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Bank merger announcement is a needless distraction

Question is not whether public sector banks should be big or small. It is: Do we need public sector banks?

Duvvuri Subbarao

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Duvvuri Subbarao, former RBI governor, is a retired IAS officer. Views are personal.

The finance minister's announcement last week of the merger of public sector banks, coming in the wake of growth sinking to a six-year low, was meant to be seen as a big bang response to arresting the slowdown. On the contrary, **it's a needless distraction.**

In the short-term, the **mergers will contribute nothing towards engineering a turnaround of the economy.** Worse still, the **administrative and logistic challenges of mergers will divert the mind space of bank managements away from their most pressing task at the moment — of managing the NPAs** and aggressively looking for lending opportunities.

Down the line, **bank staff will be worrying, notwithstanding the finance minister's assurance, about their jobs and career prospects** even as their morale will be sapped by the complexity of coping with a new banking culture and new practices at a time when they should be giving their undivided attention to scouting for borrowers and improving service delivery.

A follow-on question is this: Even if the short-term outcome is not promising, **are mergers a net positive in the long term? That is not unambiguously clear**. While organic mergers of banks motivated purely by business considerations lead to efficiency gains, whether **arranged marriages of the type the government is organising are a good thing remains debatable.**

On the positive side, large banks will entail **cost advantages** by way of economies of scale such as centralised back office processing, elimination of branch overlap, eliminating redundancies in administrative infrastructure, better manpower planning, optimum funds management, and savings in IT and other fixed costs. Large banks will also be able to finance large projects on their own even while staying within the prudential lending norms imposed by the regulator.

On the flip side, the **biggest argument against big banks is that they can become too big to fail**. The financial sector is all inter-connected and a **risk in any part of the system is a risk to the entire system**.

If a large bank were to fail, it could bring down the whole financial sector with it, as was evident from the near death experience following the collapse of Lehman Brothers in 2008, which triggered the global financial crisis. N**o country can therefore afford the failure of a big bank**. The tacit knowledge that the sovereign will be forced to rescue it encourages irresponsible behaviour by big banks.

One of the important reforms in banking regulation following the crisis was to curb this moral hazard by requiring regulators to identify systemically important financial institutions and subject them to higher capital requirements and more stringent regulation. Indeed, the country's largest bank, State Bank of India, was categorised by the RBI as a systemically important bank whose failure can have big negative externalities. **The proposed mergers will increase this "too big to fail risk**".

It will be tempting to argue that all our public sector banks (PSBs), big or small, operate in any case under an implicit sovereign guarantee with a built-in moral hazard. There is no additional risk from merging many small banks into fewer large banks. On the other hand, there could be efficiency gains.

This point can be debated but I do not want to get into that. What I want to do instead is to use that to segue to a larger debate which is that as far as PSBs are concerned, the issue is not big or small, but whether or not. Banks were nationalised 50 years ago in a different era, in a different context. In the event, **PSBs rendered commendable service to the nation** by deepening bank penetration into the hinterland and implementing a variety of anti-poverty programmes. PSB managers, especially at the front end, were entrepreneurial, innovative and committed.

There were many factors responsible for India moving from low income to low middle income, and financial intermediation by PSBs has to find a place in that list.

Even as it acknowledges the contribution of PSBs, the government needs to confront a stream of $5 trillion questions. Do we still need PSBs? Isn't the financial sector wide enough and deep enough to take care of financial intermediation without the government at the steering wheel? Aren't there better uses for the government's mind space and its time?

There is wide consensus that today's economic slowdown is due both to cyclical and structural factors. By way of cyclical response, the RBI has cut rates and the government has announced a few measures like frontloading expenditures and slashing some taxes. Perhaps the RBI will ease further and the government will follow on with some more measures. The most these can do is to lift the growth rate to its potential.

But that will hardly make us a $5-trillion economy. We will become a $5-trillion economy not by growing at our current potential growth rate but by raising it. That requires structural reforms. The agenda for structural reforms is now a daily staple of our media discourse and there is no need to rehash that here.

Structural measures will take time to work their way through the system. But even the announcement effect of structural reforms can be stunning. If, for example, the government were to put out a roadmap for giving up its majority stake in PSBs, it will go a long way in shoring up sentiment and getting us off the block to a $5-trillion economy. An idea whose time has come?

