Bank of Baroda, Dena Bank & Vijaya Bank Consolidation

Why in news?

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The government recently proposed the amalgamation of state-owned Bank of Baroda (BoB), Dena Bank and Vijaya Bank.

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How did it take shape?

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- **Committee** - A committee headed by former RBI Governor M Narasimham was appointed in 1991.
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- It is more than 27 years since it had recommended a restructuring of Indian banks.
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- It made the first call for pruning the number of government-owned banks which was over two dozen.
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- It recommended having three or four large banks including State Bank of India that could be positioned as global banks.
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- Besides, there can be eight to ten with a national footprint or presence.
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- **Capital infusion** - In 2016, the government decided to pursue consolidation after first pumping in more capital.
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- This is to put back on track many banks weighed down by a huge pile of bad loans.
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- To facilitate this, the government last year put in place an Alternative Mechanism on bank mergers.
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- By this, an inter-ministerial panel was to be set up to supervise merger proposals and approve them.
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- The first such proposal is the recent Bank of Baroda (BoB), Dena Bank and Vijaya Bank consolidation.
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What is the rationale?

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- It has been recognised for long that having several banks that are majority-owned by the government was not a sensible strategy.
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- It's because they virtually do the same business, and compete for the same set of customers.
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- It also meant a lower return on the capital employed by the government.
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- There are other factors as well to be taken into account, including -
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i. changing face of banking marked by technological changes
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ii. challenges to raising capital that the owner (the government) has to provide periodically
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iii. the need for consolidation in the sector
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iv. putting an end to fragmentation
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- The government is also emboldened by the experience of the merger of five susbidiaries of the State Bank of India last year.
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What are the possible benefits?

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- The amalgamation will create India’s third-largest bank.

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- It would take form as a business of Rs 14.82 lakh crore and over 9,600 branches across the country.
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- Mergers are often advocated on the basis of synergies.
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- These could be in terms of operational efficiency with a large pool of staff in a merged entity.
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- It could help boost business, expand reach and offer more services or products.
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- On a standalone basis, Vijaya Bank had strength in the South.
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- On the other hand, Bank of Baroda and Dena Bank had a stronger base in Western India.
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- This would mean wider access for both the proposed new entity and its customers.
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- Besides, the move will lead to a lower NPA (non-performing assets) ratio for the new bank.
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- The NPA ratios are now 11.04% for Dena Bank, 5.4% for Bank of Baroda and 4.1% for Vijaya Bank.
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- This could, in turn, mean lower capital requirements from the government.
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- The new bank, with its higher capital base (12.25 %) can have better ability to lend more.
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What are the challenges ahead?

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- The boards of all three banks, being public listed entities, will meet soon and try and get approval for the government proposal.
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- This will not be a challenge as the government has the dominant shareholding in all the three.
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- The real challenge is the integration in a new entity, whether in operations

or culture.
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- It helps that the three banks chosen have a common technology platform.
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- This may make it work like in the case of the SBI and its subsidiaries.
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- However, human resources can often be a challenge with contrasting HR practices.
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- Also, aligning these with employee expectations or aspirations will also test the new management.
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- The other major test will be leadership i.e. choosing one of the CEOs to head the new bank and with a reasonable tenure.
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- Besides, addressing the concerns of unions and shareholders will be another significant task.
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Source: Indian Express

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