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MERGERS AND ACQUISITIONS

VOLUME

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Introduction: Development of the Banking Sector in India

Mergers are defined as consolidation of companies. A merger is the combination of two or more companies to come together. The merger of banking companies is outside the scope of the Indian Companies Act, 1956. The mergers by and between the banking companies are governed under section 44 of the Banking Regulation Act, 1949. According to the act, the merger should be approved by a majority in number representing at least 2/3rd of value of stakeholders in both of the merging banks either in person or in general meetings. After all this, The Reserve Bank of India gives the green signal for the merger to go ahead.

Evolution of PSBs in India

The banking sector is imperative for the economic development of a country. An effective banking system promotes, nurtures, supports and monitors industrial growth catering to the needs of finance of all sectors.

At the time of independence, all the banks of the country were under the ambit of the private sector. Majority of the population were at the mercy of exploitative middlemen for funds.

The Government of India nationalised the Reserve Bank of India in 1949 in an endeavor to solve the issue of lack of availability of funds in rural India. In 1955, the Imperial Bank of India was nationalised and named the State Bank of India. The nationalisation of the banks was an attempt to accelerate the process of economic development. The State Bank of India's emergence was followed by the nationalization of 14 banks from 1969 to 1991. The cumulative deposits of these banks amounted to 50 crores. In the year 1980, another 6 banks were nationalised, taking the number to 20 banks.

As stated above, the pre-liberalisation era (pre 1991 India) was marked by extensive nationalisation of banks. Regional Rural Banks (RRB) were established with an objective to extend easy credit facilities to the rural section of the society.

With a focus on improving financial stability and the profitability of Public Sector Banks, the Government of India did away with the trend of nationalisation. This facilitated the advent of foreign sector banks and joint ventures. RBI gave licenses to 10 Private sector banks to establish themselves in the country.

The consolidation of SBI-associate banks commenced with State Bank of India merging its subsidiary State Bank of Saurashtra with itself on 13 August 2008. Thereafter it merged with the State Bank of Indore with itself on August 27, 2010. The remaining subsidiaries, namely the 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 were merged with State Bank of India with effect from 1 April 2017.

Vijaya Bank and Dena Bank were merged into Bank of Baroda in 2018. IDBI Bank was categorised as a private bank with effect from January 2019.

On 30 August 2019, Finance Minister Nirmala Sitharaman announced the government's plan for further consolidation of public sector banks: Indian Bank's merger with Allahabad Bank (anchor bank - Indian Bank); Punjab National Bank's merger with Oriental Bank of Commerce and United Bank (anchor bank - Punjab National Bank); Union Bank of India's merger with Andhra Bank and Corporation Bank (anchor bank - Union Bank of India); and Canara Bank's merger with Syndicate Bank (anchor bank - Canara Bank).The mergers took effect from 1 April, 2020.

The consolidation of the Public Sector Banks (PSB), is not a recent trend. Dating back to 1991; when the PSBs had more than 90% of the market share, the Narasimham Committee recommended a three-tier banking structure by merging PSBs, which lead to a count of three large banks that would have international presence, about 8–10 national banks, and several regional banks.

The government passed the The State Bank of India (Subsidiary Banks) Act in 1959, following which recently seven ABs were merged with the State Bank of India. Out of which State Bank of Bikaner and Jaipur (SBBJ), State Bank of Mysore (SBM), State Bank of Travancore (SBT), State Bank of Patiala (SBP) and State Bank of Hyderabad (SBH) were merged in 2017, and State Bank of Saurashtra and State Bank of Indore in 2008 and 2010 respectively. One of the earliest mergers that took place was in 1993, when the Punjab National Bank (PNB) took over The New Bank of India. It was done as PNB had an excellent record for profits and the New Bank of India had gone into precarious state of liquidity.

What are PSB Mergers, and why do they happen?

CASE STUDY

The total Public Sector Banks reduced to 12 from 27 in 2017 in India. In the month of August 2019, the Finance Minister of India MS. Nirmala Sitharaman has announced to merged 10 Public Sector Banks into four entities.

Case study- In the merger of Union Bank, Andhra Bank and Corporation Bank as union bank of India the total advances of 325392, 178690 and 135048 crores, Total deposits of 415915, 219821 and 184568 crores of Union Bank, Andhra Bank and Corporation Bank respectively pooled together to form 639130 crores of advances and 820304 crores of deposits of now merged union bank of India.

After this merger union bank of India became fifth-largest public sector bank in India with Rs, 14.59 lakh Crore business, 6.3% market share, 75384 employees and 9609 branches.

