

GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF FINANCIAL SERVICES
LOK SABHA

UNSTARRED QUESTION NO. 3947

TO BE ANSWERED ON THE 4TH JANUARY 2019/PAUSHA 14, 1940 (SAKA)

Merger of Banks

3947. SHRI RAM CHARITRANISHAD:

Will the Minister of FINANCE be pleased to state:

- (a) whether the Government has sought inputs from the Reserve Bank of India (RBI) on certain regulatory aspects of the proposed amalgamation of State run Bank of Baroda, Vijaya Bank and Dena Bank and if so, the details thereof; and
- (b) whether Dena Bank is under the RBI's prompt corrective action framework and is also barred from lending until it fixes its finances and if so, the details thereof?

ANSWER

Minister of State in the Ministry of Finance
(SHRI SHIV PRATAP SHUKLA)

(a) and (b): No inputs have been sought from RBI on regulatory aspects of amalgamation of Bank of Baroda, Vijaya Bank and Dena Bank.

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, Government, with a view to facilitate consolidation among public sector banks to create strong and competitive banks, that may serve as catalysts for growth with improved risk profile of the bank, approved an approval framework for proposals to amalgamate PSBs through an Alternative Mechanism (AM).

After consulting RBI, AM, in its meeting held on 17.9.2018, approved that Bank of Baroda (BoB), Vijaya Bank and Dena Bank may consider amalgamation of the three banks. As per information received from banks in this regard, after consideration of the amalgamation, the Boards of BoB and Vijaya Bank gave their in-principle approval and the Board of Dena Bank recommended for amalgamation. After considering banks' and RBI's inputs, AM, in its meeting held on 20.12.2018, gave in-principle approval for the amalgamation of BoB, Vijaya Bank and Dena Bank. After obtaining RBI inputs, Government has notified the scheme of amalgamation for amalgamating Bank of Baroda, Vijaya Bank and Dena Bank.

Reserve Bank of India (RBI) has issued a Prompt Corrective Action (PCA) framework for sound financial health of banks and with a view to facilitate banks in taking corrective measures in a timely manner encouraging banks to eschew certain riskier activities, improve operational efficiency and focus on conserving capital to strengthen them. It envisages prescription of certain mandatory and discretionary actions, as part of which, subsequent to placement of Dena Bank under the PCA framework in May 2017, lending restrictions on assuming fresh exposure were imposed by RBI in May 2018. It may be noted that Dena Bank has a number of strengths that may benefit the amalgamated bank. These include, *inter alia*, a high Current Account and Savings Account (CASA) ratio of 41.03% and improved Provision Coverage Ratio of 65.27% as of 30.9.2018. Further, operating profit and net interest income have increased in September 2018 over September 2017.
