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PSB mergers top priority under banking reforms

By [Dheeraj Tiwari](#), ET Bureau | Updated: Feb 23, 2016, 06.07 AM IST

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NEW DELHI: Consolidation of state-run lenders has climbed to the top of the banking reforms agenda as the cleaning up of their account books gets under way. Mergers have been accorded the highest priority at the second Gyan Sangam, the government's annual banking conclave that's scheduled to be held in the first week of March.

Gross non-performing assets (NPAs) of many banks have climbed to nearly 10% after the Reserve Bank of India cracked the whip, forcing them to set aside large sums to cover bad loans. Most have reported a sharp drop in third-quarter profit or posted losses. RBI wants the clean-up to be completed by March 2017.

"After the Reserve Bank of India asset quality review, we know where they stand in terms of bad loans," said a senior government official. Transparent balance sheets allow valuations to be determined fairly amid a growing consensus that this is the right time to get weaker banks absorbed by the stronger ones.

Banking on Consolidation

- Lenders are showing interest in mergers and acquisitions
- NPAs of many banks have climbed to nearly 10% of late

THIS IS BECAUSE RBI WANTS CLEAN BALANCE SHEETS BY MARCH '17

WHAT'S NEW...

- Balance sheets are clear following RBI asset quality review
- This transparency allows valuations to be determined fairly
- Consensus is growing that stronger banks must absorb weaker banks

OTHER FACTORS...

- Proposed bank board bureau is hoped to push accord on consolidation
- Govt may also revive an old report that had suggested merger options

The idea has found support among some lenders that have evinced interest in consolidation by way of merger or acquisition. "Some banks are open to the idea," said another government official.

The government is also hoping the proposed bank board bureau, which will start functioning from April 1, will help strengthen the developing accord on consolidation. "The bank bureau can also come out with some suggestions and act as a mediator between banks to work out various issues," said one of the officials cited above. The government has said it will follow up public sector bank reforms by setting up a Bank Investment Committee.

Punjab National Bank is open to acquiring other state-run lenders, said managing director Usha Ananthasubramanian.

"Somewhere you have to bite the bullet," she said, adding that the idea was to create large entities of global stature that will also alleviate concerns on capital adequacy.

The government hasn't pushed banks toward mergers, leaving them to come up with proposals. But that's unlikely to happen given the opposition of bank unions in general to mergers.

Last year, after the government's Indra Dhanush revamp plan for state-run banks, [finance minister](#) Arun Jaitley had said that the idea was to first strengthen the lenders.

"After this, if there is a fragile bank, we are looking at consolidation with stronger banks," he had said.

The government is also expected to revive an old report that had suggested merger options based on various criteria such as geography, business mix and information technology systems.

The last transaction in the public sector bank space was the takeover of State Bank of Indore by State Bank of India in 2010. SBI took over State Bank of Saurashtra in 2008. A similar exercise involving Bharatiya Mahila Bank and SBI has been on hold for some time.

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