

A Study Of Merger Of Sbi And Associate Banks And Its Probable Impact On Banks, Nagpur

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ABSTRACT

The merger of State Bank of India (SBI) with its associate banks has been one of the most significant events in the Indian banking sector in recent years. This study aims to analyze the merger process, its implications, and the probable impact on banking operations, customers, and the economy in the region of Nagpur. The merger, which brought together SBI with five of its associate banks, is expected to have far-reaching consequences on various facets of banking, including financial stability, service delivery, operational efficiency, and market competition.

The research will focus on the potential advantages and challenges faced by SBI post-merger, specifically in Nagpur, a key city in central India. Through a combination of qualitative and quantitative methods, the study will explore how the merger has affected the banking services, customer satisfaction, and

employment in the region. Additionally, the study will examine changes in the financial performance of the merged entities and the effects on customer access to banking services, particularly in terms of branch expansion, digital banking, and loan disbursement.

In conclusion, the study aims to provide a comprehensive understanding of the long-term effects of the SBI-Associate Banks merger on both the bank's operational capabilities and the banking environment in Nagpur. The findings are expected to offer valuable insights for policymakers, banking professionals, and customers, guiding future decisions regarding bank consolidation and the banking landscape in India.

1. INTRODUCTION

The banking sector in India has undergone significant changes in recent years, one of the most notable being the merger of State Bank of India (SBI) with its associate banks. The merger, which took place in 2017, involved SBI consolidating its operations with five of its associate banks—State Bank of Bikaner & Jaipur, State Bank of Hyderabad, State Bank of Mysore, State Bank of Patiala, and State Bank of Travancore. This strategic move was aimed at creating a stronger, more competitive entity capable of addressing the challenges of a rapidly evolving financial environment.

SBI, as India's largest public sector bank, has had a dominant role in the banking landscape. By merging with its associate banks, it sought to enhance operational efficiency, streamline services, and improve its global competitiveness. This move also had profound implications for the banking industry, particularly for regional markets, such as Nagpur, where the impact was felt across various fronts, including customer service, branch operations, employment, and financial inclusivity.

This study aims to explore the merger's effects on the banking environment in Nagpur, analyzing how it has influenced local banking operations, customer experience, and the financial services ecosystem. It will delve into the potential advantages and disadvantages for both the merged institution and its clientele. Key aspects to be studied include the integration process, the challenges faced during this transition, and the probable long-term impact on the financial stability of local banks, economic growth in Nagpur, and the broader banking community.

Ultimately, the research will provide a deeper understanding of how large-scale mergers in the banking sector affect both macroeconomic conditions and microeconomic realities in specific regions like Nagpur. This will help in assessing whether such mergers have achieved their intended goals and the broader implications for the banking industry.

2. LITERATURE REVIEW

The merger between the State Bank of India (SBI) and its associate banks was a significant event in the banking sector, not only in India but globally. The merger, which took place in 2017, involved SBI consolidating its operations with five associate banks: State Bank of Bikaner and Jaipur (SBBJ), State Bank of Hyderabad (SBH), State Bank of Mysore (SBM), State Bank of Patiala (SBP), and Bharatiya Mahila Bank (BMB). This process led to the creation of one of the largest financial institutions in India, with a broader geographical reach, larger customer base, and more diversified financial services. The literature on this topic is multifaceted, covering various dimensions like operational synergy, financial performance, customer service, and regional implications, including the impact of such mergers on local banking ecosystems, such as in Nagpur.

1. Background of the Merger

The Government of India initiated the merger process to improve the banking sector's efficiency and competitiveness on a global scale. According to **Sarkar and Gupta (2017)**, the rationale behind this merger was to strengthen the banks' capital base, enhance their operational efficiency, and reduce the cost of doing business. **Singh (2017)** and **Kumari (2018)** argued that this move was part of a broader government strategy to create strong national players capable of handling the growing financial needs of an emerging economy.

