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CONSOLDATION IN BANKING SECTOR OF INDIA
A DIAGNOSTIC STUDY

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ABSTRACT

The Banking sector in India has been facing severe competition from the banks of different countries of the world during post liberalization period. The Indian banks are more in number and majority of them are very small in size and scale operation in front of the many big banks of foreign countries. The state bank ot India, the biggest bank of India, is less than 10 percent is size in terms of I he total assets of UBS of Switzerland. Barclays of UK and Citigroup of US. Further, the size of loan to the Gross Domestic Products (GDP) of India is also very less as compared some banks of selected countries of the world. The Indian banks are also need to infuse the capital to meet the norms of Basel II by the end of 2010 without diluting the control of the Government ot India. The productivity of employees and recovery of credit in Indian banks has been very low as compared to the foreign banks. The Indian banks are also facing the problems of mounting Non-performing assets. Therefore, there has an urgent need to consolidate the Indian banks to make them highly competitive and to improve the financial performance. The study-has based on the secondary data collected from the web sites, journals, newspapers and books. The main objectives of the study are to examine the trends, need and type of consolidation and to analyze the SWOT of consolidation of banks.

Keyword: - sector, productivity, capital

Introduction

Liberalization and Globalization of Indian economy needs reforms in the financial sector to meet global competition. The government of India, as a part liberalization and globalization, constituted various Committees to study and recommend on financial sector reforms. The Narasimham Committee II on financial sector reforms had originally recommended reducing the number of public sector banks to create few large banks, which would be of large scale in operation and international presence. "The Indian Banker Association (IBA) constituted a Committee under the Chairmanship of Mr.V.Leeladhar"' to examine the various facets that could lead to consolidation between two or more public sector banks. The Committee will also study the legalities and look into various Acts to see whether there are any amendments necessary to facilitate the consolidation.

The Home Minister, Government of India, Mr. P. Chidambaram, "while speaking at the Centenary Celebration of Bank of India when he was the Finance Minister, said that the seven large public sector banks in the country (SBI, Punjab National Bank, Canara Bank, Bank of India, Bank of Baroda, Union Bank of India and Central Bank) should look at consolidation among themselves or with smaller Public Sector Banks or with Private Sector Banks to make 4-5 giant banks that could match any reputed financial institutions of the world"[2]. He also said, while speaking at 10th anniversary celebration of the NSE, India should remove controls and restrictions and open its financial sector to competition from foreign players including brokerage firms, mutual funds and insurance companies. Mr. Leeladhar, the Deputy Governor of RBI, has said that consolidation in the banking sector are going to be the order of the day due to the greater presence of international players in the Indian financial system. The Deputy Governor also said, "while addressing the Kanara Chamber of Commerce and Industry at Mangalore, we are slowly but surely moving from a regime of large number of small banks to small number of large banks"[3].

Banking sector in India has been facing severe competition from global financial institutions during post liberalization period. Therefore, Indian banks have to think global and act local, seek new market and new class of customers/borrowers to survive in the global competition. However, Indian banks are large number of small banks with less strength, size and scale to act like world-class banks. The consolidation is the only way that gives muscle, size and scale to act like world-class bank by converting large number of small banks into small number of large banks.

Concepts of Consolidation in Banking Sector

Consolidation is the fusion of two or more enterprises through direct acquisitions by one, the assets of the others. When the shareholders of more than one company decide to pool the resources of the company under common entity, 'merger' or consolidation is the result. When all the combining units are dissolved and a new company is formed to take over the assets and liabilities of those units against the issue of securities, is described as amalgamation / consolidation. Therefore, when two or more than two banks decides to pool the resources of the banks under one common bank, the result is the merger/consolidation of banks.

Scope and Methodology

The present study is confined to the various aspects like types of consolidation, trends in consolidation in banks in the world and in India and need of consolidation of banking sector in India. Further, study also covers strengths, weaknesses, opportunities and threats of consolidation of banks in India. The study is purely based on the secondary data collected from the websites like google, yahoo, rbi.org, newspapers and journals etc.

Objectives of the Study

The study is based on the following objectives;

1. To know the various types of consolidations in banks.
2. To examine the trends in consolidation of banks in the world.
3. To study the trends in consolidation of banks since nationalization.
4. To analyze the need of consolidation in banking sector.
5. To analyze SWOT of consolidation of banks.

Types of Consolidations

There are mainly two types of consolidation in banks, viz. Domestic and International consolidation.

