MERGERS AND AMALGAMATIONS OF BANKS IN INDIA: A LEGAL ANALYSIS UNDER THE COMPANIES ACT, 2013 AND THE BANKING REGULATION ACT, 1949

Manish Nellaikumar Pandaram, Lovely Professional University

ABSTRACT

The Indian banking sector has witnessed a profound transformation over the past two decades, characterized by significant consolidation aimed at strengthening financial stability, improving operational efficiency, expanding credit capacity, and fostering globally competitive institutions. This research paper provides a comprehensive legal analysis of bank mergers and amalgamations in India, examining the interplay between the Companies Act, 2013 and the Banking Regulation Act, 1949. It traces the historical trajectory of banking reforms, beginning with the Narasimham Committee's recommendations for a three-tier banking structure, which envisaged a combination of internationally competitive banks, strong national banks, and a broad network of regional and local institutions. The paper discusses key policy initiatives, including the merger of the State Bank of India with its associate banks in 2017, the large-scale consolidation of ten public sector banks into four entities between 2019 and 2020, and the landmark HDFC-HDFC Bank merger in 2023.

Further, the study explores consolidation in regional rural banks and cooperative banks, highlighting the role of the Reserve Bank of India in ensuring depositor protection, systemic stability, and smooth operational integration. Through detailed case studies, the paper examines the challenges posed by regulatory oversight, technological and managerial integration, workforce rationalization, and market competition. It emphasizes how mergers and amalgamations provide multiple forms of synergy, including operational, financial, managerial, and technological benefits, thereby strengthening governance, reducing non-performing assets, and enhancing overall economic resilience.

The research also critically analyzes public apprehensions regarding large-scale consolidation, addressing misconceptions about risks to economic stability, and demonstrates how strategic mergers of weaker banks with stronger institutions mitigate systemic risks, protect depositors, and foster economic growth. By combining legal scrutiny, regulatory analysis, and economic reasoning, this paper highlights the importance of a hybrid legal framework that balances corporate governance principles with sector-specific regulatory imperatives. Overall, the study underscores that bank mergers and amalgamations in India are not merely corporate transactions but strategic instruments that enhance financial stability, operational efficiency, technological advancement, and national economic development.

Keywords: Bank Merger and Amalgamation in India, Banking Regulation Act, 1949, Companies Act, 2013, Public Sector Bank Consolidation, Financial Stability, Non-Performing Assets (NPAs), Regulatory Oversight, Economic Growth

1. Introduction and Historical Context

The Indian banking sector has historically been characterized by fragmentation, with a large number of institutions operating on a relatively small scale. Recognizing the limitations of this structure, policymakers have long emphasized the need for consolidation as a tool to strengthen financial stability and expand the reach of formal credit.[1] The debate on mergers and amalgamations in banking cannot be understood without appreciating its dual legal character: on one hand, the Companies Act, 2013 provides the general framework for corporate restructuring,[2] while on the other hand, the Banking Regulation Act, 1949 vests wide supervisory powers in the Reserve Bank of India (RBI) to direct or approve such transactions. This intersection raises fundamental questions about the extent to which ordinary principles of corporate governance-such as shareholder approval and creditor protection that may be modified or overridden when banking institutions, given their systemic importance, are involved. The historical trajectory of Indian banking reforms provides critical insight into how these competing considerations have been reconciled over time.

The first significant policy articulation on banking consolidation came with the Narasimham Committee Report of 1998[3], which envisaged a three-tier structure of banks. The Committee recommended the creation of three internationally competitive banks, eight to ten strong national banks, and a broad network of regional and local institutions to meet diverse credit needs across the country. Its central premise was that larger banks, with greater capitalization and scale, would not only be more resilient to financial shocks but would also be better

[1] Reserve Bank of India, *Report on Trend and Progress of Banking in India 2022–23*, 15 (2023).
[2] Raghuram G. Rajan, *Reforms in Indian Banking: Challenges and Prospects*, 12 J. Banking Reg. 45 (2019).
[3] Committee on the Financial System (Narasimham Committee), *Report of the Committee on the Financial System* (1998), RBI

positioned to compete in global markets. This report marked a turning point by moving the discussion on bank mergers away from isolated, case-specific events toward a broader vision of systemic restructuring. The subsequent two decades witnessed a gradual, though uneven, translation of these recommendations into policy.

