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MERGER OF PUBLIC SECTOR BANKS IN INDIA UNDER THE RULE OF REASON

Rani Ladha[1]

This paper models the idea of rule-of-reason of the Antitrust literature and applies the model to analyze the possible consolidation of the Indian banking industry through merger and acquisition (M&A) activities. It offers a strategic perspective for public sector banks whereby the banks either meet societal goals or become savvy international players through mergers. India being an emerging economy, the banking industry faces two critical initiatives: (i) proactive servicing of the rural areas and priority sectors, and (ii) a serious presence in the international markets to compete with larger global banks. The model developed in this paper suggests ways to evaluate and examine mergers in the banking sector in India to support both these initiatives. It proposes that the government could use the threat of merger to induce reluctant public sector banks to meet the critical domestic agenda and performance metrics. Those that meet the societal goals may continue to have the benefit of the status quo. Those that do not are required to merge to form an entity that can internationally compete in raising equity and deposits, and providing loans and services.

For further details, including copies of working papers, please write to:

Research, Conference & Publications Office,
IIM Kozhikode, IIMK Campus PO, Kozhikode 673 570, Kerala, India

Phone: (91)0495 2809238
Email: rcp@iimk.ac.in

[1] Professor, Finance, Indian Institute of Management Kozhikode, IIMK Campus PO, Kozhikode– 673570, email: rani.ladha@iimk.ac.in