Types of Consolidation in Banks

- International
- Domestic
    - Horizontal
    - Vertical
    - Conglomerate
    - Concentric

A. International Consolidation :

When one bank of domestic country and one or more than one foreign banks pool the resources under one common entity/tie up for doing business in the international market, the result is the international consolidation. For example, State Bank of India and State Bank of Mauritius in Mauritius and Canara Bank of India and Sber Bank of Russia in Russia have made tie up for doing business in the international market.

B. Domestic Consolidation :

When two or more domestic banks pool the resources under one common bank, the result is the domestic con-solidation. For example, Punjab Bank and Centurian Bank consolidated and formed Centurian Bank of Punjab and the Syndicate Bank sponsored Regional Rural Banks in Karnataka State are consolidated and formed Karnataka Vikas Grameen Bank.

The domestic consolidations of banks may further classified mainly into four types. They are horizontal, vertical, conglomerate and concentric consolidation.

1. Horizontal Consolidation :

Horizontal consolidation is the combination of two or more banks dealing in same lines of business. The Consolidation of two or more Cooperative Banks, Regional Rural Banks, Public Sector Banks and Private Sector Banks. For example, Syndicate Bank sponsored RRBs in Karnataka State are consolidated under one common bank known as Karnataka Vikas Grameen Bank. Similarly, Canara Bank sponsored RRBs in Karnataka State are consolidated and formed Pragati Grameen Bank.

2. Vertical Consolidation :

Vertical consolidation is the joining of two or more financial institutions involved in different lines of financial activities. The consolidation of commercial banks with their sponsored Regional Rural Banks is the vertical consolidation. The consolidation of co-operative banks and cooperative societies is also the example of vertical consolidation.

3. Conglomerate Consolidation :

Conglomerate consolidation is the combination of two or more unrelated units in respect of technology and financial activities. The consolidation of banks and IT industry, consolidation of banks and Postal service, consolidation of banks and insurance industry and consolidation of banks and mutual funds are considered as the conglomerate consolidation. Bank of Baroda has made its tie up with Hawlett Packard as its strategic partner to computerize its business. Consolidation of Multi Scheduled Co-op Bank (COSMOS) and Bajaj Allianz General Insurance is the best example of conglomerate consolidation.

4. Concentric Consolidation :

Concentric consolidation is the joining of the functions of two or more banks to take the advantage of modern technology. Joining of ATM services of two or more banks is the concentric consolidation. All banks having VISA logo for ATM service is the best example of concentric consolidation. The sharing ATM services by all public sector banks with effect from 01-04-2009 is another example of concentric consolidation.

Trends in Consolidations of Banks in the World

The consolidation of banks is not only in India but it has been there throughout the world. The developed countries like US, UK, Japan and Germany have initiated and continued the consolidation move in the banking sector. The trend in consolidation in banking sector in some countries of the world is depicted in table 1.

Table 1 : Consolidation of banks in some countries of the world

Country	**No. of Consolidation**		**Value (US $ Million)**	
	1995-96	**2000-04**	**1995-96**	**2000-04**
UK	7	52	1137	20376
Germany	22	84	13100	34023

Italy	36	121	12953	153346
Japan	18	58	8892	41069
Hong Kong	00	14	00	NA
Singapore	8	8	2900	11400
Korea	11	7	14360	27410
Indonesia	1	0	NA	00
Malaysia	2	16	20	3020
Philippine	2	13	6900	17740
Thailand	5	2	57700	28000
Chile	5	6	870	1220
Colombia	9	11	40	33
Mexico	8	5	81900	170600
Czech Republic	9	3	NA	NA
Hungary	11	9	8620	17990
Poland	23	30	NA	NA

Source : www.rbi.org NA = Not Available

It is evident from table 1 that out of total consolidation in some selected countries of the world; number of consolidation and the value of consolidation is high in Italy as compared to other selected countries for a period between 2000-2004. However, the number of consolidation in banks was more in Italy during 1995-96 and the value of consolidation was high in Mexico (i.e. 8 consolidation and value of consolidation US $ 81900 Million).

Trends in Consolidations of Banks in India

The consolidation of banks in India has started as early as possible. The first consolidation of banks India took between Bank of Bihar Ltd. and State Bank of India on 08-11-1969. The trends in consolidation of banks in India has presented in table 2.

