

PUBLIC SECTOR BANK REFORMS

In another round of boosters for the economy, finance minister has announced amalgamation of 10 public sector banks into four big banks. After this the total number of Public Sector Banks in the country will come down to 12 from 27 banks in 2017. Apart from this the government announced Rs 55,250 crore upfront capital infusion in the PSBs and certain key Governance Reforms also.

(a) The Key Announcements:

- PNB, OBC and United Bank to be merged. The new merged bank will be the second largest PSB in the country with Rs 18 lakh crore business and second largest branch network in India
- Canara and Syndicate Bank will also be merged to become the fourth largest PSB with Rs 15.2 lakh crore business and third largest branch network in India.
- Merger of Union Bank of India, Andhra Bank and Corporation Bank will create India's fifth largest PSB with Rs 14.6 lakh crore business and fourth largest branch network.
- Indian Bank and Allahabad Bank merged. The new bank will be seventh largest with Rs 8.08 lakh crore business.
- Government also announced Rs 55,250 crore upfront capital for credit growth & regulatory compliance to support economy. Detailed break up of capital infusion is as under.

Sr.No.	Name of the Bank	Amount (Rs. In Crores)
1	PNB	16,000
2	Union Bank	11700
3	Indian Overseas Bank	3800
4	Central Bank of India	3300
5	Bank of Baroda	7000
6	Indian Bank	2500
7	UCO Bank	2100
8	Canara Bank	6500

- Big banks with enhanced capacity to increase credit and bigger risk appetite, with national presence and global reach.
- Finance Minister said: "the government is trying to create big next generation banks".
- Government's intention not just to give capital but also give good and autonomous governance to banks.

(b) Governance Reforms Announced:

- To make management accountable to Board, Board committee of nationalized banks to approve performance of GM and above (including MD).
- To make span of control manageable in large PSBs, post consolidation, Boards given flexibility to introduce CGM level as per business needs.
- PSBs to recruit Chief Risk Officer from market, at market-linked compensation to attract best available talent.
- To enable succession planning, Board to decide system of 'Individual Development Plans' for all senior executive positions.

- To ensure sufficient tenure, Boards given flexibility to prescribe residual service of two years for appointment of GM and above.
- Flexibility given to Boards of large PSBs to enhance sitting fees of non-official directors (NODs).
- For better Board committee functioning, Boards given mandate to reduce/rationalize Board committees.
- Risk Management Committee given mandate to fix accountability for compliance of Risk Appetite Framework.
- Longer term to directors on Management Committee of Board to enable them to contribute effectively.
- MCB loan sanction thresholds enhanced by up to 100%, to enable focused attention to higher value loan proposals.
- Boards given mandate for training of directors, both for induction and for specialized purposes.
- Boards given mandate to evaluate NOD performance annually on peer-review basis.
- Executive Directors' strength in larger banks raised to four, for better functional focus and thrust on technology.