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The SBI consolidation appears to be an easy route to take as the associate banks are part of the group to begin with.

The final decision to go through with the merger of SBI with its associates is a positive move for the banking industry. The concept has been on the discussion table for a long time with there being no consensus. In fact, it is felt that in the medium run —which can be even 2-3

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years—consolidation is the way to go for PSBs which

the issue. But the questions are dualistic: Are mergers a panacea to the ills affecting these banks and, second, are they as simplistic as they look in terms of implementation?

The SBI consolidation appears to be an easy route to take as the associate banks are part of the group to begin with. Also, in case the model works, it can be used for bringing together other PSBs to create large banks. On the face of it, such a merger or consolidation, based on March 2016, numbers will see SBI expand its advances by 25%, deposits by 30%, NII by 70% and NPAs by 25%. However, this picture would have changed over the last nine months or so, though the numbers would be broadly in conformity.

The timing of such a consolidation is interesting because RBI already has guidelines that limit large exposures of companies which, by April 2019, have to migrate partly to the bond market in case the R10,000 crore cap is breached. This means that the usual argument that larger banks can take larger exposures due to higher capital possession would no longer hold. We clearly do not want them to take such risks. Hence, the concept of mergers may just end up meaning a horizontal summation of annual reports which, hopefully, are cleaner.

This leads to the issue of efficiency, where it can be argued that we do not really need so many people and so much infrastructure in the system, especially since we are going for digitalisation to a large extent and the future of banking is via your mobile phone or card.

Here, the consolidation will answer questions like these. First, what do we do with excess staff? We do not require six treasury

banks. While the sense is that there will be no job losses, which is what the assurance probably will be to get a buy-in from the unions, how then will efficiency norms be met?

The second is the physical infrastructure where banks have a large number of branches where there can be an overlap especially so as while generally the two would not be in the same building or locality, there would still need to be some rationalisation. In fact, for other PSBs, this problem will be acute as there are often at least 10 of them in the same area, which would not be the case to this extent for the SBI group. The same would hold for ATMs that would have to be relocated or sold off.

The third challenge that has to be addressed is hierarchy. This is important in every organisation where employees move up the hierarchy based on seniority and experience. There can evidently be only one chairperson and a fixed number of executive directors. What happens to the rest? In case of private sector mergers, the weaker organisation normally sees its set of senior personnel moving on, which cannot be the case here. In fact, a grievance has often been that when two private banks merge, the one on weaker grounds—which is normally the one which loses its name—would witness forced resignations as part of the plan.

Fourth, related to personnel again, will be the redeployment of staff and this will require large-scale transfers to harmonise operations. At the lower level the task is even more challenging as the category of non-officers are in a category where they cannot probably be trained to do other work and even if this was possible, the move to branch-

Therefore, handling both the human and physical infrastructure would be the issues that have to be thought through before going ahead. It is more likely that there will be attractive voluntary retirement schemes to offload 10-20% of the staff, which could be taken up at the higher age levels. The Bank will hence save on accommodating them physically in branches even though the staff cost will remain high.

Both consolidation of PSBs and privatisation to the extent of 51% have been ideas that have been gaining currency of late. Given the relative touchy nature of these issues, the progress has been slow. The SBI experiment would be observed carefully and its success gauged as it will serve as a template for future action across the sector.

At the broader ideological level, the kind of consolidation that is envisaged is going to focus more on efficiency. The basic ethic will not change and, while having similar cultures will make it scalable provided the twin-infrastructure issues are handled, the decision making and accountability processes definitely need to be revisited by the government. These mergers will not, and cannot, increase the salaries of the employees. If they could, then there would be less opposition. Will the government be willing to make an adjustment here and let banks increase their pay scales? Will the government be willing to withdraw all its nominees from the Board and leave it to the market? Will the top positions all be through the regular processes and not decisions made at North Block?

government, as the owner, actually has a say in the operations of banks. But if the government holds on to this prerogative, it needs to also address the other issues of capital, handling of NPAs, staff remuneration, hierarchies, etc, of these banks. The ball is really in the court of the government to make this scheme successful. Or else, it may become a case of another half-hearted attempt to restructure banks.