Public Sector Banks Mergers

Why in news?

The Centre announced a mega amalgamation plan, the third in a row, that merged 10 public sector banks into 4 larger entities.

What are the key decisions?

- There are four new sets of mergers:
  1. Punjab National Bank, Oriental Bank of Commerce and United Bank of India to merge
  2. Canara Bank and Syndicate Bank to amalgamate
  3. Union Bank of India to acquire Andhra Bank and Corporation Bank
  4. Indian Bank to merge with Allahabad Bank
- With these series of mergers, the number of state-owned banks is down to 12 from 27.
- The merger announcement was followed by an equity infusion move of Rs 55,250 crore in these banks.
- The aim is to enable them to grow their loan book.
- Banks board level governance reforms aimed at improving their financial health and enhancing their lending capacity to support growth were also announced.

What will the mergers result into?

- The biggest merger out of the four was Oriental Bank of Commerce and United Bank merging into Punjab National Bank.
- This will create the 2^{nd}-largest state-owned bank with Rs 17.95 lakh crore business and 11,437 branches.
- These 3 banks are technologically compatible as they use Finacle Core Banking Solution (CBS) platform.
- The merger of Syndicate Bank with Canara Bank will create the 4^{th}-largest public sector bank (PSB) with Rs 15.20 lakh crore business and 10,324 branches.
- Canara Bank will get capital infusion of Rs 6,500 crore.
- Andhra Bank and Corporation Bank's merger with Union Bank of India will create India's 5^{th}-largest public sector bank with Rs 14.59 lakh crore

business and 9,609 branches.
- The government announced capital infusion of Rs 11,700 crore for the Union Bank of India.
- The merger of Allahabad Bank with Indian Bank will create the 7th-largest public sector bank.
- It would form Rs 8.08 lakh crore business with strong branch networks in the south, north and east of the country.
- Indian Bank will get equity infusion of Rs 2,500 crore.

What is the rationale behind the mergers?

- It was the Narasimham Committee in the late 1990s that recommended consolidation through a process of merging strong banks.
- There are too many banks in India with sizes that are minuscule by global standards with their growth constricted by their inability to expand.
- Given this, the biggest plus of the mergers is that they will create banks of scale.
- According to the government, banks have been merged on the basis of likely operating efficiencies, better usage of equity and their technological platform.
- But the move marks a departure from the plan to privatise some of the banks or bringing in strategic investors to usher in reform in the sector.
- The government has decided amalgamation as the “best route” to achieve banking sector scale.
- This is also expected to support the target of achieving a $5 trillion economic size for India in 5 years.
- However, mergers may not lead to any immediate improvement in their credit metrics.

How effective could the merger be?

- Bank consolidation is a good move towards improving efficiency of the PSBs.
- This would enable the consolidated entities to meaningfully improve scale of operations and help their competitive position.
- Given that the merged banks are on similar technology platform, the integration should be smoother.
- However, there may not be any immediate improvement in their credit metrics as all of them have relatively weak solvency profiles.
- Also, it is possible that the current mergers may face more friction than the last one with BoB, Dena and Vijaya.
- In that case, a large, well-capitalised strong bank absorbed two much smaller entities.
- But in the present case, the mergers are mostly among larger banks, with

absorbing bank not necessarily in strong health.
- Also, it is likely that management attention and the spread of the entities being merged could get split impacting the loan growth.
- It could also reduce focus on strengthening asset quality in the short term.

What are the challenges and priorities now?

- Mergers are driven by synergies - in products, business, geographies or technology and the most important, cost synergies.
- There may be some geographical synergies between the banks being merged now.
- But unless banks realise cost synergies through branch and staff rationalisation, the mergers may not mean much to them or to the economy.
- This is where the government's strategy becomes significant.
- Evidently, public sector banks are overstaffed.
- There is also bound to be overlap in branch networks such as in the Canara-Syndicate Bank merger, especially in Karnataka and a couple of other southern States.
- The success of these mergers, therefore, will depend on how well these banks handle the sensitive issue of staff rationalisation.
- The All India Bank Employees Association has already raised concerns in this regard.
- Reaping the benefits of the advantage of scale by banks mergers requires adequate reforms in governance and management of these banks.

- But the key reforms to be made are at the board level, including in appointments, especially of government nominees.
- These are often political appointees, with little exposure to banking.
- Surely, such practices need to be curbed as the definition of global banks is not just about size but also professionalism in governance.

Source: Indian Express, The Hindu