

# A Study on Merger of Public Sector Banks India– 2019

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## ABSTRACT

To have a detailed study on merger of four public sector banks in India, in order to make them "global sized". This also mainly facilitates the need to properly regulate liquidity support to NBFC'S and execute partial credit guarantee scheme. It also aims to reduce the number of privatization ownership of individual bank lenders governed by BANKING REGULATION ACT 2017 (amendment subjected to insert provisions for handling cases related to stress assets.

## 1. Introduction

The Banking Regulation (Amendment) Bill, 2017 was introduced in Lok Sabha by the Minister of Finance, Mr. Arun Jaitley, on July 24, 2017. It seeks to amend the Banking Regulation Act, 1949 to insert provisions for handling cases associated with stressed assets.

The major reason for merger of public sector banks area unit to form management responsible to board, board committee of nationalized banks to appraise performance of head and director.

## 2. Concept of bank merger

Consolidation within the Banking sector is extremely vital in terms of mergers and acquisitions for the growing Indian industry. This may be achieved through price Reduction and Increasing Revenue. The vital half up here is that why can we would like consolidation in Indian Banking and what's the Challenges Ahead. The role of the Central government is additionally terribly necessary to be analyzed within the entire method as they play an important role within the policy formation needed for the expansion of Indian Banking.

## 3. History of banking in India

The Banking Companies(Acquisition and Transfer of Undertakings)Acts of 1970 and 1980 provide that the Central Government, in consultation with the Reserve Bank of India (RBI), may make a scheme, inter alia, for the amalgamation of any nationalised bank with any other nationalised bank or any other banking institution Various committees, including **Narasimhan Committee (1998)** constituted by **RBI, Leeladhar Committee(2008)** chaired by **RBI Deputy Governor, and Nayak Committe (2014)** constituted by RBI, have recommended consolidation of Public Sector Banks (PSBs) given underlying benefits/synergies.

## 4. Data Analysis

Over the last four years, Government has pursued a comprehensive approach for addressing non-performing assets (NPA) problems.

Key parts area unit as under:

### • Recognising NPAs transparently

Forbearance has been complete and stressed assets classified as NPAs underneath the quality Review (AQR) in 2015 and succeeding recognition by banks. Further, restructuring schemes that allowable such forbearance are interrupted in Feb 2018. As a result, as per tally information, commonplace Restructured Assets (SRAs) of scheduled business Banks (SCBs) have declined from the height of six.5% in March 2015 to 0.49% in Sept 2018.

### • Resolving and ill price from stressed accounts

Through clean and effective laws and processes: An elementary amendment has been established within the creditor-debtor relationship through the economic condition and Bankruptcy Code, 2016 (IBC) and debarment of wilful defaulters and connected persons from the resolution method.

- A sizeable proportion of the gross NPAs of the banking system are at various stages of resolution in **National Company Law Tribunal (NCLT)**.
- to make other recovery mechanisms as well more effective, **Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest (SARFAESI)Act** has been amended to provide for three months imprisonment in case borrower does not provide asset details, and for lender getting possession of mortgaged property within 30 days, and six new **Debts Recovery Tribunal (DRTs)** have been established.
- **As a result, NPAs of PSBs reduced by Rs. 2, 61,359 crore over the last four and a half financial years. Further, PSBs reported record recovery of Rs. 60,713 crore in the first half of FY 2018-19** which is more than double the recovery made in the first half of FY 2017-18 and gross NPAs have begun declining with a reduction of **Rs. 26,798 crore in FY 2018-19.**
- **30-day plus overdue account (Special Mention Accounts (SMA) 1 and 2) have also reduced steadily to around 39% over five quarters (from Rs**

**2.25 lakh crore in June 2017 to Rs. 0.87 lakh crore in September 2018 for PSBs), indicating significant and sustained reduction in risk of fresh NPAs.**

**5. Current Scenario 2019**

In the biggest consolidation exercise in the banking space, the government on 30/08/2019, FRIDAY announced four major mergers of public sector banks, bringing down their total number to 12 from 27 in 2017, and a move aimed at making state-owned lenders global sized banks.

- The merger of Syndicate Bank with Canara Bank will create the fourth-largest public sector bank with Rs 15.20 lakh crore business and a branch network of 10,324. Andhra Bank and Corporation Bank's merger with Union Bank of India will create India's fifth-largest public sector bank with Rs 14.59 lakh crore business and 9,609 branches.

- The merger of Allahabad Bank with Indian Bank can produce the seventh-largest public sector bank with Rs 8.08 lakh crore business.

United Bank of India and Oriental Bank of Commerce are incorporated with geographical region commercial bank, creating the planned entity the second largest public sector bank (PSB). Creating the announcements, government Minister Nirmala Sitharaman announced that Syndicate Bank are incorporated with Canara Bank, whereas Allahabad Bank are amalgamated with Indian Bank.

Similarly, Andhra Bank and Corporation Bank are consolidated with Union Bank of India.

In situation of fragmented loaning capability with twenty seven PSBs in 2017, currently there'll be solely twelve state-run banks post consolidation.

**The power of 4**  
The move to merge 10 state-run banks into four larger ones aims to cut operational costs and achieve global scale to support fresh investments and revive growth. A look at what this means for various stakeholders.

CONSUMERS	ECONOMY	BANKS	EMPLOYEES
<b>LARGER</b> banks may be able to serve customers better. The mergers will not disrupt services or reduce the number of branches, say policymakers.	<b>MORE</b> robust banks may be better placed to fund new projects and help India become a \$5 tn economy. A strong banking sector is key to boosting investments.	<b>THE</b> move could help cut costs, boost efficiency and achieve scale. It may also help improve their bottom lines. Better placed banks mean lesser burden on taxpayers.	<b>GOVERNMENT</b> says no retrenchment of workforce but employees will have to adjust to a new work culture. Reshuffle of top brass of merging banks expected.

**6. Conclusion**

Taking note of this and potential advantages of consolidation for banks further as public at massive through increased access to banking services, Government, with a read to facilitate consolidation among public sector banks to form sturdy and competitive banks, serving as catalysts for growth, with improve risk profile of the bank, approved associate approval framework for proposals to amalgamate PSBs through an alternate Mechanism (AM).

Banks have since thought of uniting and therefore the Board of Dena Bank has suggested an equivalent, whereas Boards of Bank of Baroda and Vijaya Bank have given in-principle approval thus The decision is in line with the NDA government's push for consolidation of state-run banks, which it believes will not only lead to economies of scale, but also make lenders stronger, more competitive and improve their risk-taking appetite. Bigger, fewer and healthier banks will be in a better position to finance new projects and support the government's aim of making India a \$5 trillion economy by 2024.

**Citation**

*Press reports of Live mint news paper and Business standard newspaper.*