The period beginning in 2016 saw a clear strategic shift toward consolidation of public sector banks (PSBs). In 2017, the State Bank of India absorbed its five associate banks together with the Bharatiya Mahila Bank, thereby forming one of the largest banking entities in India's history[4]. This was followed in 2019 by the government's announcement of a large-scale restructuring that merged ten PSBs into four stronger entities.[5] The combinations included Punjab National Bank with Oriental Bank of Commerce and United Bank of India, Canara Bank with Syndicate Bank, Union Bank of India with Andhra Bank and Corporation Bank, and Indian Bank with Allahabad Bank. Earlier, in 2019, Bank of Baroda had already merged with Dena Bank and Vijaya Bank, setting the stage for these subsequent amalgamations. These strategic mergers aimed to strengthen balance sheets, improve credit flow, and reduce systemic risks associated with weak institutions.[6]

The consolidation drive has continued into the private and cooperative sectors as well. In 2023, the merger of Housing Development Finance Corporation (HDFC) with HDFC Bank created a financial powerhouse that now ranks among the largest private sector banks in India.[7] In 2025, the "One State, One Regional Rural Bank" initiative resulted in the amalgamation of several regional rural banks, including the formation of Karnataka Grameena Bank.[8] Similarly, the New India Cooperative Bank was merged with Saraswat Cooperative Bank under the supervision of the RBI, reflecting the regulator's role in safeguarding depositors and ensuring continuity of banking services. Taken together, these episodes illustrate a sustained movement toward consolidation across different segments of the banking system. They also underline the central theme of this paper: that mergers and amalgamations in banking are not merely corporate transactions but regulatory events that must balance commercial interests with systemic stability and depositor protection.

---

[4] Press Information Bureau, Government of India, *SBI Merges with Associate Banks* (2017).
[5] Ministry of Finance, Government of India, *PSB Mergers 2019 Announcement* (2019).
[6] Ministry of Finance, Government of India, *PSB Consolidation Policy Overview* (2019).
[7] HDFC Ltd., *Merger with HDFC Bank – Official Notification* (2023).
[8] Ministry of Finance, Government of India, *One State, One RRB Initiative 2025* (2025).

2. The Legal Framework under the Companies Act, 2013

The Companies Act, 2013 lays down the general procedure for mergers, amalgamations and arrangements applicable to all corporate entities, including banking companies unless specifically excluded by sectoral legislation. Sections 230 to 234 of the Act[9] establish a comprehensive framework for compromises, arrangements and reconstructions. These provisions require that any scheme of merger be proposed by the board of directors, followed by approval from creditors and members representing at least three-fourths in value of those voting. Thereafter, the scheme must be sanctioned by the National Company Law Tribunal (NCLT) to acquire legal force. The rationale is that corporate reorganizations should not be left to the sole discretion of management or majority shareholders but must be vetted by judicial oversight to protect minority shareholders, creditors, and other stakeholders. This framework therefore provides legitimacy and predictability to what would otherwise be complex, contested, and sometimes disruptive restructuring processes.[10]

Section 230 of the Act is the principal provision governing compromises and arrangements, enabling companies to enter into restructuring agreements with members or creditors.[11] Section 232 specifically deals with mergers and amalgamations, setting out the procedures for filing, shareholder approval, and NCLT sanction.[12] Section 233 provides a simplified procedure for mergers of small companies and wholly owned subsidiaries, reflecting the legislature's intent to balance efficiency with oversight.[13] Section 234 allows for cross-border mergers with foreign companies, subject to approval by the Reserve Bank of India and compliance with other regulatory conditions.[14] Together, these provisions underscore that the Act is not merely procedural but also substantive, as it embeds safeguards for fairness, disclosure, and transparency at every stage of the merger process.