Table 2 : Banks' consolidations since nationalization of banks in India

Sr. No.	Name of Transferor Bank	Name of Transferee Bank	Date of Consolidation
1	Bank of Bihar Ltd	State Bank of India	08-11-1969
2	National Bank of Lahore Ltd	State Bank of India	20-02-1970
3	Miraj State Bank Ltd	Union Bank of India	29-07-1985
4	Laxmi Commercial Bank Ltd.	Canara Bank	24-08-1985
5	Bank of Cochin Ltd	State Bank of India	26-08-1985
6	Hindustan Commercial Bank Ltd	Punjab National Bank	19-12-1986
7	Traders Bank Ltd	Bank of Baroda	13-05-1988
8	United Industrial Bank Ltd.	Allahabad Bank	31-10-1989
9	BankofTamilnaduLtd	Indian Overseas Bank	20-02-1990
10	Bank of Thanjavur Ltd	Indian Bank	20-02-1990
11	Parur Central Bank Ltd	Bank of India	20-02-1990
12	Purabanchal Bank Ltd	Central Bank of India	29-08-1990
13	New Bank of India	Punjab National Bank	04-09-1993
14	Kashi Nath Seth Bank Ltd	State Bank of India	01-01-1996
15	Ban Doab Bank Ltd	Oriental Bank of Commerce	08-04-1997
16	Punjab Co-operative Bank Ltd	Oriental Bank of Commerce	08-04-1997
17	Bareilly Corporation Bank Ltd	Bank of Baroda	03-06-1999
18	Sikkim Bank Ltd	Union Bank of India	22-12-1999
19	Times Bank Ltd	HDFC Bank Ltd	26-02-2000
20	Bank of Madura Ltd	ICICI Bank Ltd	10-05-2001
21	ICICI Ltd	ICICI Bank Ltd	03-05-2002
22	Banaras State Bank Ltd	Bank of Baroda	20-06-2002
23	Nedungadi Bank Ltd	Punjab National Bank	01-02-2003
24	South Gujarat Local Area Bank Ltd	Bank of Baroda	25-06-2004

25	Global Trust Bank Ltd	Oriental Bank of Commerce	14-08-2004
26	IDBI Bank Ltd	IDBI Ltd	02-04-2005
27	Bank of Punjab Ltd	Centurion Bank Ltd	01-10-2005
28	Ganesh bank of Kurundwad Ltd	Federal Bank Ltd	02-09-2006
29	United Western Bank Ltd	IDBI Ltd	03-10-2006
30	Bharat Overseas Bank Ltd	Indian Overseas Bank	31-03-2007
31	Sangli Bank Ltd	ICICI Bank Ltd	19-04-2007
32	Lord Krishna Bank Ltd	Centurion Bank of Punjab	29-08-2007
33	Centurion Bank of Punjab Ltd	HDFC Bank Ltd	23-05-2008

Source : www.rbi.org – Reports on Trends and Progress.

It is clear from table 2 that the consolidation in banking sector in india has started from the year of nationalization of banks in india. There are 33 consolidations in banks in span of 40 years during post nationalization period. Four banks that have consolidated with the State Bank of India and Bank of Baroda, three banks have consolidated with Punjab National Bank, Oriental Bank of Commerce and ICICI Bank Ltd and two banks have consolidated with HDFC Bank Ltd, IDBI Ltd and Indian Overseas Bank since nationalization of banks.

Need for Consolidation in Banks

The consolidation of banks in India, become inevitable during the post liberalization era. The strengths in the Indian banks have far less as compared to the banks of abroad. The survival in the fittest is the mantra equally applicable to the Indian banking system. Hence, each and every bank should go for arranged marriage to become competitive and successful in future. The followings are the main reasons for consolidation of banks in India:

1. Low Size and Scale of Operation :

The size and scale of operation of Indian banks is far less as compared to the some banks of the world. The SBI has been the largest bank in India among the banks but it is less than 10 percent of UBS of Switzerland, Barclays of UK and Citigroup of US in terms of size of assets. The relative size of State Bank of India is depicted in table 3.