Andhra Bank staff protest proposed merger

SPECIAL CORRESPONDENT, HYDERABAD
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Andhra Bank employees staging dharna protesting against the bank merger at their Zonal Office in Nizamabad on Thursday: Photo: K.V. RAMANA. | Photo Credit: **K.V. Ramana**

Employees resent merger with Union Bank of India

Andhra Bank employees on Thursday sought to make a strong case for the continued existence of the over nine-decade old entity by staging a protest highlighting how the proposed merger with the Union Bank of India will result in little regional existence in the banking space for the two Telugu States. Founded by freedom-fighter B. Pattabhi Sitaramayya in 1923 to provide economic support to the farmers, Andhra Bank has emerged as a household name and the “emotions of Telugu people are intertwined with the bank,” said T. Ravindranath, Chairman of **All India Andhra Bank Award Employees’ Union.**

While a set of banks in other States are to be retained from a perspective of regional existence, Andhra Bank, the only remaining bank to be headquartered in the region, is to be merged with Union Bank of India. The State Bank of Hyderabad, the other bank to headquartered here, had already been merged with State Bank of India.

Mr. Ravindranath, who was speaking after a protest by All India Andhra Bank Award Employees Union in the city, said the Union has 10,400 members across the bank branches in country. Lending support to the protest were the associations of officers and retirees, he said, adding **secretary of All India Bank Employees Association B.S.Rambabu** and senior leaders of central trade unions addressed the protest.

The proposed merger, he said, has led to resentment among people, especially customers with many of them approaching their branches. They are apprehensive of losing the local connect if the bank is merged. The employees, he said, were opposed to the merger. In the event of the merger, they want Andhra Bank to be the anchor bank or in other words be the entity into which Union Bank of India and Corporation Bank are merged. The Union has decided to continue the agitation, Mr.Ravindranath said, adding Andhra Bank had a large customer base of farmers and small entrepreneurs.

Meanwhile, the Union Bank of India board of directors meeting is scheduled on September 9 to consider amalgamation of Andhra Bank and Corporation Bank with it. The meeting of Andhra Bank Board scheduled for Friday on the amalgamation, however, has been cancelled.

Mergers lack logic, will destabilise finance and economy more: Bank unions

Written by **DFS News Staff Writer**

Bank unions Friday opposed the mega merger of 10 state-run into four saying the move is bereft of logic and lacks any rationale.

While announcing the merger, minister said plans is to create fewer but stronger global- sized for building a $ 5 trillion economy.

The four mergers are Punjab National Bank will amalgamate with itself smaller peers Oriental Bank of Commerce and United Bank of India, to create the nation's second- largest lender; Syndicate Bank will merge with Canara Bank; Union Bank of India will take over Andhra Bank and Corporation Bank; and Indian Bank will merge with Allahabad Bank.

The move will bring down the number of state-run to 12 from 19 after the merger of Dena Bank and Vijaya Bank with Bank of Baroda effective April 2019. As of April 20-17, there were 27 state-run banks in the country, right before the SBI merged with itself its five associate banks along with the Bharatiya Mahila Bank.

"The proposals which the government has moved are unmindful since it has no logic or rationale. Neither, it is the case that a weak bank is merged with a strong one nor geographically compatible banks are being merged," **All-India Bank Employees Association s**aid in a statement.

The unions further said United Bank, headquartered in Kolkata is being merged with the Delhi-based Punjab National Bank, while Syndicate Bank is being merged with Canara having network in same geographical areas.

The unions said the government has come out with merger proposals at a time when the economy is passing through a rough weather-as the announcements came an hour before the government reported that the economy slowed to the lowest level in 25 quarters in the April-June period clipping at a low 5 percent.

"At this point in time, when stability is the need of the hour, the government itself is attempting to destabilise the and economy," the statement said.

The union said in the process of merger, SBI had closed over 1,000 branches and in case of Bank of Baroda, more than 500 branches are being closed.

"On one side the government wants to implement Jan Dhan, but how it is possible to implement the same by closing down the branches?" they wondered and announced that they will observe black day on Saturday and threatened to launch more protests go ahead.

Andhra Bank-Union Bank merger will not impact operations of IndiaFirst Life: CEO

K R Srivats New Delhi | September 06, 2019 BUSINESSLINE

R M Vishakha, Managing Director & CEO, IndiaFirst Life.

Insurer eyes 30% growth in retail new business premium for FY20

The proposed merger of Andhra Bank with Union Bank is unlikely to impact the operations of IndiaFirst Life Insurance Company (IndiaFirst Life) this fiscal, said RM Vishakha, Managing Director and CEO, IndiaFirst Life.

"At the most, it (Andhra Bank merger announcement) is a distraction. For all practical purposes, I will continue to focus on business for the next seven months. There is no change for us in terms of operations. Andhra Bank branches will continue to be available for distribution this fiscal," Vishakha told ***BusinessLine***.

Andhra Bank has been both a promoter shareholder and a distributor for IndiaFirst Life since its launch in 2010.

Currently, Andhra Bank has 30 per cent stake in IndiaFirst Life, which is a three-way joint venture between Bank of Baroda, Andhra Bank, and Carmel Point Investments India (a Warburg Pincus affiliate). It may be recalled that Andhra Bank had, since December last year, been looking to sell its holding in IndiaFirst Life.