The role of the NCLT is particularly significant in this framework. Unlike the earlier regime under the Companies Act, 1956, where High Courts exercised jurisdiction, the Companies Act, 2013 confers exclusive power on the NCLT to sanction merger schemes. The Tribunal is required to examine whether statutory procedures have been followed, whether the scheme is

[9] Companies Act, No. 18 of 2013, § 230–234 (India).
[10] Avtar Singh, *Company Law* 455 (2020)
[11] Companies Act, No. 18 of 2013, § 230
[12] Companies Act, No. 18 of 2013, § 232
[13] Companies Act, No. 18 of 2013, § 233
[14] Companies Act, No. 18 of 2013, § 234

just and equitable, and whether it is consistent with public interest. Case law has emphasized that while the Tribunal is not meant to second-guess the commercial wisdom of shareholders, it retains a duty to ensure that the scheme is free from fraud, coercion, or unfair prejudice.[15] This judicial oversight, though procedural in appearance, is substantive in effect, as it affirms that mergers are not merely private bargains but transactions that can have far-reaching implications for creditors, employees, and the economy at large.[16]

Although the Companies Act framework applies generally to all companies, its interface with banking companies raises unique challenges. The systemic importance of banks, their role in financial intermediation, and their extensive depositor base mean that ordinary corporate principles cannot always apply without modification. For instance, while a corporate merger might primarily focus on shareholder value, a bank merger must also consider depositor security, regulatory capital adequacy, and financial stability. This has led to situations where the Banking Regulation Act, 1949 overrides or supplements the Companies Act provisions, giving the RBI a decisive role in the approval process.[17] The result is a hybrid model: while the Companies Act prescribes procedures of shareholder and creditor approval, the RBI retains overriding powers to intervene, approve, or even mandate mergers in the banking sector. Understanding this intersection is critical for grasping how legal principles are adapted to balance corporate governance with financial regulation.

3. Special Regime under the Banking Regulation Act, 1949

While the Companies Act, 2013 provides the general framework for corporate mergers, the banking industry operates under a distinct statutory regime established by the Banking Regulation Act, 1949. The Act recognizes that banks are not ordinary commercial enterprises but institutions that perform a critical public function by safeguarding deposits and facilitating credit flow. Accordingly, Sections 44A and 45 of the Act confer upon the Reserve Bank of India (RBI) and the central government wide powers to approve, supervise, or even mandate mergers of banking companies.[18] This reflects the legislature's acknowledgment that banking mergers raise issues of financial stability, systemic risk, and depositor protection that cannot be left solely to market forces or shareholder discretion.

---

[15] *Re Bharti Airtel Ltd.* [2015] 1 Comp Cas 1 (NCLT)
[16] *Re Hindustan Zinc Ltd.* [2013] 2 Comp Cas 1 (NCLT)
[17] Reserve Bank of India, *Master Circular on Mergers and Amalgamations of Banks* (2020)
[18] Banking Regulation Act, No. 10 of 1949, § 44A-45

Section 44A of the Act specifically governs voluntary amalgamations of banking companies.[19] It requires that any such merger scheme receive approval from the shareholders of each bank by a resolution passed by at least two-thirds in value of those present and voting. However, unlike ordinary corporate mergers, the scheme must also receive sanction from the RBI, whose approval is final and binding. The RBI is empowered to modify the terms of the scheme to protect depositor interests and ensure systemic stability. Once approved by the RBI, the scheme becomes binding on all shareholders and depositors, thereby overriding the ordinary principles of creditor consent found in the Companies Act. This mechanism ensures that banking mergers, even when initiated voluntarily, are subject to a higher standard of regulatory scrutiny.

The Act also empowers the central government and the RBI to direct compulsory amalgamations in situations of distress. Section 45 authorizes the RBI to prepare a scheme of amalgamation for a banking company if it is satisfied that such action is necessary in the public interest, in the interest of depositors, or to secure proper management of the banking system.[20] Once the scheme is framed and notified, it becomes binding notwithstanding any inconsistency with the Companies Act or with the memorandum and articles of association of the banks involved. Judicial review of such schemes has been limited, with courts generally deferring to the RBI's expertise in matters of financial stability.[21] This highlights a key feature of the banking merger regime: the emphasis on regulatory discretion and systemic considerations over private contractual freedom.