Union Bank + Andhra Bank + Corporation Bank

	Union Bank	Andhra Bank	Corporation Bank	Amalgamated bank
Total business (in crore ₹)	7,41,307	3,98,511	3,19,616	**14,59,434**
Gross advances (in crore ₹)	3,25,392	1,78,690	1,35,048	6,39,130
Deposits (in crore ₹)	4,15,915	2,19,821	1,84,568	8,20,304
CASA ratio	36.10%	31.39%	31.59%	33.82%
Domestic branches	4,292	2,885	2,432	**9,609**
PCR	58.27%	68.62%	66.60%	63.07%
CET-I ratio	8.02%	8.43%	10.39%	**8.63%**
CRAR ratio	11.78%	13.69%	12.30%	**12.39%**
Net NPA ratio	6.85%	5.73%	5.71%	6.30%
Employees	37,262	20,346	17,776	75,384

Why are PSBs Merged in India?

There are various reasons cited by the government for its decision to merge public sector banks.

One of them is that Public sector banks hit hard by Non-Performing Assets and the losses which the banks are facing this is the reason India government is thinking to renovate the public sector banks.

Secondly, large bank will be able to lend more money and can help in reviving slow growing economy.

Third, it is also of the view that the merger will result in combining of administrative network, infrastructure and assets two or more banks and it will reduce the operational cost and enhance efficiency of bank.

Fourth is that reducing the number of banks will make it easy for RBI and finance ministry to keep watch on working of banks.

To know why PSBs merged, we need to understand what are the benefits of PSBs merger.

What are the benefits of a PSB Merger?

1. **Good global competition**:
   Larger bank is capable of facing good global competition. The government target $5 trillion economy through this bank reforms and consolidation. The government would infuse 55200 crores of capital in this 10big banks for their credit growth and regulatory cum plans to boost the economy. In the global market the Indian banks will get greater recognition and higher ratings and also can have the possibility to become a global bank.
2. **Stronger Economy**:
   A larger bank can manage its short and long term liqidity better. For the bank retaining and enhancing its identity as a larger bank becomes easier. After the merger, benefits of the merger are enormous and biggest is the generation of the brad new customer base, empowering of the business, increase hold in the market share and opportunity for the technological upgrade. Thus, it is beneficial for the overall economy.

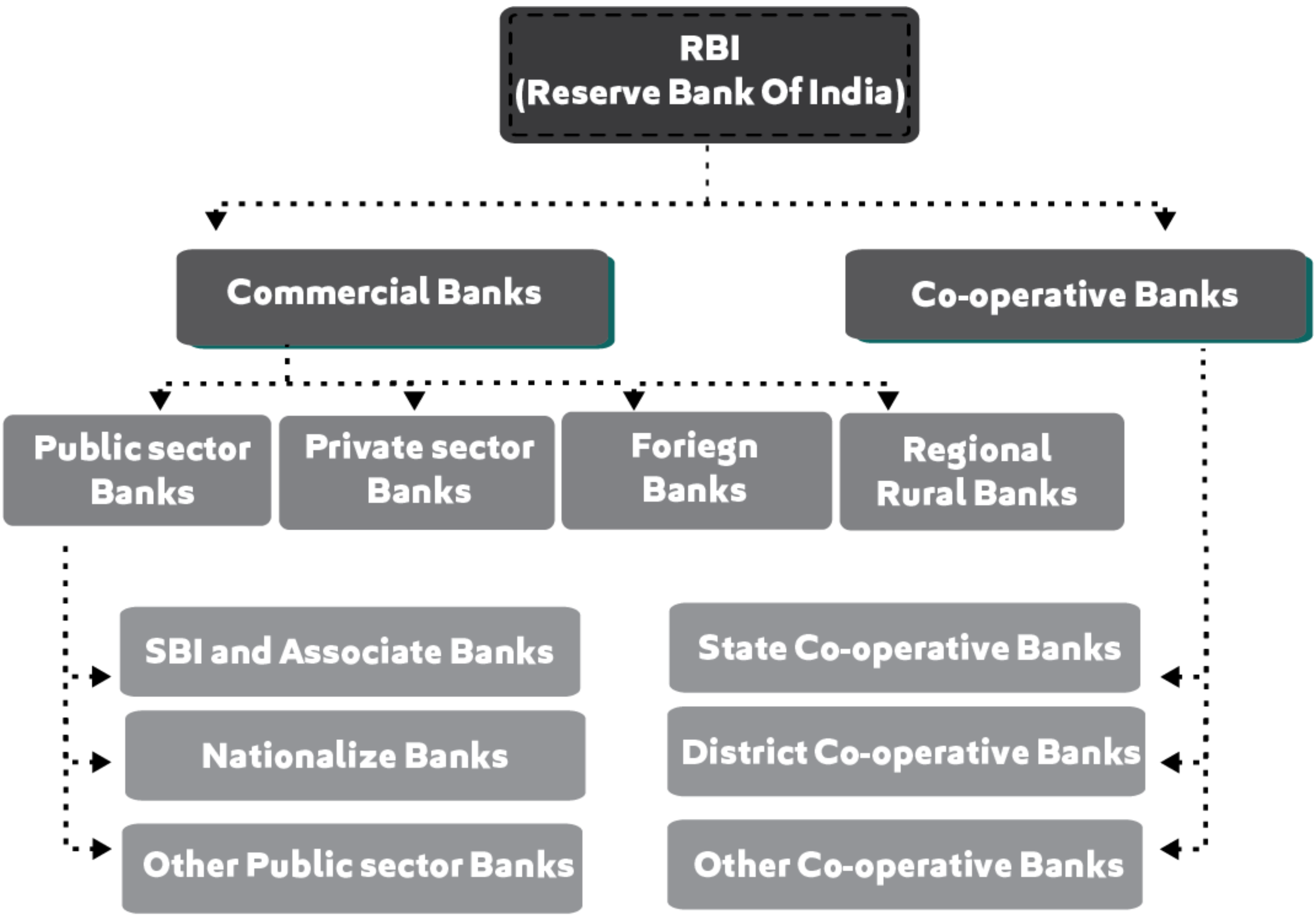
3. **Better management and customer satisfaction**
   the merger will reduce cost of banking operation. It will also result in better Non-Performing Assets and risk management. The chance of survival of the underperforming banks increases and hence the customer trust remains intact which is vital for economy.
4. **Better efficiency**:
   with large-scale expertise available in every sphere of the banking operation, the scale of inefficiency which is more in case of smaller banks will be minimised. Now there are more than required numbers of banks in many areas. For example: state bank of india, bank of india and syndicate bank all three in a small town. After the merger only one branch can replace all of these branches. This will result in reduction of operational cost and improve efficiency.
5. **Expansion**:
   the increased branch network and customer base will help with expansion and enable the bank to rationalise resources across the board.
6. **Revival**:
   a loss making bank is usually merged with a healthy bank for its revival. When a loss making bank is merged with a healthy bank it helps a lot in the revival of sick unit and convert it into a profitable one.
7. **Competitive advantage:**
   the combined talent and resources of the new bank help it gain and maintain a competitive advantage. Also merging in same domain reduces the competition in the market.