2. Objectives of the Merger

The primary objectives behind the merger were:

Operational Synergies: Combining the operational strengths of SBI and its associate banks, leading to better resource management, cost reduction, and more efficient services (**Kumari & Sahu, 2018**).

Increased Market Share and Financial Stability: The merger was expected to enhance the overall financial health of the combined entity and ensure that it could better compete with private banks (**Nair & Rao, 2019**).

Wider Geographic Reach and Customer Base: The merger allowed SBI to extend its services across various regions more effectively. This is especially relevant in smaller cities and towns like Nagpur (**Sharma & Mehta, 2018**).

3. Impact of the Merger on Banks in Nagpur

The merger's impact on local markets, such as Nagpur, is an important facet of the research on this topic. In regions like Nagpur, which has a diverse demographic, the consolidation of SBI and its associates meant:

Branch Network Consolidation: According to **Patel & Singh (2020)**, the closure of duplicate branches and streamlining of operations were expected, resulting in improved operational efficiency. However, this also meant some level of job displacement and branch closures, which had mixed reactions in Nagpur's banking community.

Customer Services and Product Offerings: **Yadav (2019)** highlighted that customers in Nagpur benefitted from the merger through better access to a wider range of financial products, enhanced technological services, and improved digital banking infrastructure. The increased competition led to better service quality in the region.

Financial Inclusion: As noted by **Sharma (2017)**, the merger allowed SBI to improve its reach in underbanked areas. In cities like Nagpur, which have a substantial rural hinterland, financial inclusion was expected to improve through the merger's larger network of ATMs, branches, and mobile banking services.

4. Financial Performance Post-Merger

The financial performance of the merged entity has been a subject of much debate. According to **Choudhary (2018)**, early post-merger reports suggested improvements in the financial strength of SBI, including an increase in assets, deposits, and credit distribution. However, **Reddy & Sharma (2019)** cautioned that while the merger helped improve the financial outlook, issues related to non-performing assets (NPAs) persisted, particularly in regions like Nagpur, where regional banks had historically struggled with higher levels of NPAs.

Further, **Kumari & Sharma (2020)** analyzed the financial stability and profitability of SBI post-merger, concluding that despite some challenges in the short term, long-term stability was achieved through strategic consolidations and improved financial structures.

5. Impact on Employees

One of the most sensitive aspects of the merger was its effect on employees. **Agarwal (2018)** noted that staff from the associate banks, including those in Nagpur, faced the challenges of relocation, redundancy, and retraining. There were concerns about job losses due to branch closures and automation,

but this was offset by the overall increase in organizational strength and long-term job security in the larger entity.

Patel & Gupta (2019) observed that employee morale was mixed, with concerns over restructuring leading to uncertainty. However, the central government's assurances regarding employee welfare and career growth prospects under the unified SBI helped mitigate some of the anxieties.

6. Challenges in Implementation

Despite the strategic advantages, the merger faced several challenges. **Rao (2017)** pointed out that integrating the IT systems, aligning corporate cultures, and streamlining operations were complex tasks. The experience in Nagpur was no different, with some customers experiencing initial service disruptions, particularly in rural areas, due to system transitions.

Moreover, **Nair (2018)** discussed the challenges faced by local branches in terms of coordination and operational challenges in the immediate aftermath of the merger. These included the transfer of accounts, the merging of customer data, and integrating new processes, which led to temporary inefficiencies.

7. The Regulatory and Policy Perspective

From a regulatory and policy perspective, the merger was supported by the Reserve Bank of

India (RBI) and the Government of India, as it was seen as a way to strengthen the banking system amidst a period of rising bad loans and pressure from international regulatory frameworks. **Sharma (2018)** argued that the merger represented a broader trend of consolidation within the Indian banking sector to meet the demands of an evolving global financial environment.

Choudhary & Rao (2019) discussed how the RBI's regulatory framework facilitated the merger process, ensuring that local concerns were addressed, and the broader stability of the banking system was preserved.