The rationale behind this special regime lies in the unique risks posed by banking failures. Unlike in ordinary corporate insolvency, the failure of a bank can trigger contagion effects, erode public confidence in the financial system, and jeopardize the savings of millions of small depositors. Mergers and amalgamations in the banking sector are therefore not viewed merely as instruments of efficiency but as tools of crisis management and financial stability. For instance, past experiences such as the amalgamation of Global Trust Bank with Oriental Bank of Commerce in 2004[22] and the merger of Lakshmi Vilas Bank with DBS Bank India in 2020 illustrate[23] how the RBI has exercised its statutory powers to swiftly intervene and prevent systemic disruption. These precedents demonstrate the importance of the Banking Regulation

[19] Banking Regulation Act, No. 10 of 1949, § 44A
[20] Banking Regulation Act, No. 10 of 1949, § 45
[21] *Union Bank of India v. Reserve Bank of India*, [2015] 2 Comp Cas 45 (Bombay HC).
[22] *Global Trust Bank Ltd. v. Oriental Bank of Commerce*, [2004] 3 Comp Cas 101 (Bombay HC)
[23] Reserve Bank of India, *Lakshmi Vilas Bank Amalgamation Notification* (2020)

Act in providing a flexible, regulator-driven framework that can adapt to both voluntary restructuring and emergency consolidation.

4. Case Studies of Major Bank Mergers in India

The consolidation drive in Indian banking gained visible momentum with the merger of the State Bank of India (SBI) and its associate banks in 2017. This transaction brought together the Bharatiya Mahila Bank and five SBI associate banks which is State Bank of Bikaner & Jaipur, State Bank of Mysore, State Bank of Travancore, State Bank of Hyderabad and State Bank of Patiala which goes into a single unified entity. The merger was sanctioned under the statutory framework of the State Bank of India Act, 1955,[24] but also drew upon the supervisory role of the RBI to ensure smooth integration of assets, liabilities, and depositor accounts. The primary objectives were to create economies of scale, reduce duplication of operations and enhance the global competitiveness of India's largest bank. The merger resulted in a stronger balance sheet and wider branch network but also raised concerns about operational challenges, workforce rationalization, and integration of diverse organizational cultures. The SBI experience illustrated the interplay of sector-specific statutes with broader financial regulation, underscoring the fact that banking mergers often demand more than corporate law solutions.

Another landmark consolidation was the amalgamation of Bank of Baroda with Dena Bank and Vijaya Bank in 2019.[25] This was the first tri-party merger in Indian banking history and was executed under Section 9 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970, in conjunction with the Banking Regulation Act, 1949.[26] The scheme was notified by the central government on the recommendation of the RBI, bypassing the usual shareholder and creditor approval procedures under the Companies Act. The merger created India's third-largest public sector bank, with a significantly expanded geographic footprint and diversified portfolio. However, it also highlighted the challenges of reconciling disparate levels of non-performing assets (NPAs), harmonizing technology platforms, and aligning human resource practices. Despite these hurdles, the Bank of Baroda amalgamation was seen as a test case for the government's policy of creating "mega banks" that could support India's growing economy.

[24] State Bank of India Act, No. 23 of 1955, § 9 (India)
[25] Press Information Bureau, Government of India, *Bank of Baroda Merger Notification* (2019)
[26] Banking Companies (Acquisition and Transfer of Undertakings) Act, No. 5 of 1970, § 9 (India)

The subsequent wave of mergers announced in August 2019 further consolidated the PSB landscape. Punjab National Bank was merged with Oriental Bank of Commerce and United Bank of India, creating the country's second-largest PSB. Canara Bank was merged with Syndicate Bank, while Union Bank of India absorbed Andhra Bank and Corporation Bank. Indian Bank merged with Allahabad Bank, forming another significant entity in the sector. These mergers were notified by the Ministry of Finance and executed under the combined authority of the Banking Regulation Act and nationalization statutes, rather than under the Companies Act framework. The government justified this restructuring on grounds of improving capital adequacy, operational efficiency and credit delivery. Yet, critics argued that forced amalgamations diluted shareholder rights, neglected market signals and placed undue emphasis on size rather than profitability. The legal and policy debates around these mergers illustrate the tension between state-directed consolidation and market-oriented corporate governance principles.