Usually, the main reason for mergers of banks is increasing income from services, whereas acquisitions aim to restructure the loan portfolio and improve lending policies to gain higher profits.

While opting for a merger or an acquisition, banks must ensure that it improve their strategic fitness, strengthen weaknesses, develop new growth opportunities, extent capabilities and integrates leadership and people. The team and the staff must be compatible to work together for the benefit of the organisation. It must be taken care that day to day operations should not be sacrificed during its procedure.

An execution of merger or an acquisition of a public sector bank does not involves a lot of legalities as in the case of Private banks and other related banking companies where mergers and acquisitions are governed by banking regulation act of 1949 where merger is guided by section 44A of this act.

As per a report of reserve bank of India The statutory framework for the amalgamation of public sector banks, State Bank of India and its subsidiary banks, is, however, quite different since the foregoing provisions of the BR Act do not apply to them. As regards the nationalised banks, the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 and 1980, or the Bank Nationalisation Acts authorise the Central Government under Section 9(1)(c) to prepare or make, after consultation with the Reserve Bank a decision for merger or acquisition of public sector banks . Unlike the sanction of the schemes by the Reserve Bank under Section 44A of the BR Act, the scheme framed by the Central Government is required, under Section 9(6) of the Bank Nationalisation Acts, to be placed before the both Houses of Parliament. As regards the State Bank of India (SBI), the SBI Act, 1955, empowers the State Bank to acquire, with the consent of the management of any banking institution (which would also include a banking company), the business, including the assets and liabilities of any bank. Under this provision, the consent of the bank sought to be acquired, the approval of the Reserve Bank, and the sanction of such acquisition by the Central Government are required.



Trend Reversal in the last five years

“The enterprise that does not innovate ages and declines. And in a period of rapid change such as the present, the decline will be fast.”
Perhaps this sounds apt when we talk of an astonishing trend reversal in the banking sector of India

Musing upon the trend reversal in the banking system one might guess that state-run banks are not in good shape. That the private banking sector is expanding might also be well-known.Private banks are eating up the market share of public sector banks may, too be obvious for some. This trend has been prevalent in the 21st century. But, what is not so well known is that in the last five years i.e. 2015-20, private banks have moved in and captured a huge chunk of the public banking sector in India. Let’s have a look at the astounding trends.
Public banks like Central Bank, Indian Bank controlled over 70 percent of the market till years ago. But according to the latest data released by the Reserve Bank of India, their market share in public loans has dipped to 59.8 per cent in 2020 from 74.28 per cent in 2015, while private banks’ share has surged to 36.04 per cent from 21.26 per cent in the same period. The numbers clearly suggest that what has been lost by the public banks has been gained by the private banks as the market share of foreign banks in India has been fairly constant throughout.