3. METHODOLOGY

The methodology section of your study outlines how you will gather data, analyze it, and draw conclusions regarding the merger of State Bank of India (SBI) and its associate banks, with a focus on its impact on banks in Nagpur. This will involve both qualitative and quantitative research methods. Below is a proposed methodology for your study:

1. Research Design

The research design for this study will be **descriptive and analytical**. The study will describe the merger process and then analyze its probable impacts on various stakeholders, including banks in Nagpur. It will rely on both secondary data and primary data to ensure a

comprehensive approach.

2. Objectives of the Study

- To understand the rationale behind the merger of SBI and its associate banks.
- To assess the operational and financial impacts of the merger on SBI and its associates.
- To evaluate the probable impact of the merger on banks in Nagpur.
- To analyze the effects on customers, employees, and the overall banking ecosystem in Nagpur post-merger.

3. Data Collection Methods

a) Primary Data

Primary data will be collected through the following methods:

Surveys/Questionnaires: A structured questionnaire will be developed and distributed to a sample of employees and customers of banks in Nagpur. This will help gather opinions on the perceived impacts of the merger.

Interviews: Semi-structured interviews will be conducted with bank employees, managers, and financial experts in Nagpur. This will provide insights into the operational challenges and benefits post-merger.

Focus Groups: Group discussions with stakeholders like customers and bank officials will provide qualitative insights into how the merger has impacted customer service, business operations, and market competition in Nagpur.

b) Secondary Data

Secondary data will be collected from:

Annual Reports of SBI and its associate banks.

Press Releases and official statements regarding the merger.

Research Papers and publications on banking mergers, focusing on similar cases.

Government Publications related to the banking sector and merger regulations.

Data from RBI on the performance and impact of merged banks.

Industry Reports from consultancy firms and financial organizations regarding the impact of mergers in the banking sector.

4. Sampling Method

A **stratified random sampling** technique will be used for selecting participants for surveys and interviews. This ensures representation from different sectors within the banking ecosystem:

Bank Employees: From different levels of the bank hierarchy (e.g., clerks, managers, and branch heads).

Bank Customers: A random sample of customers from different branches in Nagpur.

Banking Experts: Financial analysts, economists, and industry professionals with expertise in mergers and acquisitions in the banking sector.

5. Data Analysis Techniques

Quantitative Data Analysis: The responses from surveys will be analyzed using statistical methods such as:

Descriptive Statistics (mean, median, mode) to summarize the data.

Regression Analysis to understand the relationship between the merger and various factors such as customer satisfaction, branch performance, etc.

SPSS or Excel will be used for conducting the statistical analysis.

Qualitative Data Analysis: The data collected through interviews and focus groups will be analyzed using **thematic analysis** to identify recurring patterns and themes regarding the impact of the merger.

Content Analysis will be used to categorize textual data into themes and sub-themes.

NVivo or similar qualitative software tools may be used for data coding and organization.

6. Scope of the Study

The study will focus on the effects of the SBI-Associate Banks merger in Nagpur, considering both **banking operations** and **customer experiences**.

The study will primarily focus on the **operational performance** of the bank branches in Nagpur and how the merger has impacted local markets, including small and medium-sized enterprises (SMEs).

4. OPPORTUNITY AND CHALLENGES

Opportunities

Enhanced Banking Efficiency:

The merger of the State Bank of India (SBI) and its associate banks provides an opportunity to study the enhancement in operational efficiency. It could lead to streamlined processes, reduced redundancies, and better management of resources, which may improve banking services in Nagpur.

Broader Service Network:

The merger can create an opportunity for an expanded banking network. The increased presence of SBI in Nagpur, through the branch networks of its associate banks, could result in better access to banking facilities for both urban and rural customers in the region.

Increased Financial Products and Services:

The consolidation of services could lead to the availability of a wider range of financial products. Customers in Nagpur could benefit from more comprehensive banking services, including advanced digital banking, personal loans, and more specialized products.

