SHANKAR IAS PARLIAMENT
Information is Empowering

Consolidation of banks

What is the issue?

\n\n

\n
- The government is working on a consolidation plan for public sector banks, in order to create a three-tier structure.
\n
- While the earlier objective of mergers was strengthening the risk-taking ability of banks, the demand now is created with increasing bad assets.
\n
- Experts are however emphasizing the need for more small finance banks, regional and local banks despite mergers.
\n

\n\n

How do mergers happen?

\n\n

\n
- Bank consolidation procedures are laid out in the Banking Regulation Act, 1949.
\n
- Any two public sector banking entities can initiate merger talks, but the scheme of the merger must be finalized by the government in consultation with the central bank and it must be placed in Parliament.
\n
- Parliament reserves the right to modify or reject the scheme. In case of a merger between a public sector bank and a private bank too, parliamentary approval is a must.
\n

\n\n

What are the grounds for mergers?

\n\n

\n
- Most bank mergers have been an offshoot of the central bank's efforts to

protect the financial system and depositors’ money.
\n
- A few of them are also driven by the need for consolidation and growth.
\n
- Mergers expect weak banks to sell assets, reduce overheads and shut loss-making branches.
\n

\n\n

What are the implications of mergers?

\n\n

\n
- Recently, five SBI associate banks have been merged with their parent, catapulting the entity in the league of top 50 global banks in terms of assets.
\n
- However even SBI has not been able to escape the pain of merging its associates with itself. Its gross NPAs have gone up, and the merger entity has also reported a loss.
\n
- The key to success of any merger will be large-scale shutting of branches in urban centres, reduction in staff strength and exploring the right business synergy and work culture.
\n
- Government should be ready to make massive fund infusion.
\n
- Given the mounting bad assets and the increased need for capital infusion, it is ideal to start the consolidation process after the banks bounce back to healthy status.
\n

\n\n

\n\n

Source: Livemint

\n