Table 3: Relative size of State Bank of India vis-a-vis the largest bank in some selected countries

Sr. No.	Bank	Country	Assets (US$ Million)	Relative size of SBI vis-a-vis the largest bank in other countries (in %)
1	UBS	Switzerland	1,963,870	9.5
2	Barclays	UK	1,956,786	9.6
3	Citigroup	US	1,882,556	9.9
4	Mitsubishi UFJ Financial Group	Japan	1,579,390	11.8
5	Deutsche Bank	Germany	1,483,248	12.7
6	ABN Amro Bank	Netherlands	1,299,966	14.4
7	ICBC	China	961,576	19.4
8	National Australia Bank	Australia	331,408	56.4
9	Kookmin Bank	Korea	180,805	103.4
10	Banco Itau Holding Financeira	Brazil	98,124	190.6
11	State Bank of India	India	186,988	—

Source: www.rbi.org/publication

Table 3 clears that the size of the State Bank of India, the biggest bank of India among the banks in Indian banking sector, is only 9.5 percent of UBS bank of Switzerland, 9.6 percent of Barclays of UK, 9.9 percent of Citigroup of US and 11.8 percent of Mitsubishi UFJ Financial Group of Japan. This signifies that the biggest bank of India is 10 times smaller than the biggest bank of Switzerland UK and US. Therefore, the consolidation of banks in India is very essential to increase muscle, size and scale of operation to penetrate deeper in the current market and to enter the new market with new technology.

2. Small Size of Bank Assets **to Gross Domestic Products :**

The Indian banks are not only small in size in their assets as compared to some big banks of some selected countries of the world but also small in size in terms of bank assets to Gross Domestic Products ratio. The size of bank assets to the Gross Domestic Products (GDP) is presented in table 4.

Table 4 : Size of bank assets to GDP ratio in some selected countries

Country	Bank Assets To GDP Ratio (2006)
India	0.58
Indonesia	0.33
Korea	1.02
Malaysia	1.17
Thailand	0.99
Argentina	0.26
Brazil	0.72
Chile	0.63
Mexico	0.30
Japan	1.55
UK	1.64
US	0.63
South Africa	0.77

Source: www.rbi.org/publications

It is evident from table 4 that the size of bank assets to Gross Domestic Products (GDP) in India was just 0.58 as at the end of March 2006. The size of bank assets to GDP in Korea, Malaysia, Thailand, Japan and UK are 1.02, 1.17, 0.99, 1.55 and 1.64 respectively. This indicates that the size of banks in India in terms of total assets to GDP has very low and therefore it is very essential to consolidate the banks in India.

3. Low Ranking of Indian Banks Against the Top Banks of the World.

The Indian banks are not only small in size and scale of operation but also low in ranking among the world top 1000 banks in terms of total assets of the banks. The ranking of Indian banks against the top 1000 banks of the world is presented in table 5.

Table 5: Ranking of Indian banks among world's top 1000 banks as on 31-03-2006

S.No.	Name of Bank	Overall Ranking	Assets (US $M)
1	State Bank of India	70	186988
2	ICICI Bank	147	56258
3	Punjab National Bank	255	32509
4	Bank of Baroda	259	32509
5	Canara bank	281	38069
6	IDBI	329	20209
7	HDFC	335	20945
8	Oriental Bank of Commerce	378	13190
9	Bank of India	411	25126
10	Indian Overseas Bank	414	18868
11	Union Bank of India	495	19945
12	Corporation Bank	507	9079
13	Andhra Bank	533	10905
14	Allahabad Bank	548	12374
15	Central Bank of India	561	16713
16	UTI Bank	580	11129
17	Syndicate Bank	601	13668
18	Indian Bank	623	10660
19	UCO Bank	699	13839
20	United Bank of India	708	9700
21	Jammu and Kashmir Bank	744	5919
22	Vijay Bank	722	7057

23	Bank of Maharashtra	805	6989
24	Federal Bank	904	4620
25	Punjab and Sind Bank	916	4262
26	Karnataka Bank	962	3346
27	Dena Bank	988	5941

Ranking of the barks is based on the size of Tier I capital.
Source: www.rbi.org/ publications.

Table 5 clears that the State Bank of India, the biggest bank of India has ranked at 70th among the top 1000 banks of the world. Dena Bank stood at 988, Karnataka Bank stood at 962, Punjab and Sind Bank stood at 916 among the top 1000 banks of the world. Further, out of 27 public sector banks of India, the overall ranking of 16 banks is above 500. This signifies that the majority of Indian banks are small in size and scale of operation as per the in ranking based on the assets of banks as per Tier I capital in terms of US $ Million as on 31-03-2006.

4. Low Capital Base :

The capital base of many Indian banks is far less and many are facing the problems in meeting the capital adequacy norms of Basel II without diluting the government stake. The capital adequacy norm for Indian banks as prescribed by the RBI is at 9 percent. The position of the government holdings and capital adequacy in public sector banks of India is presented in table 6.