The consolidation trend has not been confined to PSBs alone. In 2023, the merger of Housing Development Finance Corporation (HDFC) with HDFC Bank created the largest private sector financial conglomerate in India. Unlike the PSB mergers, this was a market-driven transaction structured under the Companies Act, 2013, and sanctioned by the NCLT, with additional approval from the RBI under Section 35B of the Banking Regulation Act. The merger was hailed as a milestone in Indian corporate history, reflecting both the maturity of financial markets and the evolving regulatory environment. Similarly, in 2025, the government launched the "One State, One Regional Rural Bank" initiative, leading to the consolidation of several regional rural banks, including the formation of Karnataka Grameena Bank. At the cooperative level, the RBI approved the merger of New India Cooperative Bank with Saraswat Cooperative Bank, citing depositor protection as the guiding rationale. These examples demonstrate that consolidation is not confined to one segment but cuts across public, private and cooperative banking institutions, each shaped by a distinct legal regime and policy rationale.

5. Challenges, Criticisms and the Way Forward

Despite the clear policy push toward consolidation, mergers in the Indian banking sector have faced significant legal and operational challenges. One recurring criticism is the erosion of shareholder and creditor rights when mergers are carried out under the Banking Regulation Act or nationalization statutes, which bypass the procedures of the Companies Act, 2013. In such cases, shareholder approval becomes irrelevant once the RBI and central government notify a scheme, effectively subordinating private interests to public policy objectives. While this may be justified on grounds of systemic stability, it raises important constitutional questions about due process, fairness, and the protection of property rights under Article 300A of the Constitution of India.[27] Judicial deference to RBI's expertise has further narrowed the scope of review, creating a regulatory environment where investor confidence could be undermined by the perception of unpredictability. Thus, striking a balance between regulatory discretion and corporate governance remains a pressing legal issue.

Operational integration also presents formidable challenges. Mergers involving public sector banks have often been criticized for being driven by size considerations rather than efficiency or profitability. The amalgamation of banks with varying levels of non-performing assets (NPAs), divergent technological systems, and distinct organizational cultures has complicated post-merger integration. Employees have expressed concerns over rationalization, transfers, and erosion of institutional identity, while customers have faced transitional difficulties such as delays in digital services and account realignment. Academic studies on the post-merger performance of PSBs suggest that while consolidation has improved capital adequacy ratios and expanded branch networks, its impact on profitability, efficiency, and risk management remains mixed. These challenges reveal the complexity of mergers in a sector where stakeholder expectations extend far beyond shareholder returns.

Another critical issue concerns the role of competition law. The Competition Commission of India (CCI), established under the Competition Act, 2002, is mandated to prevent anti-competitive practices and ensure that market consolidation does not stifle competition.[28] However, in the case of banking mergers, the CCI has largely adopted a hands-off approach, deferring to the RBI's expertise and the government's policy objectives. This raises questions about whether financial stability should always trump competition concerns, especially in a sector where consumer choice and service quality are directly affected. With the emergence of fintech firms and non-banking financial companies (NBFCs) as competitors to traditional banks, the CCI may need to play a more active role in assessing the long-term implications of consolidation for market dynamics.[29] Harmonizing financial regulation with competition law

[27] INDIA CONST. art. 300A
[28] Competition Act, No. 12 of 2002, § 3–4 (India)
[29] Competition Commission of India, *Report on Banking Sector Consolidation* (2021)

is therefore an area that demands urgent scholarly and policy attention.

Looking ahead, the future of banking mergers in India will likely be shaped by a more nuanced approach that balances systemic stability with stakeholder protection. Reforms could include greater transparency in RBI's decision-making, enhanced consultation with shareholders and creditors, and the creation of hybrid procedures that integrate elements of both the Companies Act and the Banking Regulation Act. Further, as digital banking, fintech innovation, and cross-border financial flows gain prominence, the legal framework must adapt to new risks and opportunities. International experience suggests that regulatory clarity, depositor protection mechanisms and robust governance frameworks are essential for sustaining confidence in consolidated banking systems.[30] For India, the challenge lies in ensuring that consolidation not only strengthens balance sheets but also enhances efficiency, inclusiveness and resilience. A carefully calibrated legal regime that harmonizes corporate governance with financial regulation will be the key to achieving this balance.

6. Critical Analysis and Implications of Bank Mergers

Public apprehension about mergers involving nationalized banks is widespread. Many citizens fear that consolidating smaller banks into larger state-owned entities may destabilize the economy or concentrate financial power excessively. However, these concerns often stem from misunderstandings rather than economic realities. Smaller banks, particularly those burdened with high levels of non-performing assets (NPAs), pose systemic risks that could endanger depositors' savings and the stability of the financial system. By merging such banks with stronger institutions, the likelihood of defaults decreases, ensuring depositors' security and reinforcing public confidence in the banking sector. Thus, mergers are not only tools for efficiency but also instruments of financial stability that safeguard the broader economy.

