



# Draft Scheme of Amalgamation of PMC & USF Bank: RBI

## Why in News

Recently, the [Reserve Bank of India \(RBI\)](#) released a draft scheme of amalgamation of [Punjab and Maharashtra Cooperative \(PMC\) Bank](#) and [Unity Small Finance Bank \(USF\)](#).

- Earlier, **PMC was put under restrictions on account of fraud** that led to a steep deterioration in the networth of the bank.

## Key Points

### ▪ About:

- According to the draft scheme of amalgamation, following the amalgamation, **depositors of PMC Bank will get their money back over a period of 3-10 years.**
- The **interest on any interest-bearing deposit with the transferor (PMC) bank will not accrue** after 31<sup>st</sup> March 2021.

### ▪ Significance:

- The **takeover of assets and liabilities of PMC Bank, including deposits, by Unity, will give a greater degree of protection for the depositors.**
  - **USF Bank is being set up with capital of about Rs 1,100 crore as against a regulatory requirement of Rs 200 crore** for setting up a small finance bank under the guidelines for on-tap licensing of small finance banks in the private sector.

## Merger of Banks

### ▪ About:

- In a Merger, banks are benefited in combined business operations and ventures. Together they are able to increase shareholder value and cater the needs more effectively.
- Bank consolidated procedures are provided under the **Banking Regulation Act, 1949. Section 45** in the act empowers RBI to apply to the Central Government for suspension of business by a banking company and to **prepare a scheme of reconstitution of amalgamation.**

### ▪ Recent Examples:

- In 2019 the Finance Minister announced the biggest consolidation plan of [Public sector Banks \(PSBs\)- merging 10 of them into just 4.](#)
- In January 2019 Cabinet Committee on Economic Affairs (CCEA) approved the merger of state-run [Vijaya Bank, Bank of Baroda and Dena Bank.](#)
- In April 2017, **5 associate banks were merged with SBI** – State Bank of Bikaner and Jaipur, State Bank of Hyderabad, State Bank of Travancore, State Bank of Mysore and State Bank of Patiala.
- Government also initiated **amalgamation of [Regional Rural Banks](#)** under Phase 3

consolidation, bringing them down from 56 to 38.

▪ **Benefits:**

- **Competitive:** The consolidation of Banks helps in strengthening its presence globally, nationally and regionally.
- **Capital and Governance:** The government's intention **is not just to give capital but also give good governance**. The financial system of the enlarged institution will be more profitable and protected.
  - The lending capacity of the banks will increase and their balance sheet would also be strong.
- **Efficiency:** It has the **potential to reduce operational costs** due to the presence of shared overlapping networks. And this enhanced operational efficiency will reduce the lending costs of the banks.
- **Technological Synergy:** All merged banks in a particular bucket share common **Core Banking Solutions (CBS)** platform synergizing them technologically.
- **Self-Sufficiency:** Larger banks have a **better ability to raise resources** from the market rather than relying on State exchequer.
- **Monitoring:** With the number of Banks coming down after the process of merger – capital allocation, performance milestones, and monitoring would become easier for the government.

▪ **Challenges:**

- **Decision Making:** The banks that are getting merged are **expected to see a slowdown in decision making** at the top level as senior officials of such banks would put all the decisions on the back-burner and it will lead to a drop in credit delivery in the system.
- **Geographical Synergy:** During the process of merger, the **geographical synergy between the merged banks is somewhat missing**. In three of the four merger cases, the merged banks serve only one specific region of the country.
  - However, the merger of Allahabad Bank (having a presence in the East & North region) with the Indian Bank (having a presence in South) increases its geographical spread.
- **Slowdown in Economy:** The move is a good one but the timings are not just apt. There is **already a slowdown in the economy**, and private consumption and investments are on a declining trend. Hence, **there is a need to lift the economy and increase the credit flow** in the short-term, & this decision will block that credit in the short-term.
- **Weak Banks:** A complex merger with a weaker and under-capitalized PSB would **stall the bank's recovery efforts** as the **weaknesses of one bank may get transferred** and the merged entity may become weak.

**[Source: IE](#)**

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