

Mergers and Acquisitions of Banking Sector in Nepal: A Current Issues

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Abstract: *Mergers and acquisitions in the banking sector have the capacity to ensure efficiency and profitability. It is widely used to restructuring and strengthening banks to achieve competitiveness to long term existence. 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. Mergers and acquisitions are the important process in the banking sector to make financial gains enormously. Main aim of mergers and acquisitions in the banking sectors is to improve the economies of scale. NRB, the regulatory body of banks in Nepal, have been experienced mergers and acquisitions as the most effective weapons for the Nepalese banking sector.*

Kew Words: *Nepalese Banking Sector, Mergers, Acquisitions, Current Issues*

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I. INTRODUCTION

Mergers and acquisitions in banking sector have become familiar in the majority of all the countries in the world. A large number of international and domestic banks all over the world are engaged in mergers and acquisitions activities. The objectives behind the mergers and acquisitions in the banking sector is to reap the benefits of economies of scale. 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. Another important advantage behind this kind of merger is that in this process, competition is reduced because merger eliminates competitors from the banking industry. Banks need to safeguard against risks, as well as exploit obtainable opportunities indicated by existing and expected trends.

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 Rasta 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.

II. REVIEW OF LITERATURE

It is observed in literature that most of the work done on mergers and acquisition is based on performance of banking institutions.

Bhatta (2016) studied that the mergers led to changes in bank's share ownership. Bank's efficiency increases with more competent and merged ideas. Excess of capital enables to compete favorably with foreign banks that are willing to enter into the Nepalese market.

Devos, Kadapakkam & Krishnamurthy (2008) studied M&A as value creation, efficiency improvements as explanations for synergies and produced evidence that suggests mergers generate gains by improving resource allocation rather than by reducing tax payments of increasing the market power of the combined firm.

Kafle Bishal (2013) identified factors in their study on mergers and acquisitions of banks in Nepal are mainly three reasons liquidity crunch, capital requirement, and open financial market that forced the Nepalese Banking Sector to go into the process of M&A.

Khan Azeem Ahmad (2011) evaluated the performance of banks after merger in terms of Gross Profit Margin, net profit margin, operating profit margin, return on capital employed, debt equity ratio and return on equity. Pre merger performance was compared with post merger performance of selected banks. The results of the study suggested that after the merger the efficiency and performance of banks has improved.

Ojha & Walsh (2016) have concluded that merger and acquisition of financial institutions in Nepal has been promoted in the recent years and is in increasing trend. It is because Merger in the recent years has helped most of the financial institutions to increase the capital as well as help them to become more competitive. The most important consequence after merger is the added protection of consumer's right. Together with it, the banking sector itself has become sufficiently able to safeguard itself even in critical financial Position. This proves the effectiveness of merger and acquisition policy implemented in Nepal.

Shanmugam & Nair (2004) identified factors in their study on mergers and acquisitions of banks in Malaysia like globalization, liberalization and information technology developments have contributed to the need for a more competitive, resilient and robust financial systems.

Objectives:

The main objective of the study is the current issues of Mergers and acquisitions in banking sector in Nepal.

Reasons of Mergers and Acquisitions:

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 table clears the picture of mergers in Nepalese Banking Industry.

Commercial Banks

S.N.	Name of Banks	Year of Merged
1	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

Source- NRB Financial statement Report, Mid Jan, 2020

Development Banks

S.N.	Name of Banks	Year of Merged
1	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

Source- NRB Financial statement Report, Mid Jan, 2020

Current Issues:

Growth is an ongoing process that reflects various issues pertaining to the various dimensions of business. Mergers in banking sector is prerequisite for growth but it surely affects the customers, employees, stakeholders and all concerned departments. Issues related with merger need to be addressed for better understanding of the concept of merger and acquisition that are required more attention in order to successfully implement merger in Nepalese Banking sector. They can be explained as below:

-Employees Management

As the organization is merged, at the same time the employees also come together. The major assets any organization is human resources. So, if the merged entity can not handle properly the grievances of the employees, the situation of disputes may arise. Delicate aspect of employee's attitudes, their satisfaction and motivation, which are posited as prerequisites for customer satisfaction. Currently, Nepalese banking sector has their own employees. After the merge, it have challenge to adjustment satisfactory.

-Customer Satisfaction

Customers derive satisfaction from a product or a service based on whether their need is met effortlessly, in a convenient way that makes them loyal to the firm. The focus of banks would be highly professionalized and the efforts of big banks will be directed towards making more and more profits and less concentration on consumer's grievances. So, Nepalese banks should have to aware and be sensitive towards the customer satisfaction after merger and acquisition.

-Unhealthy practices

Reducing the number is increasing the concentration of banks in the market, which incites monopoly by decreasing competition. Due to mergers and acquisitions, the market share of some banks could increase dramatically, and hence the increased bargaining power of the banks could lead to collusions, cartelling and unhealthy practices in core lending rate settings, which is wretched for the customer. So, it is challenge to avoid such activities by Nepalese banking sector.

-To reach rural based

Large number of the Nepalese Banks are urban based with the lower paid-up. Hence, no access the banks in rural based. After mergers and acquisitions, increasing number of branches of banks should have to expand towards different local bodies.

III. CONCLUSION

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.

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