TREND REVERSAL IN LOANS (MARKET SHARE)

YEAR	**PUBLIC SECTOR BANKS**	**PRIVATE SECTOR BANKS**
2000	79.41	8.03
2005	74.25	6.54
2010	77.24	4.67
2015	74.28	4.45
2020	59.8	4.15

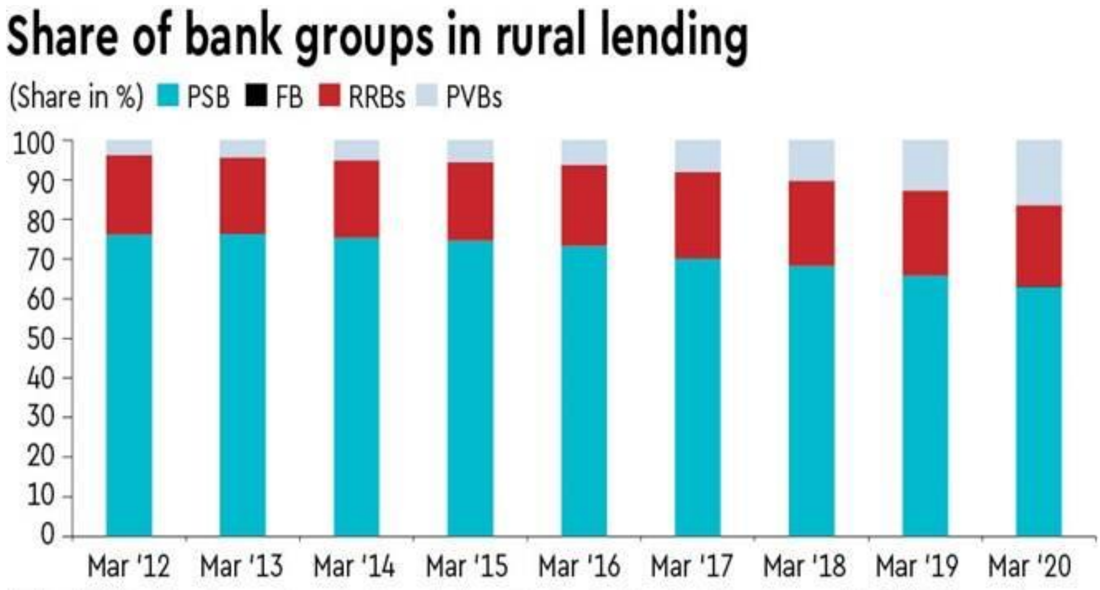
TREND REVERSAL IN DEPOSITS (MARKET SHARE)		
YEAR	PUBLIC SECTOR BANKS	PRIVATE SECTOR BANKS
2000	81.29	12.63
2005	78.16	17.12
2010	77.68	17.31
2015	76.26	19.44
2020	64.75	30.35

The statistics for deposits also tell a similar story — private banks' market share has shot up to 30.35 per cent this year from 19.44 per cent in 2015, while public banks' share saw a sharp plummet to 64.75 per cent from 76.26 per cent.
(table/graph for market share of deposits of various banks in India, put in the end of this document)

What have been the reasons for such a rapid change? Is it the loopholes in the public banking system or is there something phenomenal that drove the private sector growth so much? Let us see…

License is one of the many ways to restrict business. This was applicable in the banking sector too wherein the private sector was barred entry. However, in recent years the Reserve Bank of India has been keen on licensing private sector banks. A couple of new banks have started their operations in this five year period, including but not limited to IDFC First Bank and Bandhan Bank.

Also, one reason is the new Branch Authorization Policy of 2017 which recognizes business correspondents (BCs) that providing banking services for a minimum of four hours per day and for at least five days a week as banking outlets. Such ease of recognition coupled with ever-increasing emphasis on digitization and modernization of technological infrastructure has obviated the need for setting up brick and mortar branches. This has eased the entry of private sector in rural banking services which was earlier monopolized by public sector banks.



Another segment where the public sector seems to be losing out to the private banks is NBFC lending. While PSBs have traditionally dominated bank lending to non-banking financial companies (NBFCs), their share has declined since March 2020, with the space vacated being taken up by the private banks.

Furthermore, there are several shortcomings in the public sector banking as well.