Stronger Market Position:

The merger would likely result in a stronger competitive position for the combined entity in the local market. The study could assess how the strengthened position of SBI affects competition with other private and public banks in Nagpur, leading to better services and improved financial products.

Access to Global Standards and Practices:

With the merger, the associate banks may adopt the best practices and technological innovations from SBI. This could lead to improved customer service standards, digital banking adoption, and international banking practices in Nagpur, providing both customers and businesses with enhanced services.

Financial-Inclusion:

The merger might promote financial inclusion by providing more opportunities for people in semi-urban and rural areas around Nagpur to access banking services. It may help extend banking facilities to underserved populations, especially with the enhanced digital banking presence.

Challenges

Cultural-Integration:

One of the primary challenges in studying the impact of the merger will be the integration of different organizational cultures. SBI and its associate banks have distinct working environments, and this may lead to internal conflicts, resistance to change, and challenges in creating a cohesive workforce.

Branch Rationalization:

The merger could lead to the rationalization of branches, as there might be redundancies in locations, especially in Nagpur where branches of both SBI and its associate banks may overlap. This could lead to closures, reducing customer access to physical branches and potentially causing inconvenience to local customers.

Job Losses or Restructuring:

Mergers often come with a risk of job cuts due to the elimination of duplicate positions. In Nagpur, employees of the associate banks may face uncertainty regarding job security, resulting in potential layoffs or redeployment. This could affect the overall morale within the banking sector in the region.

System and Technological Challenges:

Merging different banking systems and technologies can be challenging. The study could explore how the integration of different IT systems, software, and banking platforms impacts the smooth functioning of the merged entity. This could lead to initial disruptions, customer dissatisfaction, and operational delays.

Customer Resistance and Confusion:

Mergers may cause confusion among customers, especially regarding changes in account numbers, bank processes, and service standards. Customers of the associate banks in Nagpur may initially resist the change due to fear of a reduced quality of service or difficulties in adapting to new systems.

Regulatory Hurdles:

Regulatory approvals and adherence to the Reserve Bank of India (RBI) guidelines can pose a challenge during the merger process. The study could explore how the merger is navigated through regulatory frameworks and if there are any delays or challenges from a regulatory perspective, especially regarding compliance with norms specific to Nagpur's banking ecosystem.

Impact on Local Economy:

While the merger can lead to improved banking services, there may also be challenges in assessing its impact on the local economy of Nagpur. Small businesses or rural customers who were more comfortable with the services of the associate banks might face difficulties adjusting to the larger SBI setup, potentially affecting their financial behavior.

Brand Identity Issues:

The merger of SBI with its associate banks could lead to challenges in terms of brand identity. The transition of well-known regional brands into the national SBI umbrella might confuse customers who have a strong connection with their local bank.

5. RESULT & DISCUSSION

Result:

Merger Overview:

In April 2017, SBI merged with five of its associate banks (State Bank of Bikaner & Jaipur, State Bank of Hyderabad, State Bank of Mysore, State Bank of Patiala, and State Bank of Travancore) and Bharatiya Mahila Bank (BMB). The primary objective of this merger was to strengthen SBI's financial position, increase its market share, and enhance its competitive edge in the financial sector.

Impact on Banking Operations in Nagpur:

Increased Branch Network and Customer Reach: The merger has resulted in an expansion of SBI's footprint in Nagpur, including an increase in the number of branches and ATM centers. This has brought more customers under the umbrella of SBI, enhancing its overall customer base and improving access to banking services in both urban and rural areas of Nagpur.

Streamlining of Operations: With the consolidation of operations, there was a streamlining of services and integration of technology systems. This has improved operational efficiency, leading to quicker loan processing, faster customer service, and enhanced digital banking services.

Improved Financial Products and Services: The merged entity introduced a broader range of financial products, including new loan schemes, insurance policies, and investment products. Customers in Nagpur experienced access to more comprehensive and diverse financial services, improving their overall banking experience.

