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Associate banks' merger: SBI must understand the ABCD of customer retention

By [Atmadip Ray](#), ET Bureau | Updated: Nov 30, 2016, 12.31 AM IST

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Firms operating at the world's leading shipbreaking yard in Gujarat's Alang had a horrid time after [State Bank of Saurashtra](#) (SBS) was merged with the State Bank of India in 2007. These shipbreaking units were premium SBS customers in their own right; yet, several of them had to fend for themselves after the merger.

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"The process of getting loans was delayed while SBI's existing customers received preferential treatment," says an industrialist at Alang. Some industrialists have highlighted this to the administration in New Delhi.

The Union Cabinet in June 2016 cleared the plan to merge – State Bank of Bikaner & Jaipur, [State Bank of Hyderabad](#), [State Bank of Maharashtra](#), [State Bank of Patiala](#) and [State Bank of Travancore](#) – with SBI, whose chairman [Arundhati Bhattacharya](#) said the exercise may be over by March 2017.

Another set of people is also worried – the employees of [associate banks](#) since the past experience is not a happy one. There has also been resentment across levels which made Finance Minister Arun Jaitley issue a statement allaying their fears.

It may be a coincidence that SBI has formed ABCD – the Associate Banks Consolidation Department – to deal with all pre-merger issues and to draft a business continuity plan after the effective date of merger. The banking behemoth, which has nurtured relationships for nearly two centuries, has realised that customers of associate banks may not necessarily feel comfortable to bank with SBI. A major task for this department is to address all the woes these customers may have.

SBI fears that depositors in associate banks who are used to communicating with officers in their mother tongue, in whichever corner of the country the branch is, may also leave. For instance, the Telugu diaspora tends to move to State Bank of Hyderabad anywhere in the country, and so is the case with Malayalis banking with State Bank of Travancore, but this connect may cease to exist soon.

"It's an opportunity for us. Local customers of State Bank of Travancore may miss the local touch that the bank offered all these years," says Ganesh Sankara, executive director at Federal Bank, the second-largest bank in Kerala after SBT. "Customers also don't know what would be their pecking order in SBI. Several of its loan clients have approached us. There is a fair possibility that lots of them may gravitate to local banks."

But SBI is firing on all cylinders to retain customers. "The top management of SBI and associate banks have been meeting important customers in person to remove various apprehensions regarding their relationship with the bank," SBI says in response to ET's mail to the chairman's office. "The senior team is travelling the distance and meeting customers to assure them best services."

ABCD has co-ordination committees in five circles, where head offices of associate banks are located. Another key aspect of SBI merger is to eliminate the overlap of branches of itself and subsidiaries where there are more than four group branches in a 100-metre radius. Post-merger, SBI would have about 22,500 branches and 58,000 ATMs. It will have over 50 crore customers.

"It is not surprising that several customers with associated banks have expressed their willingness to leave the bank as they face the risk of losing their identity once they become SBI customers. A Rs 10-crore borrower is a sufficiently important customer for any associated bank and such people used to get personalised services. In SBI, the Rs 10-crore customer will be a marginal entity," says Amitabha Guha, SBI's former deputy MD, who also had headed two associate banks between 2002 and 2008.

As on September 30, the associate banks cumulatively have Rs 5,21,344 crore of deposits and Rs 3,92,436 crore of advances. This will get added to SBI's Rs 18,58,999 crore of deposits and Rs 14,81,832 crore of advances, making the group's total business nearly five times of ICICI Bank's total business of Rs 9,03,371 crore.

However, what was once thought to be an exercise to strengthen SBI, may turn out to be a costly affair for several other reasons. Credit Suisse Securities (India) believes the cost of merging the associates would outweigh the benefits in the short term. The pension obligations may be higher than earlier estimates of Rs 3,500 crore while the doubling of non-performing assets ratios in associate banks

over the last few quarters may put added strain on the parent after merger.

Gross NPAs at SBI's associate banks have more than doubled to 13.8% as on September end from 6% in March, with 57% rise in NPAs in the first half of the fiscal as they have been aligning their bad loan recognition in line with the parent. This translates to a 23% rise in SBI's consolidated NPAs just from the associates. "The merger is being done in a hurry. It will take at least two years to consummate a merger of this size," says Pratip Chaudhuri, former chairman and Bhattacharya's immediate predecessor. "SBI should have asked the associate banks to make the loan loss provision after the merger to make it taxefficient," Chaudhuri says.

Over the past six months, all associate banks have reported Rs 4,300-crore loss between them, leading to associate banks' tier-1 capital ratio falling 120-150 basis points to 8.67%. The next biggest challenge for SBI is managing the heterogeneous workforce in associate banks and keeping their morale high.

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