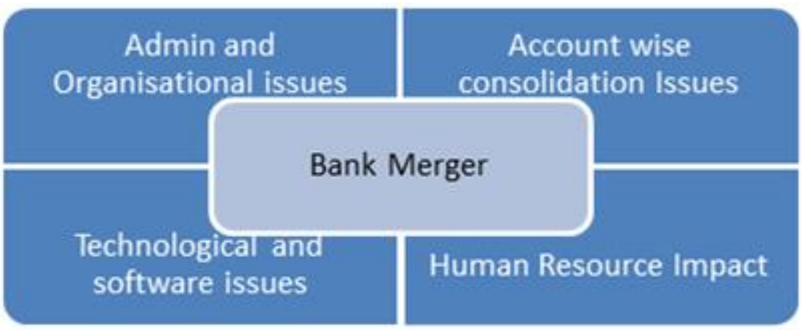
"*Banking*" on Consolidation: Merger of Mind-set

Consolidation of Banks: During August 2019, Finance Minister announced amalgamation of 10 public sector banks into four big banks. Earlier, the merger of Vijaya Bank and Dena Bank with Bank of Baroda came into effect from April 1, 2019. Now, with this announcement, (i) Oriental Bank of Commerce, United Bank of India merged with Punjab National Bank (ii) Syndicate Bank with Canara Bank (iii) Andhra Bank and Corporation Bank with Union Bank of India and (iv) Allahabad Bank with Indian Bank. After this exercise, the total number of Public Sector Banks in the country will come down to 12 from 27 banks in 2017. PNB, which is becoming the second largest lender of the nation, second only to SBI, has unveiled a new logo bearing distinct signages of itself along with that of the two merging banks.

Branch closure is an after-effect of mergers. As reported by the Business Standard quoting a PTI release dated 3 November 2019, the Reserve Bank of India, in reply to a RTI query stated that 26 PSBs of the country either closed or merged 90 branches during FY 2014-15, 126 branches in 2015-16, 253 branches in 2016-17, 2,083 branches in 2017-18 and 875 branches during 2018-19. It is generally perceived (and announced) that bank consolidations ie mergers will boost the economy. It is also claimed that banks' performance would be better ensuring an enhanced growth though history at least in the recent past has only proved otherwise. After merger of the associate banks, the bad loans of SBI rose and the bank posted a bolt-from-the-blue surprise loss of its highest ever reported so far, during the Q-3 of 2017 and the position for the Q4 of the year too was none the better. Let us not go into the reasons like Non Performing Assets, especially in the major consortium loans like Vijay Mallaya and Nirav Modi associated firms etc led to the debacle. That is not the purpose of this story.



In every merger or take over, of banks, be it the private sector or the public sector, there are broadly four aspects involved viz (i) administrative or organisational issues (ii) technological issues or the software and hardware related ones (iii) account-wise consolidation or the Balance sheet related issues and (iv) the Human Resources issues concerning the employees of the banks.

Impact of these issues: The organisational and administrative issues are mostly compliance related and arise out of a government directive or an RBI initiative and hence will be taken care of by the top management at the Board level. The technological issues are handled by the IT team and the software and hardware experts while the account wise consolidation are adequately addressed by the chartered accountants and other consultants and professionals. Regrettably, it is the HR issue which is normally a "No man's land" and is most often, not adequately discussed or debated. While the trade unions of officer employees and clerical staff members do take care of the welfare part of the work force concerning the pecuniary benefits like salary and perquisites, to a reasonable extent, it is the emotional aspects of HR like especially the personal attachment of the employees to the employer ie the bank as an entity, which deserve elaborate discussion but is least debated.

It is a known fact and needs no seer to announce that mergers have mostly been a top-down approach and a management-driven initiative or a regulatory condition as mandated by the RBI or the Finance Ministry and understandably in most of the cases, opposed by the employees. Instances of the work force itself requesting a merger or a take over are extremely like the case of State Bank of Saurashtra wherein the employees themselves wanted the merger with SBI.

The emotional bonding: The emotional aspects or the personal attachment that an employee has nourished over the years with his employer bank is often not quantifiable, though there is an increasing debate in financial circles that just like "Goodwill" (customer loyalty, brand recognition quantified as intangible asset and even valued in the balance sheet mostly at the time of a merger or acquisition) the '**human capital'** should also become a quantifiable item in the balance sheet representing the overall commitment, dedication and emotional attachment that the employees have exhibited or acquired over the years in the bank.

For instance, a small bank not showing huge profits but with a very modest income would have become a household name in some part of the country and when a behemoth of a bank with a pan India presence takes over this bank, this small bank loses its name, its presence and above all the close **connect of the employees among themselves and with the public** which was its strength all these years. To cite a few practical examples, when the small-sized Bank of Madura Ltd with its predominant presence in the rural districts around Madurai in Tamil Nadu was taken over by the tech-savvy all India private sector giant ICICI Bank, the cultural integration of employees of Bank of Madura with the ICICI Bank was an enormous task. Even routine things like adherence to the dress code and compliance with procedures and routine of an all India institution, was a major issue in the bank, forcing most of its employees to quit. The employees had to shun the rural image to an urban or a metro one, and don the attire of a private sector and tech-savvy get up. So was the case of Bank of Tamilnad when it was taken over by Indian Overseas Bank and Bank of Thanjavur when it was taken over by Indian Bank. Such list is aplenty and is never discussed except in the families of the affected employees.

Institutional Image: It is the image of the institution getting merged or is taken over, that takes a big hit and thereby impacting the morale of the thousands of employees right from the lowest rung to the topmost echelons of management. In most of the cases the officers feel demotivated and crestfallen and the people around them tend to treat them as representing a failed institution, though it is not their making nor their fault and is often a result of many extraneous factors at the Board level. Image Building is itself a separate subject and institutions these days even employ consultants to build the brand and when that itself is shaken and the image falls, it is the men behind who bear the brunt.

There were reports that after the merger of two banks with Bank of Baroda, many customers of the two (merged and erstwhile) banks gradually exited and started operations with a private sector bank, which was reported by the private sector bank as its marketing success!

Career prospects: Though it is often claimed that the career of bank officers will not be affected ensuring that no pecuniary loss would be felt by them, in practice however, there are instances that under the garb of Voluntary Resignation Scheme, the employees are sometimes compelled, some times shown the carrot and sometimes pushed to the wall, to opt for the scheme and quit. In quite a few cases, there were discriminatory treatment in career promotions of the employees with those from the major partner being given the preferential treatment and those from the smaller banks being side-lined. One such instance has even gone to the Rajasthan High Court, with the court granting a stay of the promotion process, when the bank fixed a lower mark as the eligible criterion for those from the major partner. Cases of unfair transfer, prejudiced treatment and inequitable allocation of duties are also frequently reported that dent the morale of the employees of banks which were merged.

In many cases, there were even 'banks inside branches' meaning thereby that the staff members of merged banks were sitting separately for a few months displaying the name boards of the erstwhile banks catering to the customers of the merged banks. And in all such cases, it is the asset called the 'human assets' that was not taken up for any consideration, though the broader issue of 'non performing assets' referring to bad loans was always the point of discussion.

Let the people bond and blend: It is understandable that when a policy level decision is implemented, especially in a complex major decision with multi-dimensional ramifications and huge intricate implications, there will be some part of the industry that is left unsatisfied. And bank mergers are no exception. Still, since it involves the human factor and human capital is the permanent and non-diminishing and non-degradable asset, it is this factor that has to be given the place it rightly deserves. Such a step taken in the direction of merger of mind-set of employees will actually the benefit the banking and make the consolidation exercise a more fruitful one.