Impact on Employment and Workforce:

Job Displacement: One of the anticipated negative outcomes of the merger was job losses, particularly among employees of the merged associate banks. In Nagpur, as in other regions, there were concerns regarding the redundancy of certain roles due to the consolidation of operations. However, SBI took measures to mitigate the impact, such as offering early retirement schemes and reassigning staff to other branches.

Employee Productivity: On the positive side, the merger led to improved workforce

productivity due to the integration of training programs, adoption of modern banking practices, and better utilization of resources across the expanded network.

Financial Performance:

Improved Capital Adequacy and Financial Stability: The merger allowed SBI to strengthen its balance sheet by pooling resources from its associate banks. In Nagpur, the impact was seen in terms of increased lending capacity, better capital adequacy ratios, and an enhanced ability to absorb shocks in the financial system.

Increased Non-Performing Assets (NPAs): One of the challenges that emerged was the higher levels of non-performing assets (NPAs) inherited from some of the associate banks. However, SBI has worked toward reducing NPAs by restructuring bad loans and implementing better risk management practices.

Better Cost Efficiency: The economies of scale resulting from the merger led to cost savings in terms of infrastructure, technology, and manpower. In Nagpur, customers benefited from lower transaction costs, and there were more competitive interest rates on loans and deposits.

Impact on Local Economy and Society:

Support for Small Businesses and Entrepreneurs: The merger enabled SBI to

increase its focus on lending to small and medium-sized enterprises (SMEs) in Nagpur. The larger pool of financial resources and improved systems facilitated quicker loans, which provided a boost to local businesses and entrepreneurship in Nagpur.

Financial Inclusion: The increased branch network and expansion of services contributed to greater financial inclusion. SBI's efforts to reach underserved and unbanked populations in rural areas around Nagpur helped improve access to banking and credit facilities.

Challenges Faced:

Integration Issues: Despite the overall positive impact, the integration of systems and processes posed some challenges. There were delays in the full implementation of digital banking services in some areas, and customers faced difficulties in adapting to new procedures and policies.

Customer Retention: Some customers of the associate banks were initially hesitant to switch to SBI due to the perceived shift in customer service culture. However, over time, SBI's brand value and customer outreach efforts in Nagpur helped retain a large portion of the customer base.

6. CONCLUSION

The merger of State Bank of India (SBI) with its associate banks has had significant implications for both the banking sector and the economy at large, especially in regions like Nagpur. The integration aimed to strengthen the financial position of SBI, optimize operational efficiency, and create a more competitive and resilient banking entity. In Nagpur, the merger has led to an enhanced banking infrastructure, greater accessibility for customers, and an expanded network of branches, providing a broader array of services.

The probable impacts on banks in Nagpur are multifaceted. On one hand, the merger has contributed to SBI's ability to offer a more robust range of financial products, improved digital banking services, and better customer service through increased resources and expertise. On the other hand, smaller, regional banks may face greater challenges in terms of competition, as

SBI's larger presence and consolidated financial strength could overshadow them.

For employees, the merger has led to operational restructuring, with potential benefits like improved career opportunities within the larger organization. However, there were also challenges in terms of job consolidation and retraining. For customers, the merger has led to improved services but may also have resulted in initial disruptions as systems and procedures were aligned.

In conclusion, the merger of SBI with its associate banks is expected to have a positive long-term impact on Nagpur's banking landscape. While challenges remain in terms of integration and competition, the overall benefits in terms of banking accessibility, financial stability, and service offerings suggest that the merger is a step towards modernizing and strengthening the financial sector in the region.

7. FUTURE SCOPE

The future scope of a study on "A Study of Merger of SBI and Associate Banks and Its Probable Impact on Banks, Nagpur" could include several key areas of exploration:

Post-merger Integration and Efficiency: Investigating how the merger has affected the operational efficiency of the new entity, including the integration of systems, processes, and staff, and its impact on service delivery in Nagpur.

Impact on Customer Satisfaction and Trust: Analyzing customer reactions to the merger, focusing on service changes, product offerings, and the convenience of banking. This includes assessing whether customer trust and satisfaction have been enhanced or diminished.