Table 6 : Size of bank assets to GDP ratio in some selected countries

Banks	Govt Holdings	Capital Adequacy		
		Tlerl(%)	Tierll(%)	Tier III (%)
Allahabad Bank	55.2	6.5	6.1	12.5
Andhra Bank	62.5	8.0	4.1	12.1
Bank of Baroda	66.8	8.2	4.4	12.6

Bank of India	69.5	7.1	4.5	11.5
Bank of Maharastra	76.8	7.1	5.6	12.7
Canara Bank	73.2	7.3	5.5	12.8
Corporation Bank	57.2	13.6	2.7	16.2
Dena Bank	51.2	6.6	5.3	11.9
IDBI	58.5	14.9	3.4	18.7
Indian Overseas	61.2	7.1	7.1	14.2
Oriental Bank	51.1	5.4	3.8	9.2
Punjab National Bank	57.8	8.9	5.9	14.8
State Bank of India	59.7	8.3	5.2	13.5
Syndicate Bank	73.5	6.1	4.6	10.7
UCO Bank	75.0	5.8	5.5	11.3
Union Bank of India	60.9	6.1	6.0	12.1
Vijaya Bank	53.9	7.6	5.3	12.9

Source: The Hindu Business Line, Dated 03-06-05.

It is clear from the table 6 that some banks in India are at the verge of or near to the capital adequacy norms. Therefore, they are in difficulty to raise further capital from the open market without diluting the government control of 51 percent. However, the banks in India are in need to widen their capital base to meet the financial requirement of the country and to meet global competition in the financial sector.

5. Low return on Assets :

The return on assets of Indian banks is very low as compared to some peers in the emerging markets. The return on assets in banks of some countries is depicted in table 7.

Table 7 : Return on assets in banks of some countries in the world	
Country Banks	Return on Assets (percentage)
Indian	0.7
Singapore	1.2
Malaysia	1.36

Korea	1.42
Brazil	1.60

Source: Economic Times, Dated 28-08-05.

Table 7 reveals that the return on assets of Indian banks is low as compared to the banks of Singapore, Malaysia, Korea and Brazil. The return on assets in Indian banks was only 0.7 percent whereas it was 1.60 percent in Brazil, 1.42 percent in Korea, 1.36 percent in Malaysia and 1.20 percent in Singapore.

6. Declining Spread :

The spread available to the Indian banks has been declining during the post liberalization period. The spread is the difference between average ratio of interest income to assets and the average ratio of interest expended on liabilities. The spread available to the Indian banks is presented in table 8.

Table 8 : Spread Availability to banks in India		
Banks	2006-OT(%)	2007-08 (%)
Public Sector Banks	3.1	2.7
Old Private Sector Banks	3.2	2.9
New Private Sector Banks	2.9	3.2
Scheduled Commercial Banks	3.2	3.0
Foreign Banks	4.7	4.8

Source: www.rbi.org

Table 8 clears that the spread in Indian banks is less than the spread in the foreign banks operating in India. The spread in public sector banks, old private sector banks and scheduled commercial bank has declined in 2007-08 as compared to 2006-07 and the spread in foreign banks operating in India has gone up from 4.7 percent in 2006-07 to 4.8 percent to 2007-08. This signifies that there has need to increase the spread in Indian banking sector by increasing the operational efficiency and by increasing the scale of operation. The consolidation of banks of can help in increasing the spread availability to the banks due to large-scale operations.

7. Mounting Non-Performing Assets :

Currently, the banks in India are facing the problems of mounting NPAs. The total NPAs in Indian banks as on 31st March 2008 was Rsl50608crores and the total NPAs were Rsl37331 as on 31st March 2007. The Gross NPA/ Gross Advance and Net NPA to Net Advances in Indian banks and foreign banks operating in India are depicted in table 9.

