General Studies-3; Topic: Indian economy – growth; Resource mobilization

Merger of BOB, Dena Bank and Vijaya Bank

1) **Introduction**
   - The government recently announced the merging of Bank of Baroda, Vijaya Bank and Dena Bank.
   - Cleaning of the balance sheet and minimising NPAs is the objective of the latest merger announced by the government.
   - The strategy which the government has adopted is merging one weak bank with its stronger counterparts.
   - In this case, the weaker bank is Mumbai-based Dena Bank.

2) **Significance**
   - For the first time, we are witnessing a merger of three PSBs which can be a precursor to other such moves.
   - The three banks involved consist of two strong and one Prompt Corrective Action (PCA) bank (Dena Bank).
   - It is seen as an attempt to revive a relatively weaker bank with two healthier ones.
   - While two banks criss-cross one another in geographical space, the third becomes strategically significant being based in the south.
   - The merger comes at a time when all PSBs are walking the thin edge negative profits.
   - The success of this merger, according to analysts, is crucial for future such attempts.

3) **Positives**
   - Capital will be higher when merged together and will give a feeling of a stronger bank.
   - Large banks with larger lending capacity.
   - It will provide efficiencies of scale and help improve the quality of corporate governance for the banks.
   - The merged entity will have a market share of about 6.8 per cent by loans, according to data as of March 2018, making it the third largest bank in the system, Moody’s said.
   - Improvement in operational efficiency.
   - Cost of funds for the merged entity is expected to come down.
   - Bigger banks can attract more Current Account, Savings Account (CASA) deposits.
   - Banks will have the capacity to raise resources without depending on the State exchequer.
   - Improve the capacity of the banking system to absorb shocks that the markets may cause to it.

4) **Need for Consolidation**
   - PSBs are highly fragmented, especially in comparison with other key economies.
   - The merger will enable the government to pay closer operational attention to the enlarged institution, as is the case with SBI.
   - To protect the financial system and depositors’ money.
   - To build capacity to meet credit demand and sustain economic growth.
   - The need to bridge geographical gaps.
   - In 1991 Narasimham Committee suggested that India should have fewer but stronger PSBs.

5) **Concerns / Challenges**
   - Integration of technology platforms and cultures of these organisations.
Aligning the distribution of professionals in the merged bank and handling of human resources.

As issues on seniority are structured and important in a public sector set-up, ensuring that there is harmony would be a challenge.

Rationalisation of physical infrastructure.

Dena Bank came under prompt corrective action of the RBI in May 2017 in view of high Net NPA and negative RoA (return on assets).

Bank of Baroda is the largest among the three and will take a hit on its asset quality.

The other challenge is customer retention which we saw in SBI’s recent merger with its associate banks.

For the banking system as a whole, things cannot change as the capital remains unchanged.

The quantum of Gross NPA (GNPA) cannot change and will still have to be addressed.

Mergers are not the panacea in the context of PSBs.

6) **Way Forward**

Without addressing the governance issues in the banks, merging two or three public sector banks may not change the architecture.

Unless there is a change in the operating structures, mergers will not deliver the desired results in the long run.

Giving the PSBs autonomy along with accountability.

Merged entity will require capital support from the government, otherwise such a merger would not improve their capitalisation profile.

The merger will yield the desired results if these banks rationalised their branches, looked to reduce costs and handled people issues well.

RBI should continue to give banking licences for more small finance banks as well as universal banks along with bank mergers.