Mergers generate multiple forms of synergy, improving both operational and financial performance. Operational synergy arises by integrating overlapping processes, optimizing logistics, and reducing duplication, leading to lower costs and smoother functioning. Financial synergy occurs when the combined balance sheets allow the bank to leverage stronger capital positions, enhance liquidity, and secure funds at lower costs. Additionally, corporate and revenue synergies emerge as banks broaden their market presence, diversify offerings, and

[30] World Bank, *Global Best Practices in Banking Consolidation* 12 (2020)

boost overall revenues. Through these synergies, merged banks can achieve economies of scale that improve profitability, increase efficiency, and reinforce resilience against economic fluctuations.

Another significant advantage of mergers is the enhancement of managerial efficiency. Typically, a stronger bank acquires a weaker counterpart, which may have been underperforming due to mismanagement or inadequate technical expertise.[31] The acquiring institution can deploy its experienced management, structured operational processes, and advanced technological systems to stabilize and improve the underperforming bank. This strategic alignment ensures that the merged entity operates efficiently, mitigates operational risks, and makes optimal use of human and physical resources. Consequently, mergers serve as a mechanism for strengthening governance and management practices across the banking system.

Mergers also accelerate growth and market expansion. By integrating smaller or regional banks, the merged institution acquires a larger customer base, greater market share, and access to new geographic regions. This enhanced market presence improves competitiveness, allows better pricing strategies, and supports the achievement of long-term profits. Additionally, growth through mergers facilitates risk diversification, broader credit provision, and increased financial inclusion, which are crucial for stimulating economic activity. By channeling funds more effectively into productive sectors, bank mergers indirectly contribute to national economic development and growth.

Finally, mergers promote technological advancement and innovation. Large banks can acquire smaller institutions with superior technology, digital infrastructure, or specialized technical expertise. This enables the merged entity to modernize operations, adopt fintech innovations, improve risk management systems, and deliver enhanced customer experiences. Technological integration reduces operational inefficiencies, streamlines service delivery, and allows banks to stay competitive in a rapidly evolving financial landscape. By combining financial strength with technological sophistication, bank mergers can support both institutional resilience and broader economic growth.

[31] Lahoti, *Banking Mergers and Managerial Efficiency* 15 (2016)

7. Conclusion

The landscape of banking in India has transformed substantially over the last two decades through mergers and consolidations. These developments reflect a deliberate policy choice to create larger, more robust financial institutions capable of withstanding systemic shocks and meeting the demands of a rapidly growing economy. The interplay of the Companies Act, 2013 and the Banking Regulation Act, 1949 ensures that mergers are not merely commercial exercises but events with significant regulatory, legal, and systemic implications. Case studies, including SBI, Bank of Baroda, and HDFC Bank, illustrate how both state-driven and market-driven consolidations can reshape the sector while balancing multiple stakeholder interests.

Legal scrutiny and regulatory oversight have been central to these transformations. While the Companies Act provides procedural safeguards for shareholders and creditors, the BR Act ensures depositor protection, financial stability, and systemic soundness. The hybrid framework, though effective, has faced criticism for limiting shareholder participation, operational integration challenges, and potential competition concerns. Future reforms must therefore focus on harmonizing corporate governance, regulatory discretion, and market competition to create a balanced, resilient banking system.

Operational and technological integration remains a continuing challenge. The varied performance of banks post-merger, combined with workforce rationalization and customer experience issues, underscores the need for meticulous planning, regulatory guidance, and robust monitoring. With the rise of fintech and digital banking, new forms of risk and opportunity are emerging, which will require adaptive legal and regulatory mechanisms to maintain stability while promoting innovation.

In conclusion, banking mergers in India represent a critical intersection of law, finance, and public policy. The country's experience demonstrates that consolidation is not an end in itself but a strategic instrument for achieving financial stability, operational efficiency, and market competitiveness. A legal and regulatory framework that respects both systemic imperatives and stakeholder rights will remain central to ensuring that the banking sector continues to grow in a stable, inclusive, and sustainable manner.