Future uncertain

Now, with Andhra Bank set to be merged with Union Bank as part of the mega bank merger plan unveiled by Finance Minister Nirmala Sitharaman recently, there is some uncertainty over the future of bank-promoted insurance ventures such as IndiaFirst Life.

However, Vishakha felt it would be 'business as usual' approach for IndiaFirst Life at least till April 1, 2020, when the proposed merger is expected to come into effect.

For the current fiscal, IndiaFirst Life is eyeing a 30 per cent growth in retail new business premium (NBP). This will be much higher than the 18 per cent growth clocked by this life insurer last fiscal.

"This 30 per cent aspiration is certainly ambitious. It's not going to be a walk in the park, especially with the uncertainties around Andhra Bank. But last year, we did 18 per cent NBP growth when the industry grew 12 per cent. In the current fiscal, industry is also growing better than last year. We should grow better than industry has always been our ambition," said Vishakha.

For April to August 2019, IndiaFirst Life recorded retail NBP of ☐240 crore, a 20 per cent year-on-year growth. Vishakha also said that the entire branch network of Dena Bank and Vijaya Bank — now merged with Bank of Baroda — would be activated this year for selling IndiaFirst Life's products. As many as 4,000 branches of Dena Bank and Vijaya Bank have come under the fold of BoB from April 1 this year post the three-way merger. "There is now good contribution (in NBP) to us from the erstwhile branches of Dena Bank and Vijaya Bank branches," she said.

Earlier this year, IndiaFirst Life's Deputy CEO Rushabh Gandhi had said that the life insurer was targeting a retail NBP of ☐1,000 crore this fiscal.

Maiden dividend

Meanwhile, IndiaFirst Life — which will soon turn 10 — has entered the dividend list, declaring a maiden dividend of ☐11 crore for fiscal 2018-19. This is, however, subject to shareholders' approval, which will be sought at the upcoming annual general meeting.

PSB merger 'a hidden agenda to deprive Bengal's banking sector'

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West Bengal Chief Minister urges PM to do a re-think on the proposed merger of two Kolkata banks with PNB and Indian Bank

Taking exception to the Centre's big-bang public sector bank merger plan, West Bengal Chief Minister Mamata Banerjee has written to Prime Minister Narendra Modi, seeking a re-think of the proposed merger of two Kolkata-based banks – Allahabad Bank and United Bank of India – with New Delhi-based Punjab National Bank and Chennai-headquartered Indian Bank.

Noting that Allahabad Bank was formed in 1865 and United Bank of India was established in 1914 in Kolkata, Banerjee wrote: "I would strongly urge you to not merge UBI with Punjab National Bank and Allahabad Bank with Indian Bank and also raise the spectre of moving the headquarters of these two leading banks out of Kolkata."

She also questioned the sudden downgrading of UCO Bank from a national to a regional bank, again headquartered in West Bengal. "This indicates some hidden agenda to deprive West Bengal's banking sector," she said in her letter.

Banerjee's letter follows a representation to her by the All-India Bank Officers' Confederation that had sought her intervention in the Union Finance Ministry's plan to merge 10 PSBs into four.

"I am also deeply concerned about the overall impact of the knee-jerk merger move across the country with negative effects on the entire banking sector," she further wrote, adding that in a federal structure like India, it is imperative to consult States and political parties before taking such a decision. Requesting the Prime Minister not to "deprive Bengal like this", she pointed out that UBI is the convenor of the State-level banking committee and also the lead bank in 11 vital districts in the State.

"The merger of UBI with a Delhi-headquartered bank will destabilise and undermine the significant grassroots role of UBI, at a heavy cost to rural Bengal," she noted.

She also highlighted the large number of branches that both banks have in the State, and said that the proposed mergers will impact these branches and hurt the “developmental momentum” of West Bengal. While Allahabad Bank has 562 branches in West Bengal, UBI has 875 across the State.

The Chief Minister raised concerns about the future of 6,598 employees of UBI and 4,201 employees of Allahabad Bank, and questioned their job security.

“I am also afraid that the headquarters of UBI and Allahabad Bank may be shifted to Delhi and Chennai. This will be a serious blow to the employees and banking activities of UBI and AB,” she stressed.

The Trinamool Congress leader alleged that when SBI was amalgamated with associate banks, as many as 1,500 branches were shut down across the country, and 80 of those closed branches were in West Bengal. Similarly, after Bank of Baroda’s amalgamation with Vijaya Bank and Dena Bank, it is considering closure of 800-900 branches, including 30 branches in West Begal. Thus, “my legitimate fear is that West Bengal may face branch closures and banking services will be cut off to our people,” she complained.

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