Bank Mergers

June 23, 2020

Why in news

- In a slew of measures announced by the Finance Minister of India, Nirmala Sitharaman on 30th August, 2019, to take the country out of economic doldrums, one particular step of the government has stood out.
- This was the planned merger of 10 public sectors into 4 banks. The anchor banks for this merger will be the Punjab National Bank, the Canara Bank, the Union Bank of India and the Indian Bank.

Background

- The Narasimham Committee of 1991 had recommended a three-tier banking structure with 3 large banks with international presence at the top, 8 to 10 national banks at Tier 2, and a large number of regional and local banks at the bottom.
- P J Nayak Committee in 2014 suggested that the government should privatize or merge some PSBs.
- In 2017, the Government had approved the "merger" of SBI's 5 associate banks and Bharatiya Mahila Bank (BMB) with SBI.
- In 2017, Government had constituted Alternative Mechanism Panel headed by the Minister of Finance and Corporate Affairs to look into merger proposals of public sector banks
- Bank of Baroda, Vijaya Bank and Dena Bank shall be amalgamated making the new entity India's third Largest Bank.

Amalgamation and Merger

- In merger, two or more companies/entities are combined together to form either a new company or an existing company absorbing the other target companies. E.g. Consolidation of 2 entities Tata Steel and UK based Corus Group with resulting entity being Tata Steel.

- Amalgamation is a type of merger in which two or more companies combine their businesses to form an entirely new entity/company. E.g. Consolidation of 2 entities Mittal Steel & Arcelor resulting in new entity ArcelorMittal

Which banks are now being merged?

- The Indian Government has decided to merge- the Indian Bank will be merged with Allahabad Bank (anchor bank - Indian Bank).
- The Punjab National Bank will be merged with the Oriental Bank of Commerce and the United Bank (anchor bank -PNB).
- The Union Bank of India will be merged with the Andhra Bank and Corporation Bank (anchor bank – Union Bank of India).
- Canara Bank will be merged with the Syndicate Bank (anchor bank ; Canara Bank).
- After this latest round of consolidation, India will now have 12 Public Sector Banks instead of the earlier 27 (2017).

What changes now?

- The merger of the Punjab National Bank with the Oriental Bank of Commerce and United Bank of India will create the second largest public sector bank in India by the balance sheet. The merged entity will also have over 11,437 branches, which is only lesser than the largest government bank of India, the State Bank of India.
- The State Bank of India has over 24000 branches in the country and abroad.
- The merger of the Canara Bank along with the Syndicate Bank and the merger of the Union Bank of India with the

Andhra Bank &; Corporation Bank will create the 4th; 5th largest public sector banks in India.

- ***Why were the Banks merged?***
- The Indian Government believes that a larger bank will be resilient in weathering the adverse economic climate. A larger bank also has a larger corpus to dole out and this will improve the banks' ability to lend to large projects, primarily in the infrastructure & the power sector.
- The Government believes that the larger banks will be able to compete better globally and would also be able to increase their economic efficiency by eliminating similar jobs & reduce the costs for lending.

Are big banks better?

- Yes and No. While a larger bank is more laden with capital, personnel and expertise to handle a severe fiscal challenge, historical evidence has shown that the larger banks are more prone to acting in direct conflict with the established principles of conventional human, social and legal responsibilities. Larger banks have more lobbying power and a greater say in national law making which enables them to get laws passed which are beneficial for them. However, there is no guarantee that such laws are beneficial for the general populace.
- Some banks, which become too large and cater to the significant section of the population, become too big to fail and it becomes a concern for the Governments globally to ensure that such banks do not fail as their failure would have a catastrophic impact on the world markets