

**Size isn't the issue**

My 1-year-old is battling Acute Leukemia. Please help me save my Aadriti

The Chairman of State Bank of India, India's largest bank by assets, has indicated that the lender would be better off not pursuing growth through mergers or acquisitions for now. Rajnish Kumar's reasoning is that with a market share of 20 per cent in India, SBI is already big and it would not be advisable for the bank to grow through the inorganic route from a risk management perspective. He should know. SBI has been weighed down after five of its associate banks were merged with the parent bank last year and with another government promoted bank, Bharatiya Mahila Bank, in line with a decision to create a powerhouse lender with a strong balance sheet and presence abroad. The mergers last year may have helped boost its asset size to over Rs 37 lakh crore and helped extend its franchise nation-wide but the asset quality of some of the associate banks is now reflected in its bottomline. The pay-offs from these mergers could be a few years away and it is prudent that the SBI chief has signalled that it would not be advisable now to engage in further amalgamations.

It's an advice which the controlling shareholder of 21 public sector banks, the government, also ought to weigh seriously amid chatter of consolidation of state-owned banks. Few have disagreed with the rationale of the committee headed by M Narasimham in the early '90s for having fewer but stronger banks and the efficiency, productivity gains and economies of scale which consolidation promises. The UK experience, too, shows that attempts to encourage smaller and mid-sized lenders, termed as challenger banks, to compete with their larger peers after the global financial crisis hasn't quite worked. But the question is whether such a policy goal should be pursued in a banking system where almost a dozen banks are part of the Prompt Corrective Action framework of the RBI with severe restrictions on lending and other activities.

The experience of the few shotgun mergers involving some PSU banks over the past two decades hasn't been a happy one for the acquirers. Even at the best of times, such consolidation imposes huge demands on the management of banks in terms of cultural and technical integration. The reality is that transforming India's state-owned banks will mean carrying out radical changes in the current governance and ownership structures, much more than creating size. And that's more of a political economy challenge. Successive governments have floundered when it comes to this test.

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