



Bank Mergers

Making best of bad situation or
Shotgun wedding?

Points to be covered

- Introduction
- Why need of mergers?
- Proposal, Process and the argument of the government
- Advantages/benefits
- Concerns/issues/challenges
- Way forward

Introduction to Mergers/Amalgamation

- Merger/Amalgamation
- Narasimhan Committee
- Proposal by UPA Government
- Initiatives taken by the present government

Why need of a merger

- The number of PSBs are very high
- Recapitalisation need will come down
- Regulatory burden will come down
- The NPAs are very high
- Recommendation of Narasimhan Committee

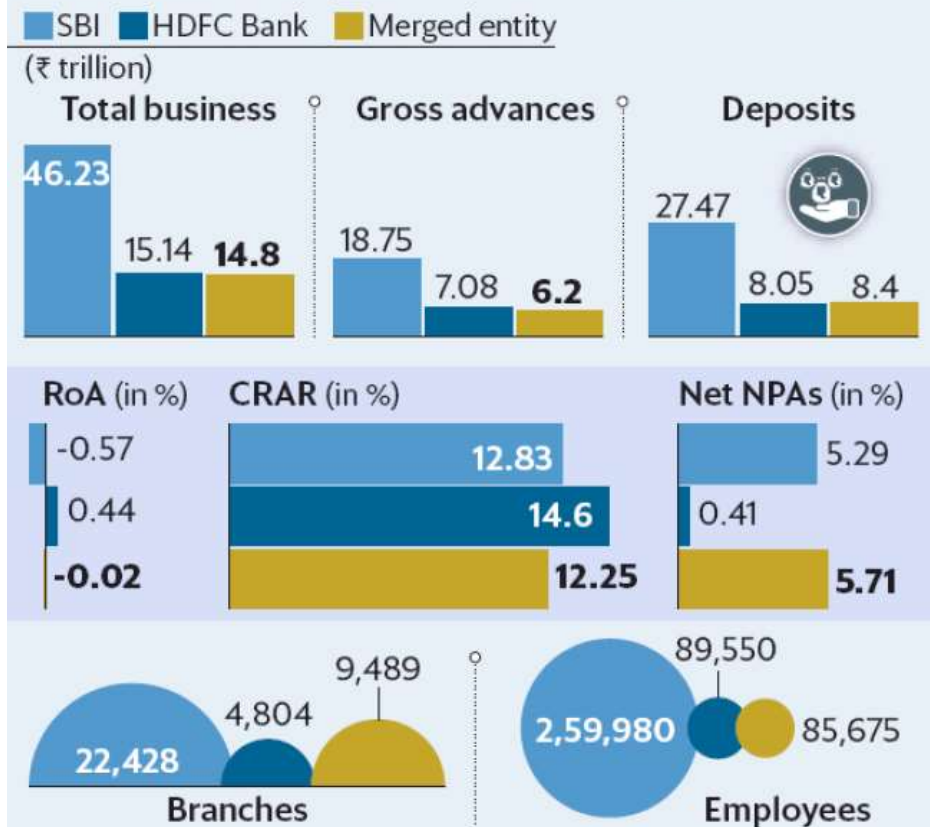
Proposal by the government

THE BANK MERGER BURGER

Bank	Total business (Rs cr)	Deposits (Rs cr)	Employees	Net NPA (%)	CASA* ratio (%)
Bank of Baroda	1,029,810	581,485	56,360	5.4	35.52
Vijaya Bank	279,575	157,325	15,875	4.1	24.91
Dena Bank	172,940	103,020	13,440	11.04	39.8
Merged entity	1,482,325	841,830	85,675	5.71	34.06
Impact	👍	👍	👎	👍	👍

Third largest bank in the making

The merged entity is likely to become the third-largest lender in the country after SBI and HDFC Bank.



Source: Capitaline and bank results

Process to be followed

Proposal first has to be approved by board of directors of all the three banks



Government will prepare the amalgamation scheme



This has to be approved by the cabinet



Then it has to be approved by both the houses of parliament

Argument of the government

- Economies of scale can be used
- Big bank
 - The new entity will have asset size of ₹ 14.8 tn
 - The number of branches will be close to 9500
 - NPAs will be 5.71%
 - Tier-1 capital will be 9.32%
 - CAR will be 12.25%
- Its not the governments business to run business
- The big picture – 4R – Recognition, Recapitalisation, Resolution, Reform

Advantages/Benefits

- Number of PSBs will come down
- Regulatory pressure will come down
- Recapitalisation burden will come down
- The penetration/reach of these banks will increase
- Dena bank will be pulled out of problem
- Indicator of things to come

Challenges/Concerns/Issues

- The driving force for the merger should be synergies, growth potential etc
- Operations and Culture challenge
- Human Resource Challenge
- Merger of weak bank with strong bank will have side effects
- The shareholders will be affected
- The past does not favour the present
- Missing the woods for the trees – it does not focus on the problem

Way forward

- Reforms such as IBC must provide better results
- Preventive Reforms must be implemented
- Privatization
- Giving regulatory powers to RBI
- More autonomy for the banking sector
- Arvind Mehta Committee Recommendation
- Raghuram Rajan Recommendations