, M&A is often conducted to fulfil the demands of regulatory bodies and as an attempt to enhance the competitive advantage and expand the operations of the financial institutions. But, despite these hopeful expectations, almost half of the mergers and acquisitions fail to meet the initial expectations. Several studies have illustrated that employee dynamics and human resource issues, both pre-merger and post-merger, are important determinants of the success or failure of the actual merger or acquisition process. The process of M&A often involves a high degree of uncertainty and can be challenging for the employees. Buono and Bowditch state that mergers can increase anxiety among employees, thereby frequently causing counterproductive behaviours. The increasing changes within an

organization lead to increase in job insecurity among employees, ultimately resulting in the decrease of organizational commitment, trust in the organization, job satisfaction and job performance . Tetenbaum (1999) points out that the productivity of an organization goes down by 25-50 percent in such situations. Schuler and Jackson illustrate that more than half of the executives leave in the first year of M&A; this exodus of employee links with the concept of employee engagement and is one of the major reasons for the failure of M&A. Owing to a number of merger and acquisitions taking place in the financial sector of Nepal, this clearly exhibits that the turnover intentions of employees after merger is affected by the post-merger organizational identification. The finding has a profound managerial implication- if the new management after merger and acquisition cannot 46 NRB Economic Review provide proper identity to its employees, the firm could suffer exodus of valuable an asset called human resource. This calls for timely interventions by the leaders in the organization. Furthermore, in order to develop post-merger organizational identification, the management should focus on pre-merger organizational identification, utility with merger and trust in merger. This provides a proper guidance to the management in order to help it design the programs after the merger. Additionally, it indicates that the trust in merger is the only factor that establishes satisfaction with merger. These represents the Nepali organizations, in general, and banking and financial institutions, in particular, with a clear idea of the management of human resource following the merger and acquisition process.

Hence, Merger and Acquisition is a relatively new concept to the Nepali Banking and Financial Institutions (BFIs). Nepal Rastra Bank introduced the Merger Bylaw 2068 (B.S) grounded on the Company Act 2063(B.S) article 177, BAFIA 2063 (B.S) article 68 and 69, and encouraged all the BFIs to undergo merger as a consolidation. Mergers and Acquisitions in the banking sector are on the increase within the recent past, each globally and in Nepal. Presently, the Nepalese Banking Sector is facing a big problem and is in a critical stage. So, in order to cope with this problem Nepal Rastra Bank (NRB) has directed the banking institutions to go in the process of mergers and acquisitions. NRB Merger By laws policy, 2011 has provided several benefits to the merging the banks and the financial institutions of the country are opting in the process of merger. The Government of Nepal has been promoting mergers as a means to achieve efficiency through economies of scale and scope by facilitating a consolidation between weaker and stronger banks to create an efficient and robust merged entity. The merger and acquisition is the key to make the financial stability strong by strengthening financial institutions. The number of BFIs involved in merger and acquisition has been increasing after the introduction of merger/acquisition policy aimed at strengthening financial stability. After the introduction of merger and acquisition policy by NRB, the number of BFIs involved in this process reached 185. Out of which, the license of 140 BFIs was revoked thereby forming 45 BFIs. Nepalese banking sector accepted merging and the acquisition process in Nepal by NRB Merger By laws policy, 2011. With the help of mergers and acquisitions in the Nepalese banking sector, banks have been seen as beneficial and significant growth in their operations and minimize their expenses to a considerable extent. The poor performing banks have been merged and have become more competitive and standard. Expectation of stakeholder addressed by the banks. Employees also come together and provide service satisfactory, not difficult to employee adjustment due to increasing number of branches towards different local bodies. Trust of customer are also building with getting different modern types facilities and several other advantages. Nepalese banks are interested to come in this process, they may not be fruitful in all the case. Moreover,

it depends on how effective the management is and how the stakeholders perceive the mergers and acquisitions decision.

Keywords: Merger & Acquisition, Competitive Advantage, Capital Requirement, Financial Technology, Liberalization

References

1. The Role of Strategic Similarities,” *Journal of Economics and Business*, 60(3), 204–222. Aryee, S., Budhwar, P. and Z.X. Chen. 2002. “Trust as a mediator of the relationship between organizational justice and work outcomes.” *Journal of Organizational Behavior*, 23(3), 267-285. Ashforth, B. E. and F. Mael. 1989. “Social Identity Theory and the Organization.” *Academy of Management Review*, 14(1), 20-39. Ashford, S. J., Lee, C. and P. Bobko. 1989. “Concent, Causes, and Consequences of Job Insecurity.” *The Academy of Management Journal*, 32(4), 803-829.
2. Al-Jammal, H.R., Al-Khasawneh A.L. and M.H. Hamadat. 2015. “The impact of the delegation of authority on employee performance at great Irbid municipality.” *International Journal of Human Resource Studies*, 5(3), 48-69. Altunbas, Y. and D. Marques-Ibanez. 2009. “Mergers and Acquisitions and Bank Performance in Europe:
3. Kafle Bishal, *Mergers and Acquisitions in Nepalese Banking Sector*, Wednesday, February 27, 2013. [4]. Khan, Azeem Ahmad (2011), “Merger and Acquisitions (M&As) in the Indian Banking Sector in Post Liberalization Regime”, *International Journal of Contemporary Business Studies*, Vol. 2, No. 11, pp. 31-45, Retrieved from <http://akpinsight.webs.com/Azeem%20Ahmad%20Khan.pdf> [5]. NRB Report, Current Macroeconomic and Financial Situation (Based on six Month Data of 2019/20) [6]. NRB Financial statement Report, Mid Jan, 2020 [7]. Ojha, S., & Walsh, j.(2016). Merger Policy and its impact on Nepalese banks. *International Review of Management and Development Studies*, 1(2), 117-134. [8]. Shanmugam, B. & Nair, M. (2004). *Mergers & Acquisitions of Banks in Malaysia*. *Managerial Finance* (4) p. 1-18.