Overview on Big Merger of Public-Sector Banks (PSB) in India

Big merger which was once the talk of the town has now been the issue in India with the Indian Government announcing the biggest overhaul in the public sector space. Finance minister Nirmala Sitharaman unveiled a mega plan to merge 10 public sector banks into four large entities that are capable of meeting the higher funding requirements of the economy.

The decision of big merger was followed by a slow economic growth of India, which is at a six-year low, with GDP of 5% in Q1of FY 2019. The issue attempts to boost the economic growth of India in the following years. Sitharaman announced the merger is being undertaken in order to revive and revitalise the banking sector to stay on course for the government's stated target of touching $5 trillion as an economy. The government would also infuse Rs 55,250 crore of capital in these banks for their credit growth and regulatory compliance.

Motive & Objective behind Merger of PSBs

When SBI undertook its five associate banks in 2017, it wasn't a move because SBI was weak or financial system was weak. It was solely because the associates' banks were not able to work effectively and with less capital, these were unable to control NPA. The successful experience of merging State Bank of India, and the amalgamation of Bank of Baroda, Vijaya Bank and Dena Bank have given the government confidence that another round of consolidation can be successfully handled.

The Finance Ministry states that the merger of these 10 public sector banks will help India make a USD 5 trillion economy. The bank merger was done under the bank consolidation plan of the Union Government. The government's objective behind the merger of these banks:

- Enhanced capacity to increase credit
- Banks with a strong national presence and international reach
- Reduction in lending cost
- Next Generation technology for the banking sector
- Improved ability to raise market resources
- Government's focus on good governance

Merger of PSBs

The 10 PSB to be merged together are:

- Punjab National Bank, Oriental Bank of Commerce, United Bank of India will be merged as one to create the country's second largest state-run bank after State Bank of India.
- Canara Bank & Syndicate Bank together will be the fourth-largest public sector bank.
- Union Bank of India, Andhra Bank and Corporation Bank will be fifth-largest public sector bank

- Indian Bank & Allahabad Bank will be the seventh-largest public sector bank.

Apart from the merged banks, two public sector banks- Bank of India and Central Bank of India will continue to work as an independent body to strengthen national presence. Four regional banks will also continue to work independently to strengthen the regional focus. These are: Indian Overseas Bank, UCO Bank, Bank of Maharashtra and Punjab & Sind Bank. State Bank of India and Bank of Baroda are the two banks that have already gone into consolidation in the previous years. After this the total number of public sector banks in the India will come down to 12 which was 27 in 2017.

Challenges and Benefits behind Merger of PSBs

It may sound easy but there are various challenges that the consolidated banks will have to face. There will be administrative challenges of mergers which will divert the bank managements away from their most crucial task at the moment — of managing the NPAs and aggressively looking for lending opportunities. The bank staffs will be occupied thinking about their career and jobs even though the government has assured of no retrenchment and layoffs of staffs.

With the merger, the weaknesses of the small banks are also transferred to the bigger bank. So far small scale losses and recapitalization could revive the capital base of small banks. Now if the giant shaped bank books huge loss or incurs high NPAs as it had been incurring, it will be difficult for the entire banking system to sustain. Large global banks had collapsed during the global financial crisis while smaller ones had survived the crisis due to their focus on micro aspects.

On the positive side, there are many benefits the bank can gain from the consolidation. The consolidated banks will have increased credit capacity with greater ability to absorb shock. These banks can enjoy economies of scale though centralized back office processing, elimination of branch overlap, eliminating redundancies in administrative infrastructure, better manpower planning, optimum funds management, and savings in IT and other fixed costs. The consolidated banks will be able to take on large projects on their own without depending on other sources.

It is left in the future to see, whether such consolidation can really help India achieve well organized, good governed, adequately capital endowed public sector bank advancing for USD 5 trillion economy or the challenges will hinder its goal and make things more chaotic for the government of India.

Source:

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