High NPA's are a red flag that investments in a particular bank are not viable. Gross NPAs of 19 private sector banks was Rs. Rs 2.04 lakh crores while that of 12 public sector banks was more than double of the value at Rs. 5.47 lakh crores. Consequently, the balance sheets of PSUs are beleaguered because of high value of NPAs. This poses another problem as well. As more and more loans turn into bad debts, public banks grow more skeptical of providing new loans, which further reduces their market share in loans.

The bad state of public sector banks is also reflected on operational efficiency parameters. Operational efficiency of private sector banks is better than public sector banks measured in terms of staff expense ratio compared against total staff income.

Also, private sector banks are more efficient in deposit mobilization than public sector banks i.e. they utilize their funds better. Deposit mobilization by private sector banks stand at 85% while that for the public sector banks is just 70%. .

The aforementioned analysis makes it evident that private sector banks are gaining at the cost of public sector banks, as public sector banks are losing their hold on the market. Over the past few years, the private sector has taken over many sectors, while the public sector has struggled to survive. The best examples of this are the telecom and airline sectors. The above trend reversal proves that the banking sector seems to be going the same way. Better customer services and technological advancements work in the advantage of private sector banks – it is high time that the public sector follows suit.

Impact on Banking Sector

The PSB mergers announced in 2019 constituted a noteworthy attempt at strengthening the banking sector of India, reducing the number of public sector banks from 27 to 12. This resulted in the creation of large banks, particularly Punjab National Bank, which became the second largest PSB after Oriental Bank of Commerce and United Bank of India were merged with it. Also, the decrease in number of banks has eased the regulatory burden on the RBI.

Bigger banks can now reach a large segment of customers as compared to before. This increases profitability of banks as they can now cast a wider net for their services. For example, United Bank of India was financially weak and faced lending restrictions from the RBI. Its merger with Punjab National Bank allowed its customers to gain access to a larger variety of loans. On an administrative level, there are issues relating to paperwork. In the past, when the State Bank of India was merged with smaller entities, the IFSC codes of numerous branches had to be changed and depositors with auto-debit transactions were largely impacted. Moreover, customers will have to face the hassle of changing products like cheque books and credit cards, to name a few.

There have been arguments that merging banks to create a larger entity will affect mid sized banks and their position in the market. However, the impact has not been significant, especially for mid-sized banks in the private sector, as PSBs are often associated with red tape and bureaucracy. Taking the example of HDFC and SBI, the latter has a balance sheet four times the size of HDFC. SBI also has a customer base ten times larger than that of HDFC bank, yet SBI's market capitalisation is one third of that of the private lender. In fact, the market capitalisation of all government-owned banks combined is half of that of HDFC. Investors believe that PSBs mostly cater to the government's needs instead of the shareholders. Also private banks are known to provide better service. As long as PSBs continue to remain inefficient, the mere enormity of these banks will not pose a threat to smaller private lenders.

During a merger, there is much uncertainty amongst employees of the banks regarding their jobs, salaries, hierarchy and the work culture of the other merging entity. To put some of these concerns to rest, Finance Minister, Nirmala Sitharaman announced that no jobs will be lost in the process. However, merging separate entities often entails difficulties in the workplace as it takes time for employees to adapt to a different work culture and foster team spirit. Since all jobs were retained, it is entirely possible for these banks to have extra labour that they are not allowed to get rid of. Moreover, the management applies almost all of their time to the merger and not the day-to-day operations. The internal conflicts, defocused management and the abundant labour will further reduce the efficiency of the bank.

Shareholders of publicly listed banks are adversely affected in the short run as markets don't take change very well. The stock prices are affected by factors such as the swap ratio, CASA ratio, cost-to-income ratio and many more. On the day the mergers were announced, stocks of banks that were involved in the merger took a hit.