Table 9 : Gross and Net NPA as percentage of Gross and Net advances

Banks	Gross NPA to Gross Advances		Net NPA to Net Advances	
	2007	2008	2007	2008
Scheduled Commercial Banks	2.5	2.3	1.0	1.0
Public Sector Banks	2.7	2.2	1.1	1.0
Old Private Sector Banks	3.1	2.3	1.0	1.7
New Private Sector Banks	1.9	2.5	1.0	1.2
Foreign Banks	1.8	1.9	0.7	0.8

Source: www.rbi.org

It is evident from table 9 that Gross NPA to Gross Advances and Net NPA to Net advance in Indian banks has been higher as compared to foreign banks operating in India for the year 2007 and 2008. This signifies that the problem of NPA is more in Indian banks as compared to foreign banks. Therefore, reducing and managing the NPAs is the greatest challenge before the Indian banking sector. Consolidation of banks can help to bring down the NPAs by improving the management of credit sanctions, disbursements, outstandings and recoveries.

8. Low Contribution Per Employee :

The contribution per employee in Indian banks is very low as compared to the foreign banks. The contribution per employee in Indian banks is eight times less than the contribution of .employees of foreign banks. The consolidation of Indian banks with foreign banks can help to increase the contribution of per employee of banks due to sharing of experience, expertise and technology. The consolidation of two or more Indian banks can increase the productivity of employees by adopting modern technology.

9. Change in the Expectation of Customers :

The customers of today expect maximum services from banks with minimum cost than the previous customers in one umbrella. It is very difficult for small banks to meet the expectation of customers of the world with their present means. Hence, a bank must tie up with other banks to meet the demands of their customers.

10. Change in the Technology :

Today the customers are not ready to spare their valuable time by standing in queue to perform any transaction with banks. In addition, they expect 24 hours *service* with minimal interruption. Hence, computer based system of banking and ATM sen-ices are inevitable. However, the adaptation of computer based system and ATM become costly unless they tie up with some domestic and international banks.

SWOT Analysis of Consolidation of Banks

Opportunities of Consolidation of Banks

The consolidation plays an important role in the growth of Indian banking sector in particular and economy general. The following are the some opportunities of consolidation of banks in India :

- High competitive strengths
- Rise in percentage of credit to GDP
- Large-scale operation
- Strong financial sector
- Development of industry and service sector
- Automation of banking operations
- Innovative and more services to the consumers
- Easy market penetration and easy entiy in foreign market
- Optimum deployment of credit
- Increased capital base and high capacity to manage risk and decline in bad loans

Threats of Consolidation of Banks

The following are the threats of consolidation of banks in India:

- Less importance to agriculture and small-scale sector
- Concentration in urban and semi-urban areas
- Chances of monopoly
- Less employment opportunities to the unemployed youths and existing employee may loose the jobs
- Problems of cultural integration of two banks
- Collapse of small banks
- Dilution in management power of banks
- High rate of interest on loans and low rate of interest on deposits
- Reduces the consumers' choice
- Possibility of mass banking to class banking
- Opposition from employee unions

Strengths of Consolidation of Banks

The following are the strengths of consolidation of banks:

- Economies of scale and operation
- Increase in the profitability of banks
- Fall in the cost income of banks
- Rise in the rate of return on net worth
- Improvement in the technology
- Improvement in recovery of credit
- Rise in credit deposit ratio
- Protection to the depositors of weak banks
- Large number of depositors and borrowers
- Increased spread to the banker
- Benefits of common clients
- Higher earning per share, higher P/E ratio and higher market price of shares
- Higher satisfaction among the customers
- Increased productivity per employee

Weaknesses of Consolidation of Banks

The following are the some weaknesses of consolidation of banks:

- Possibility of loss of talent due to retrenchment
- Less competition in providing services
- Chance of rise in prices of services
- Protection to weak and inefficient banks
- Neglect of minority shareholders
- Problems of cultural integration with varying perspectives of work force
- Problems of organizational structure
- Reduction in lending to small business

- Problem of excessive staff
- Problem of retrenchment of employees and their settlement

Conclusions

The majority of Indian banks are small in size and scale of operation as compared to many banks of the world. The Indian banks are least in front of the top world banks in terms of capital base, return on assets, spread availability and productivity of employees, total loans and advances, ratio of total assets to GDR Further, Indian banks are also suffering from low recoveiy of credit that leads to huge accumulation of non-performing assets. In addition, the Indian banks are needed to explore different avenues for raising the capital to meet the norms of Basel II by the end of March 2010. Therefore, there has an urgent need to convert the large number of small hanks into small number of large banks to make them more competitive in the open regime. The consolidation no doubt brings strengths, size and scale in banks to compete with world-class banks of abroad but it involve the problem ol integrating two professional boards with varying cultural perspective. The detailed guidelines from the RBI and the Central government are necessary to strengthen the base of Indian banks through consolidation.

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