



PNB and Bank of Baroda to Merge with Other Banks (PSBs) Soon!

As per the latest news, the government is planning to have more globalized banks which will **reduce the 21 Public Sector banks to just 12!** Enthused by the success of SBI merger, govt might introduce a 3 Tier structure in the banking system. Read the Entire article to know more about upcoming bank mergers. You can download this article in PDF and keep it handy:

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3 Tier System to be introduced in Banking Structure!

- The 1st Tier constitutes of at least 3-4 banks of the size of SBI.
- Tier 2 will constitute of some region-centric banks like Punjab and Sind Bank (BSE 2.55 %) and Andhra Bank (BSE 0.88 %) which continue as independent entities.
- At the same time, 3 Tier will have some mid-size lenders.

The Bank merger will create big banks but at the same time, it is fraught with risks as many banks are facing the problem of a non-performing asset. Read this article to know more insight of bank merger along with its benefits & demerits. The article below discusses the merits, demerits, process and implications of Bank merger in India based on a recent proposal for merger of **PNB and Bank of Baroda**.



Understanding Bank Merger in Indian Economy

The Merging of banking is considered as a step towards development in the banking sector. Such mergers give opportunities like **raising fresh capital, changing the hiring policy, etc. to the government**. However, for those of you preparing for **Banking jobs** along with **govt exams**, the implications appear in the form of **vacancies, career prospects, salary, location, etc.** Read this article to know more about PNB and Bank of Baroda Merger.

PNB and Bank of Baroda Merger

The Shares of PNB and Bank of Baroda rose more than 2.5 percent each. According to the news reports, the Union Government is working on next round of consolidation, which could see PNB and Bank of Baroda taking over smaller lenders. No decision has been taken yet and these plans are only at the proposal stage.

With the 'Indradhanush' plan, the Government has announced to infuse Rs. 70,000 on the state-run banks till 2009. The Government wishes that the larger banks take up the same idea. The larger banks are expected to tap the market as a huge capital is required by the government.

Merger of Public Sector Banks

If Consolidation of banks takes place then banks will have higher asset strength & increase in the capital base. Also, the problem of Non-Performing Assets (NPAs) & other problem like Capital Requirement which are faced by the banks can be resolved to some extent.

The Consolidation in the banking sector can be done on the following lines:

- SBI, BoI and BoB should be merged to be among the largest banks in the world.



- The second step is the merger of Canara Bank, Indian Bank, BoM, IOB and UBI to form the second largest bank.
- PNB, Vijaya Bank, Andhra Bank and IDBI can be merged to form the third largest.
- Allahabad Bank, Central Bank, Corporation Bank and P&S Bank should be the fourth largest.
- OBC, Syndicate Bank, UCO Bank and Dena Bank can become the fifth largest bank.

Let us take a look at the complete list of the asset & staff strength banks will have after the merger between its associates, given below:

Bank	Asset Strength (crores)	Staff Strength	Associate Banks
State Bank of India	2,705,966	209,567	State Bank of Hyderabad
			State Bank of Patiala
			State Bank of Travancore
			State Bank of Bikaner & Jaipur
			State Bank of Mysore
Punjab National Bank	667,390	68,290	Oriental Bank of Commerce
			Allahabad Bank
			Corporation Bank
			Indian Bank



Canara Bank	522,960	59,413	Syndicate Bank
			Indian Overseas Bank
			UCO Bank
United Bank of India	123,037	15,192	Industrial Development Bank of India
			Central Bank of India
			Dena Bank
Bank of India	609,913	45,613	Andhra Bank
			Vijaya Bank
			Bank of Maharashtra
Bank of Baroda	694,875	52,420	Union Bank of India
			Punjab & Sind Bank
			Mahila Bank

Advantage of Merger with Smaller Banks

1. Firstly, large banks would have a wider capital base & can offer loan of a larger amount.
2. Public Sector Banks will improve their efficiency and service delivery.



3. The burden on the central government to recapitalize the public sector banks, again and again, will come down.
4. Customers of smaller banks will get access to wider financial instruments like mutual funds and insurance products, available only with Big Banks.
5. Moreover, the volume of inter-bank transactions will come down, resulting in saving of considerable time in clearing and reconciliation of accounts.
6. In the end, from the technology perspective, a larger bank may allow up-gradation of more technology platform.

Disadvantage of Merger with Smaller Banks

1. First of all, smaller banks will lose their local characteristic.
2. There will be some greater financial risks for the broader economy because of a few large inter-linked banks.
3. Also, Human Resource issues will be difficult to manage.
4. Career growth (Promotions) of senior management and other workers could attract problems.
5. It may also create distress within the bank employees.
6. Finally, it will weaken the PSB's & encourage private sector banking.

Watch this Group Discussion video to know more about Bank Mergers and its effect on the economy!

You can also click on the following links to get more information regarding the Banking Sector.

[Banks and Headquarters – GK Notes in PDF](#)

[Finance & Banking Abbreviations in PDF](#)

[Understanding RBI Repo Rate and Interest Rate](#)

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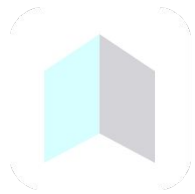
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