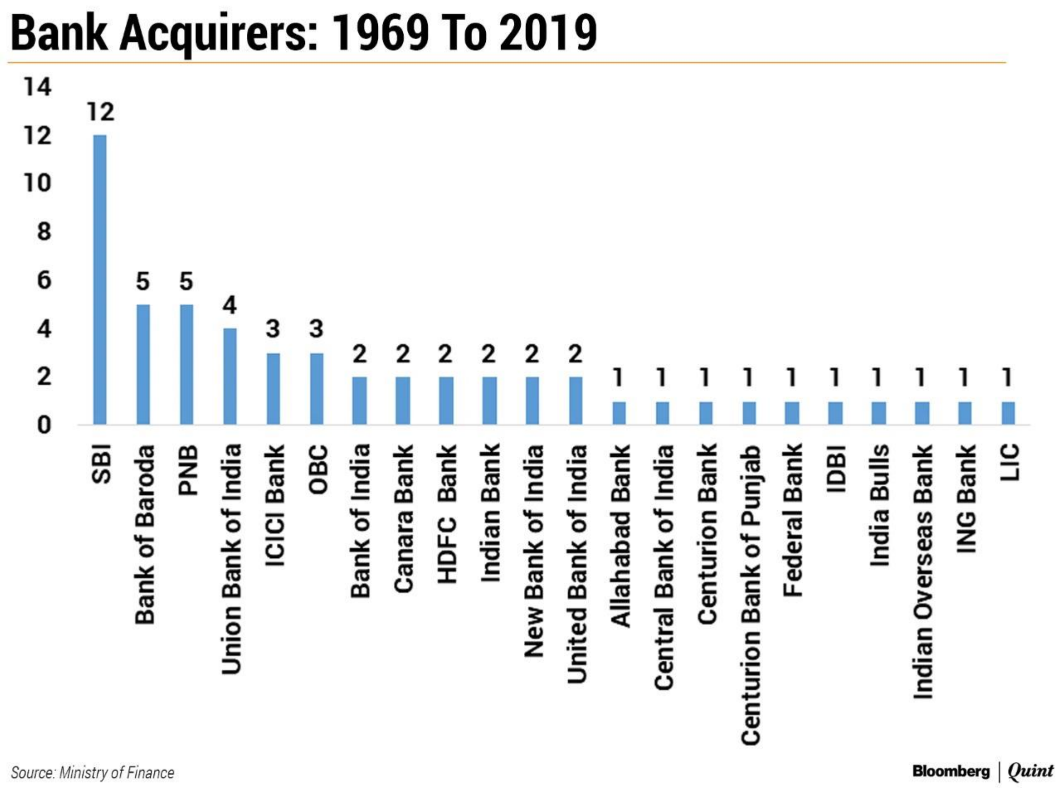
NPAs have become a growing concern over the past few years. The government essentially merged the NPA-ridden banks with stronger banks. While this has protected weaker banks from being shut down, the management of the stronger banks have been disincentivized to perform well by forcing them to share the burden of the weaker banks.

Experts say that although the merger may lead to better asset quality and bigger balance sheets, the prospect of increased profitability remains bleak in the short term, but in the long term the merged banks will become more competitive and lucrative.

In conclusion, mergers definitely help banks strengthen their financial base and bring in more customers. However, merging these entities is a wearisome process that takes a very long time and has a negative impact on the financial sector in the short term. In the long run, these banks can expect higher profit margins and a reduction in NPAs and ancillary costs. While mergers produce larger banks, they are not large enough to have an international presence, which is essential for pushing sovereign agenda in the global market. For India to become a $5 trillion economy in the near future, large banks are imperative and the PSB mergers of 2019 have been a step in that direction.

Impact on the Indian Economy

Public Sector Banks have been a crucial pillar and the backbone of the Indian economy whether to carry the burden of social agendas or meeting any government schemes. Whether to carry socio-economic responsibility or generate massive employment opportunities, PSBs does it all. PSBs are the major contributors as well as drivers of the Indian economy which also may be treated as the 'shrine of the Indian Economy'.

