Indian Economy · GS - III

Explain the significance of consolidation in the banking sector and examine its implications for financial stability, competition and consumer interests.

EXAM YEAR	PAPER	SUBJECT
DAILY PRACTICE 27/11/2026	GS - III	Indian Economy

MARKS	WORD LIMIT
15	~250 words

Answer Hint

Banking consolidation, economies of scale, financial inclusion, market concentration, systemic risk, regulatory oversight, consumer protection, financial stability

Model Answer

The proposed consolidation of Dubai Islamic Bank and Emirates Islamic illustrates how mergers and acquisitions can reshape specialised banking markets. Banking consolidation involves combining institutions to expand operational capacity, market reach and financial strength.

Potential economic advantages

1. **Economies of scale:** Larger institutions can spread technology, compliance and administrative costs across a wider customer base.
2. **Greater lending capacity:** A broader deposit base and stronger capital position may support larger financing operations and infrastructure investment.
3. **Operational efficiency:** Integration can reduce duplication in branches, technology platforms and management structures.
4. **Product diversification:** A combined institution may offer a wider range of retail, corporate and specialised financial products.

Risks and trade-offs

1. **Market concentration:** Fewer independent banks may weaken competition, potentially affecting deposit rates, service charges and consumer choice.
2. **Systemic importance:** Larger institutions can become systemically significant, making their failure more disruptive to the financial system.
3. **Integration challenges:** Differences in technology, organisational culture and risk-management practices may create operational difficulties.
4. **Reduced local competition:** Smaller businesses and underserved customers may face fewer financing alternatives if consolidation limits market diversity.

Regulatory considerations

Banking regulators must assess capital adequacy, liquidity, asset quality, governance, competition and depositor protection before approving mergers. In India, the Reserve Bank of India plays a central role in banking supervision, while competition-related concerns also fall within the broader regulatory framework.

Thus, consolidation should be evaluated not merely by the size of the combined balance sheet but by its impact on efficiency, competition and financial resilience.

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