

# MERGER OF BANKS

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Banking, NPAs and RBI

Ministry of Finance

## Merger of Banks

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The Banking Companies (Acquisition and Transfer of Undertakings) Acts of 1970 and 1980 provide that the Central Government, in consultation with the Reserve Bank of India (RBI), may make a scheme, *inter alia*, for the amalgamation of any nationalised bank with any other nationalised bank or any other banking institution. Various committees, including Narasimhan Committee (1998) constituted by RBI, Leeladhar Committee (2008) chaired by RBI Deputy Governor, and Nayak Committee (2014) constituted by RBI, have recommended consolidation of Public Sector Banks (PSBs) given underlying benefits/synergies. Taking note of this and potential benefits of consolidation for banks as well as public at large through enhanced access to banking services, Government, with a view to facilitate consolidation among public sector banks to create strong and competitive banks, serving as catalysts for growth, with improve risk profile of the bank, approved an approval framework for proposals to amalgamate PSBs through an Alternative Mechanism (AM). AM, after consulting RBI, in its meeting held on 17.9.2018, approved that Bank of Baroda, Vijaya Bank and Dena Bank may consider amalgamation of the three banks. Banks have since considered amalgamation and the Board of Dena Bank has recommended the same, while Boards of Bank of Baroda and Vijaya Bank have given in-principle approval therefor. RBI has furnished bank-wise total income of PSBs and private sector banks in the financial year FY 2017-18 in this regard, which is given in Annexure.

Over the last four and half years, Government has pursued a comprehensive approach for addressing non-performing assets (NPA) issues. Key elements are as under:

*Recognising NPAs transparently: Forbearance has been ended and stressed assets classified as NPAs under the Asset Quality Review (AQR) in 2015 and subsequent recognition by banks. Further, restructuring schemes that permitted such forbearance have been discontinued in February 2018. As a result, as per RBI data, Standard Restructured Assets (SRAs) of Scheduled Commercial Banks (SCBs) have declined from the peak of 6.5% in March 2015 to 0.49% in September 2018.*

*Resolving and recovering value from stressed accounts through clean and effective laws and processes: A fundamental change has been effected in the creditor-debtor relationship through the Insolvency and Bankruptcy Code, 2016 (IBC) and debarment of wilful defaulters and connected persons from the resolution process. A sizeable proportion of the gross NPAs of the banking system are at various stages of resolution in National Company Law Tribunal (NCLT). To make other recovery mechanisms as well more effective, Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest (SARFAESI) Act has been amended to provide for three months imprisonment in case borrower does not provide asset details, and for lender getting possession of mortgaged property within 30 days, and six new Debts Recovery Tribunal (DRTs) have been established. As a result, NPAs of PSBs reduced by Rs. 2,61,359 crore over the last four and a half financial years. Further, PSBs reported record recovery of Rs. 60,713 crore in the first half of FY 2018-19 (H1 FY 2018-19), which is more than double the recovery made in the first half of FY 2017-18, and gross NPAs have begun declining with a reduction of Rs. 26,798 crore in H1 FY 2018-19. 30-day plus overdue account (Special Mention*

Accounts (SMA) 1 and 2) have also reduced steadily to around 39% over five quarters (from Rs 2.25 lakh crore in June 2017 to Rs. 0.87 lakh crore in September 2018 for PSBs), indicating significant and sustained reduction in risk of fresh NPAs. Thus, improvement in asset quality is evident with GNPAAs having peaked recognition nearly over, and the amount in SMA 1 and 2 reducing by 61% over five quarters. Further, with substantial provisioning, the provisional coverage ratio (PCR) of SCBs has risen steadily to 67.17% as of September 2018, from the pre-AQR level of 49.3% in March 2015, cushioning bank balance-sheets to absorb the impact of NPAs.

#### *Reforming banks through the PSB Reforms Agenda:*

Reforms include—

- number of lenders in consortium restricted by requiring minimum of 10%, for better managed consortium lending,
- ring-fencing of cash flows for prudent lending,
- monitoring of loans above Rs. 250 crore through specialised agencies for effective vigil,
- use of technology and analytics for comprehensive due-diligence across data sources,
- comprehensive checking of all accounts of Rs. 50 crore and above that turn NPA for wilful default and fraud,
- strict enforcement of conditions of loan sanction,
- establishment of Stressed Asset Management Verticals in banks for focussed recovery and timely and effective management of stressed accounts,
- collection of passport details of borrowers for loans above Rs. 50 crore, and
- enactment of the Fugitive Economic Offenders Act, 2018 in order to deter economic offenders from evading the process of Indian law by remaining outside the jurisdiction of Indian courts.

As regards employee issues, bank branches and other bank-related issues, the same fall within the purview of the bank concerned, subject to RBI's guidelines/instructions and Board-approved policies of the bank concerned.

#### **Annexure**

Total income in each of the PSBs and private sector banks in FY 2017-18

Bank	Total income during FY 2017-18
Allahabad Bank	19,051
Andhra Bank	20,347

Axis Bank Ltd.	56,764
Bandhan Bank Ltd.	5,508
Bank of Baroda	50,430
Bank of India	43,752
Bank of Maharashtra	12,602
Canara Bank	48,195
CatholicSyrianBank Ltd.	1,422
CentralBank of India	26,658
CityUnionBank Ltd.	3,935
CorporationBank	19,941
DCB Bank Ltd.	2,724
Dena Bank	10,096
Federal Bank Ltd.	10,912
HDFC Bank Ltd.	95,619
ICICI Bank Ltd.	72,664
IDBI Bank Ltd.	30,040
IDFCBankLtd.	10,049
Indian Bank	19,522
Indian Overseas Bank	21,848
Indusind Bank Ltd.	22,031
Jammu & Kashmir Bank Ltd.	7,117
Karnataka Bank Ltd.	6,378
KarurVysyaBank Ltd.	6,600
Kotak MahindraBank Ltd.	23,801
LakshmiVilas Bank Ltd.	3,389
NainitalBank Ltd.	653
OrientalBank of Commerce	20,181
Punjab and Sind Bank	8,530
Punjab NationalBank	56,877
RBL Bank Ltd.	5,576
South Indian Bank Ltd.	7,030
State Bank of India	2,65,130
SyndicateBank	24,582
TamilnadMercantileBank Ltd.	3,757
The DhanalakshmiBank Ltd.	1,116
UCO Bank	15,141
UnionBank of India	37,738
United Bank of India	10,556
VijayaBank	14,190
Yes Bank Ltd.	25,493

*Source: Reserve Bank of India*

This was stated by Shri Shiv Pratap Shukla, Minister of State for Finance in a written reply to a question in Lok Sabha today.

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**DSM/RM/KA**

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