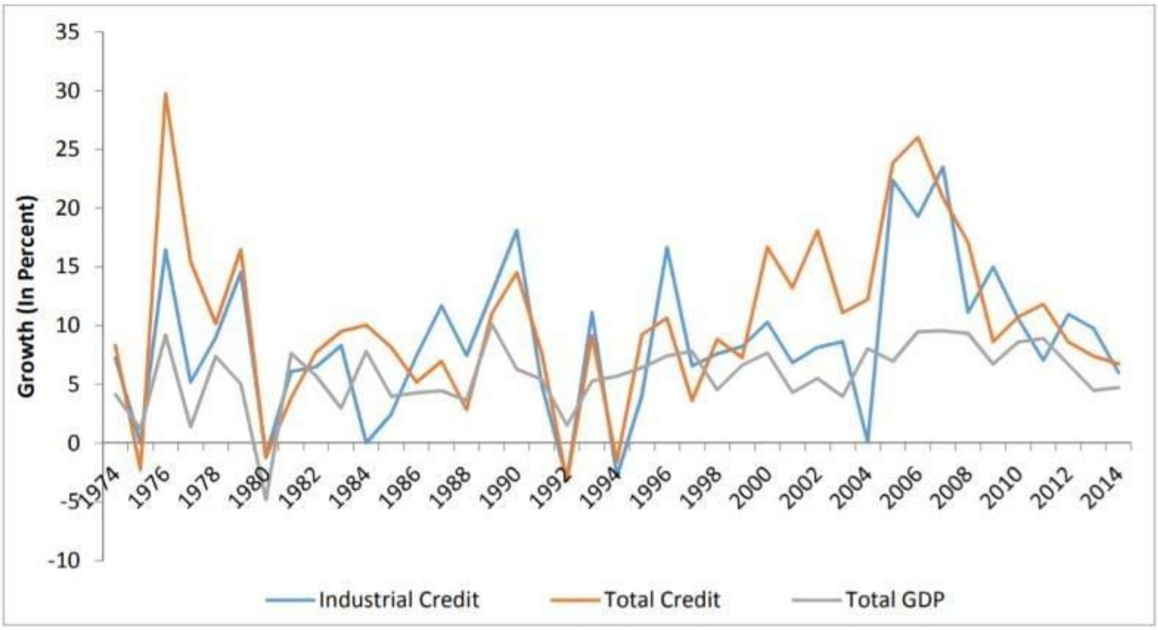


But where every rupee of taxpayers invested in banking has suffered a loss of 23 paise, it is the need of the hour to look upon the cruciality and a proper assessment of the PSBs of India.

India has seen major mergers and acquisitions deals since the era of nationalisation and has been strengthening itself every minute to have a seamless economic development and achieve the target of a $5 trillion economy.

M&A will provide the Indian banks a greater recognition and higher credit ratings in the Global Market which will help banks get easy loan approval in the Global banking sector and considerable Rate of Interest in the loan market.

Graph 1: Relationship of Credit Growth with GDP Growth Rate



Source: Basic Statistical Returns of Scheduled Commercial Banks in India, Various Issues; Economic Survey 2015-16

From a business point of view, Banks and other financial institutions are going to witness a minimisation of risk-taking factor, trading diversifications and a large capital base while facilitating a proper exchange of Goods and Services by providing a seamless way of transaction to the entire economy. When India is already high with FII, Indian banks have played a very major role in attracting high bandwidth of investments by having a larger capital base and high liquidity. India has reportedly witnessed an FII inflows of Rs.1,38,116 crore compared with around Rs. 1 lakh crore in 2019.

Mergers helps in proper assessment of an individual bank in carrying out various investments and loan granting activities.

IG Patel in his book, Glimpses of Indian Policy quotes, “Vijaya Bank and Punjab & Sind Bank had become the personal fiefdoms of individuals who disregarded all rules and advice with impunity. They, with their shady dealings, were offering unfair competition to nationalised banks. I decided that the only way to tackle the problem was to nationalise the banks which had reached the cut-off point of the 1969 Act.”

One of the major reasons of the recent 2020 PSB mergers was the view that Indian PSBs are considerably dwarfed in comparison with the size of Indian economy.

But as the banks are struggling to make their presence in the global financial sector, they also have suffered or have a chance of suffering major threats. Pointing towards how the performance of the Indian PSBs has been lately is quite easy for skeptics. Whether by taking the case of Harshad Mehta or the recent case of the diamond merchant, Nirav Modi, the people of India as a whole suffered the losses.

Therefore, the purpose of mergers must be conveyed properly to the common people to maintain the customers' emotion and sentiments related to M&A.

Where small banks can sustain the losses and can be recapitalised, it is harder to salvage comparatively larger banks or nationalised banks as they hold more of people's money and they also require closer assessment of the managerial capabilities. It would sweat the GOI and the central bank when the bank will suffer high NPAs. There have been instances in the past where the highest number of NPAs were with the big banks like SBI and PNB which eventually dragged them into crisis and hindered economic growth. Nevertheless recent government plans have been appreciated in containing the increasing NPAs by improvising the industry-linked interface, enhancing digital banking and having a need driven marketing strategy.

Indian PSB Mergers v/s Similar Mergers Abroad

Examples of M&As in the US

- Bank of America acquired Countrywide Financial for $4.1 billion, despite reports that the FBI was investigating the mortgage giant for fraud.

- Bank of America's acquisition of Merrill Lynch in a $50 billion all-stock deal. However, since the deal was in Bank of America stock, the actual value turned out to be significantly less, as by the time it was completed on Jan. 1, 2009, Bank of America's share price had dropped by nearly half since the deal was announced. The deal actually led to massive losses for Bank of America, and it was later revealed that CEO Ken Lewis was pressured into completing the deal by federal officials.

- JPMorgan Chase's acquisition of Bear Stearns, in what was the most notable M&A deal of the early days of the crisis. The original deal was for just $2 per share (Bear Stearns' 52-week high was $133.20) but ended up being increased to $10 per share.

- JPMorgan Chase's acquisition of Washington Mutual for $1.836 billion, after the bank had been placed into receivership by the FDIC. Washington Mutual shareholders got wiped out, as the bank was purchased directly from the FDIC.

- Wells Fargo's acquisition of Wachovia for $14.8 billion in what is arguably the most successful of the crisis-era deals. Wells Fargo was already one of the most profitable banks, even during the crisis, and the acquisition of Wachovia expanded Wells Fargo's operations into the Eastern and Southern states. Since this deal, Wells Fargo has grown into the number one U.S. bank in terms of market capitalization.

