1. FM announces Public Sector Banks merger: PNB, OBC, United Bank to become 2nd largest after SBI

Date: 31 August, 2019

- In what is one of the biggest mergers since the integration of SBI with five associate banks, which banks are going to merge now?
- What is the significance of merger for banks?
- What could be the implications of this merger on our economy?
- Why the central government has gone for merger of banks?

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GS paper 3 (Indian Economy)

Date: 31 August, 2019

In this video, you can find detailed answers for all the above questions.

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What is the context about?

- Finance Minister Nirmala Sitharaman Friday announced the merging of a number of Public Sector Banks (PSB) in order to revive and revitalise the banking sector with the objective of achieving the $5-trillion economy target.

- The development comes a week after the government announced a slew of measures to revive growth in the Indian economy, bringing down their total number to 12 from 27 in 2017, a move aimed at making state-owned lenders global sized banks.

In what is one of the biggest mergers since the integration of SBI with five associate banks, which banks are going to merge now?

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- Finance minister has announced the merger of Punjab National Bank (PNB), Oriental Bank of Commerce (OBC) and United Bank of India with a business of Rs 17.95 lakh crore and a network of 11,437 branches, making it the second-largest PSB in the country.
- Sitharaman also announced the consolidation of Canara bank with Syndicate Bank to form the third-largest PSB with a business of Rs 15.20 lakh crore.
- The merger of Union Bank with Andhra Bank and Corporation Bank will form the fourth-largest PSB with 9,609 branches.
- The government also announced the merger of Indian Bank with Allahabad bank with a business of Rs 8.08 lakh crore, 1.9 times of Indian Bank and covering south, north and eastern sectors.

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What is the significance of merger for banks?

- Mergers help small banks to gear up to international standards with innovative products and services with the accepted level of efficiency. Mergers help many PSBs, which are geographically concentrated, to expand their coverage beyond their outreach.

- A better and optimum size of the organization would help PSBs offer more and more products and services and help in integrated growth of the sector. Consolidation also helps in improving the professional standards.

- This will also end the unhealthy and intense competition going on even among public sector banks as of now. In the global market, the Indian banks will gain greater recognition and higher rating. The volume of inter-bank transactions will come down, resulting in saving of considerable time in clearing and reconciliation of accounts.

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What could be the implications of this merger on our economy?

- Technical inefficiency is one of the main factors responsible for banking crisis. The scale of inefficiency is more in case of small banks. Hence, merger would be good.
- The size of each business entity after merger is expected to add strength to the Indian Banking System in general and Public Sector Banks in particular.
- After merger, Indian Banks can manage their liquidity – short term as well as long term – position comfortably. Thus, they will not be compelled to resort to overnight borrowings in call money market and from RBI under Liquidity Adjustment Facility (LAF) and Marginal Standing Facility (MSF).

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- Synergy of operations and scale of economy in the new entity will result in savings and higher profits.
- A great number of posts of CMD, ED, GM and Zonal Managers will be abolished, resulting in savings of crores of Rupee.
- Customers will have access to fewer banks offering them wider range of products at a lower cost.

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Why the central government has gone for merger of banks?

- The burden on the central government to recapitalize the public sector banks again and again will come down substantially.

- This will also help in meeting more stringent norms under BASEL III, especially capital adequacy ratio.

- From regulatory perspective, monitoring and control of less number of banks will be easier after mergers. This is at the macro level.

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What should be ensured if the merger is carried out?

- The government shall not have any hidden political agenda, in bank mergers. The government shall not rush through the process of bank mergers.

- All stakeholders are taken into confidence, before the merger exercise is started. After mergers, shares of public sector banks shall not be sold to foreign banks, foreign institutions and Indian corporate entities, beyond certain limit.

- Whenever further divestment (dilution of government holdings) takes place, the government share holdings shall not fall below 51% under any circumstances. This will ensure that the ownership and control of public sector banks remain with the government.

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- The acquiring bank should not attempt to dominate or subsume the acquired bank. Good aspects of both the banks before merger shall be combined, in order to instill confidence in all stakeholders and to produce better results.

- Personnel absorbed from the smaller bank shall undergo brief, intermittent training programs to get acquainted with the philosophies, processes and technology in the new environment. The management must be ready with a good roadmap for this and allot considerable budgetary resources for this purpose.