

Business Standard

Govt likely to adopt Bank of Baroda-like model of merger for PSBs

The central government has to consult the RBI before formulating a plan for PSB merger

Somesh Jha | New Delhi May 31, 2019 Last Updated at 00:02 IST



Illustration: Ajay Mohanty

The National Democratic Alliance (NDA) government, led by Prime Minister Narendra Modi, in its second stint may not go for a mega merger of public sector banks (PSBs) — a plan which was mooted during recent deliberations on consolidation.

Instead, the government may likely adopt the Bank of Baroda (BoB)-like model to merge two-three banks, people aware of the development said.

Sources said that earlier this month the Reserve Bank of India (RBI) Deputy Governor M K Jain had met Financial Services Secretary Rajiv Kumar and other finance ministry officials in Delhi to

discuss the PSB merger plan informally. This was followed by another round of meetings between the officials and the RBI.

The central government has to consult the RBI before formulating a plan for PSB merger, according to the Banking Companies (Acquisition and Transfer of Undertakings) Acts of 1970 and 1980. During the meetings, various combinations for merger of PSBs were discussed, sources said. One of the proposals was to go for a mega merger by way of consolidation of eight to nine banks into two.

“However, the plan was dropped. We can expect at least two sets of mergers this fiscal year on the lines of BoB-like consolidation,” another person said.

Before announcing the three-way merger of BoB, Dena Bank, and Vijaya Bank in September last year, the government had sought the views of the RBI on possible combinations of PSBs “to achieve scale and synergy.”

BANK CONSOLIDATION UNDER MODI GOVT	
April 2017	April 2019
State Bank of Bikaner and Jaipur, State Bank of Hyderabad, State Bank of Mysore, State Bank of Patiala, State Bank of Travancore, Bharatiya Mahila Bank with State Bank of India	Vijaya Bank and Dena Bank with Bank of Baroda

“The more the number of banks to be merged, the more difficult the integration process becomes and you lose sight of what happens where. A three-

way merger is manageable as consensus building becomes easier,” Ashvin Parekh, managing partner at Ashvin Parekh Advisory, said. He, however, said that the merger has to be well-thought-out and the objectives should be “measurable and evolved.”

The government is working out various combinations for the merger of PSBs and Punjab National Bank (PNB) may be the first candidate which may subsume some other banks. One of the combinations discussed was the merger of Union Bank and Bank of India with PNB.

For the first time, under the Modi government’s tenure, two mergers took place — One, five associate banks and Bharatiya Mahila Bank merged with State Bank of India, and two, Dena Bank, Vijaya Bank merged with BoB.

“India needs fewer, mega banks which are strong, because in every sense, from borrowing rates to optimum utilisation, the economies of scale as far as banking sector are concerned are of great help,” former finance minister Arun Jaitley had said earlier this year.