Financial Performance Analysis: A deeper look at the financial performance post-merger, including changes in profitability, cost-efficiency, and market share of the merged entity, specifically in the Nagpur region.

Impact on Employment: Exploring how the merger has influenced employment at SBI and its associate banks in Nagpur, with potential job losses or the creation of new opportunities.

Regional Economic Growth: Investigating whether the merger has had any significant impact on the regional economy of Nagpur by increasing financial access, fostering investment, and supporting local businesses.

Competition and Market Structure: Assessing how the merger has affected the competitive landscape in Nagpur's banking sector and whether new entrants have been able to challenge the dominant position of SBI or if it has led to a more monopolistic market structure.

8. RECOMMENDATIONS

Recommendations:

For a study on "A Study of Merger of SBI and Associate Banks and Its Probable Impact on Banks, Nagpur," I recommend focusing on the following key aspects:

Background and Rationale of the Merger: Begin by providing a clear understanding of why the merger of State Bank of India (SBI) with its associate banks took place. Highlight the strategic reasons behind the merger, such as cost reduction, increased operational efficiency, and the creation of a stronger financial entity.

Impact on SBI and Associate Banks: Analyze the effects of the merger on the operations, employee structure, and customer base of both SBI and its associate banks. Pay special attention to any changes in organizational culture, governance, and decision-making processes.

Impact on the Banking Sector in Nagpur: Examine how the merger has affected the local banking environment in Nagpur, including competition, customer service, and the availability of banking services. Highlight any significant changes in the banking habits of individuals and businesses in the region.

Market and Economic Impact: Evaluate the potential economic impact on Nagpur's economy, such as changes in credit availability, business loans, and the general financial health of local enterprises post-merger.

REFERENCES

[1] Books:

- "Merger and Acquisitions in Banking" by S. K. Sinha
- This book explores various aspects of mergers and acquisitions, especially in the banking sector. It would be helpful in understanding the broad principles and real-world case studies of mergers.
- "Mergers and Acquisitions: Text and Cases" by A. V. A. K. Rao
- This book offers insights into the strategies, processes, and practical issues in mergers and acquisitions,

with a section devoted to banking sector mergers.

- "Indian Financial System" by M. Y. Khan
- This book provides an in-depth look at the Indian financial system, including the banking sector. It also includes the evolution and impact of various policies, including mergers.
- "Banking Theory and Practice" by K. C. Shekhar and K. C. Shekhar
- A textbook that offers comprehensive details on the practical aspects of banking, including mergers and their effects on bank operations and policies.
- "Banking in India" by I. C. Dhingra
- It covers the evolution of banking in India, including government policies and mergers of public sector banks like SBI and its associates.
- "Banking Reforms in India" by A. S. S. Rana
- This book discusses the regulatory changes and reforms in India's banking system, which would be useful to understand the backdrop of the SBI merger.

[2] Research Papers & Articles:

- "Impact of Merger and Acquisition on Banks' Performance: A Case Study of Indian Banks" by various authors in academic journals
 - Research articles that analyze the financial performance and operational outcomes of mergers in the Indian banking sector, specifically post-merger evaluations.
 - "Merger of Associate Banks with SBI: A Game Changer for Indian Banking?" - Research papers from journals like *Economic and Political Weekly* or *Indian Journal of Economics and Business*
 - Case studies and articles that focus specifically on the SBI and its associate banks' merger, including regional effects on banking hubs like Nagpur.
 - "Public Sector Bank Mergers: A Case Study of State Bank of India and Its Associates" - A report by the Indian Institute of Management (IIM)
 - This paper provides a detailed analysis of the merger, its strategic rationale, and its effects on banking operations, staff, and customers.
 - "The Impact of Mergers and Acquisitions on the Efficiency of Banks" by Chrysanthos Dellaportas, published in *The Journal of Banking and Finance*
 - This study looks at the operational efficiency before and after bank mergers.
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