Amalgamation of National Banks

The Finance Minister has announced the biggest consolidation plan of Public sector Banks (PSBs)- merging 10 of them into just 4.

New Banks After the Merger

Sr. No.	Amalgamated Banks	Anchor Banks
1	Punjab National Bank (PNB), Oriental Bank of Commerce (OBC), and United Bank of India	PNB
2	Canara Bank and Syndicate Bank	Canara Bank
3	Union Bank of India, Andhra Bank, and Corporation Bank	Union Bank of India
4	Indian Bank and Allahabad Bank	Indian Bank

- Now, the total number of PSBs after consolidation has come down to 12 from 27 in 2017. The **earlier mergers** were:
  - Vijaya Bank and Dena Bank with Bank of Baroda (BoB) – effective from April 01, 2019.
  - State Bank of India absorbed five of its associates and the Bharatiya Mahila Bank in 2017.

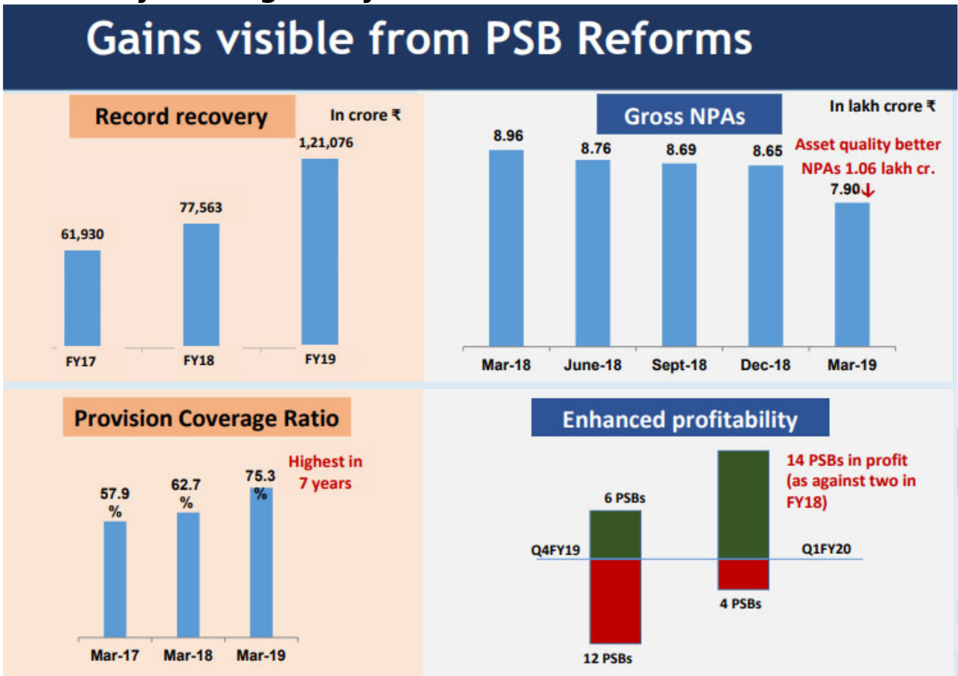
Current Scenario of PSBs

- After entire merger exercises, the next-generation PSBs of India can now be ranked according to their business size, as follows:

Sr. No.	Bank Name	PSB Rank by size
1	State Bank of India	Largest
2	Punjab National Bank	2nd largest
3	Bank of Baroda	3rd largest
4	Canara Bank	4th largest
5	Union Bank of India	5th largest
6	Bank of India	6th largest
7	Indian Bank	7th largest
8	Central Bank of India	8th largest
9	Indian Overseas Bank	9th largest
10	UCO Bank	10th largest
11	Bank of Maharashtra	11th largest
12	Punjab & Sind Bank	12th largest

Benefits of Merger

- **Competetive:** The consolidation of PSBs helps in **strengthening its presence globally, nationally and regionally**.



- **Capital and Governance:** The government's intention is not just to give capital but also give good governance. Hence, post-consolidation, boards will be given the **flexibility to introduce the chief general manager level** as per business needs. They will also recruit chief risk officer at market-linked compensation to attract the best talent.
- **Efficiency:** It has the potential to reduce operational costs due to the presence of shared overlapping networks. And this enhanced operational efficiency will reduce the lending costs of the banks.
- **Technological Synergy:** All merged banks in a particular bucket share common **Core Banking Solutions (CBS)** platform synergizing them technologically.

Core Banking Solutions

- **Core Banking Solutions (CBS)** can be defined as a solution that enables banks to offer a multitude of customer-centric services on a 24x7 basis from a single location, supporting retail as well as corporate banking activities.
- The centralisation thus makes a **"one-stop" shop for financial services** a reality. Using CBS, customers can access their accounts from any branch, anywhere, irrespective of where they have physically opened their accounts. The customer is no more the customer of a Branch. He becomes the Bank's Customer.

- **Self-Sufficiency:** Larger banks have a better ability to raise resources from the market rather than relying on State exchequer.
- **Recovery:** The loan tracking mechanism in PSU banks is being improved for the benefit of customers.
- **Monitoring:** With the number of PSBs coming down after the process of merger – **capital allocation, performance milestones, and monitoring would become easier** for the government.

Challenges

- **Decision Making:** The banks that are getting merged are expected to see a **slowdown in decision making** at the top level as senior officials of such banks would put all the decisions on the back-burner and it will lead to a drop in credit delivery in the system.

- **Geographical Synergy:** During the process of merger, the **geographical synergy** between the merged banks is **somewhat missing**. In three of the four merger cases, the merged banks serve only one specific region of the country.
    - However, the merger of **Allahabad Bank (having a presence in East & North region) with the Indian Bank (having a presence in South)** increases its geographical spread.
- **Slowdown in Economy:** The move is a good one but the timings are not just apt. There is already a slowdown in the economy, and **private consumption and investments are on a declining trend**. Hence, there is a need to lift the economy and increase the credit flow in the short-term, & this decision will block that credit in the short-term.
- **Weak Banks:** A complex merger with a weaker and under-capitalized PSB would stall the bank’s recovery efforts as the weaknesses of one bank may get transferred and the merged entity may become weak.

Source: PIB

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