The number of M&As increased in developed countries in recent years. As far as EMEs are concerned, while in some countries M&As activity accelerated in recent years, in some other countries, it slowed down.

- **FRANCE**
  Much of the consolidation activity in France took place during the 1990s among small banks leading to a large reduction in the total number of banking institutions.

- **GERMANY**
  Similarly, in Germany consolidation took place among smaller savings and co-operative banks and the number of banks declined by about a third during the 1990s.

- **US**
  A combination of the dismantling of restrictions on the interstate and intrastate banking, removal of interest rate ceilings on small time and savings deposits, and permission on diversification of activities paved the way for mergers between banks and non-bank financial companies in the US during the 1990s. The consolidation that followed resulted in substantial growth, in both absolute and relative terms, by the largest institutions.

- **CANADA**
  In Canada, domestic banks traditionally controlled a large share of the banking sector. Owing to the dominance of the banking industry by a few banks, consolidation is regulated through a guideline established in 2000 to ensure that it does not lead to an unacceptable level of concentration and the drastic reduction in competition and reduced policy flexibility in addressing the future prudential issues. Thus, not much consolidation took place during the 1990s and the number of banks did not decline much from the substantial increase observed during the 1980s due to the entry of foreign banks.

- **JAPAN**
  In Japan also, little consolidation took place during the 1990s and there was only a modest reduction in the number of banks at the end of the 1990s following some bank failures.

- **SWEDEN**
  The banking industry in Sweden during the 1990s experienced the merger of co-operative banks into one commercial bank and transformation of the largest savings banks into one banking group. Further, there was consolidation among all the major banking groups. While all the above mergers reduced the number of banks, the total number of banks increased somewhat due to the entry of foreign banks and the establishment of several 'niche banks' around the same time.

CONTRAST

Reasons for development

The banking consolidation since the 1990s resulted in a substantial decline in the number of banks in many emerging markets and advanced economies. In the US, about 25-30 percent of banks have closed or merged due to consolidation in the last two to three decades. In fact, the banking systems in EMEs (emerging market economies) have generally continued to evolve towards more private and foreign-owned structures, with fewer commercial banks and the often smaller number of bank branches.

In some countries, these trends have been the result of post-crisis weeding out of weak financial institutions, and mergers encouraged by the authorities (for instance, Indonesia, Malaysia, and Thailand). Elsewhere, these developments have been mostly market-driven (for instance, central Europe and Mexico).

Degree of concentration

A cross-country analysis in terms of concentration ratios suggests that in several countries, concentration declined between 1991 and 2006, while in some advanced countries (US, Japan, Germany, Spain, and France), it increased somewhat. The market structure of the Indian banking sector is less skewed when compared with most of the advanced and other emerging market economies.

The degree of concentration in the Indian banking sector was far lower than that in China, France, Spain, the UK, Singapore, and South Africa. In fact, the degree of concentration in the Indian banking system was one among the lowest (after Russian Federation and the US).

A comparison with other countries shows that the concentration ratio measured in terms of HHI (The Herfindahl-Hirschman Index) declined in India between 1998 and 2004, while it increased in all the select advanced and emerging market economies studied. In 2004, concentration was lowest in the US, followed by Germany and the UK. The Herfindahl-Hirschman Index (HHI) is a common measure of market concentration and is used to determine market competitiveness, often pre- and post-M&A transactions.It can be a useful tool both for considering the likely effects of a specific conduct or merger, or for considering the effectiveness of competition policy as a whole in protecting and facilitating competition across the economy.

The concentration ratio in India, based on the HHI measure was also lower than the select sample of emerging market economies, reflecting a greater degree of banking competition in India. Concentration in the Indian banking sector based on HHI was higher than that in the US, Germany, and the UK (the least concentrated countries) perhaps on account of a large number of banking institutions operating in these countries. Recent increases in concentration has been associated with weak productivity growth and declining investment rates. Firms in concentrating industries engage in more profitable mergers and acquisitions and spend more on lobbying.

Regulators use the HHI Index using the 50 largest companies in a particular industry to determine if that industry should be considered competitive or as close to being a monopoly.As a general rule, mergers that increase the HHI by more than 200 points in highly concentrated markets raise antitrust concerns, as they are assumed to enhance market power.

• Deposit-Taking Institutions

The number of deposit-taking institutions (DTIs) per million persons in India is significantly higher than in many other countries, though the size of the banking sector in relation to the size of the economy was comparable to these countries. For instance, there were 110 DTIs per million population in India as against 79 in the US, 65 in Malaysia, 9 in Brazil, 2 in Chile, and more than one in South Africa, although the size of the banking sector in relation to the size of the economy in all these countries was broadly comparable with that of India.

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