



Merger of PSU banks – Is it really necessary?

Description

Background :-

- Government of India is planning to merge government owned banks to create a few strong banks that can compete in a global race.
- PSU banks were hit hard by Non-performing Assets (NPA). This is the reason Indian government is thinking about renovating PSU banks.
- Merger will be between equal players.

Yes :-

- Consolidation of banks will result in forming a few strong banks. These newly formed banks can compete with strong foreign banks and can emerge as a global banks.
- With increasing NPAs, small banks cannot give more loans, but with merger big banks can better deal with NPAs and may not have to stop giving more loans.
- Now, there are more than required no. of banks in many areas. For example, there are Andhra bank, State bank of India, Bank of India, Syndicate bank in a small town. After merger only one branch can replace all these branches. This will result in reduction of operational costs and improved efficiency.
- Some companies and persons are taking loans from multiple banks and are not repaying. With the merger of PSU banks, this problem will be solved.
- Though merger comes with extra expenses and problems associated with merging, in the long run merger of banks will yield positive results.
- Investors are more likely to provide capital for strong banks rather than weak ones. This is the problem currently faced by medium to weak banks. Strong banks like SBI are able to attract investments.

No :-

- Unlike SBI merger, PSU banks merger will create more problems because of merging heterogeneous banks. These banks have different policies and regulations. Merging



different types of banks will lead to confusion and can further aggravate the present problems.

- Merger of banks is expensive.
- If big banks fail, that will be a big blow to country's economy. Hence it is risky to form big banks.
- Merger may result in years of administrative problems.
- NPAs are piled up not because of small banks, but because of inefficient policies to do with NPAs. Hence, merger will not solve the problem of NPAs.
- There will be problems of synchronization. For example, after SBI merger, SBI didn't extend the benefits available to employees in SBI branches to its associate banks like SBH. This resulted in protests by its employees.
- Weak banks will be left out in this process, and may shut down as they can't compete with big banks.
- Regionality will be missed. All banks will attain the status of national banks.
- Even after the merger, there is no guarantee that the newly formed banks can compete in the global race.
- Several bank unions are protesting that government is going for merger just to privatize the newly formed banks. If that is true, instead of renovating and privatizing, if the present banks are directly privatized, a lot of expenditure of renovation will be saved. The responsibility to reform banks can be transferred to private players.

Conclusion :-

NPA problem may not be solved by the merging of PSU banks, but this will definitely result in cost efficiency and can reduce burden of operational costs for banks. To compete with the world, India need more global level banks. But, how the government deals with the problems associated with merging will decide the success of merging.

Afterwords :- Do you think merger of PSU banks will yield positive results? Express your opinion in the comment section below.

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