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State Bank of India Officers' Association (Patna Circle)

All Letters to be Addressed to the General Secretary

Regd. No. 1872 of 1975
(REGISTERED UNDER TRADE UNION ACT - 1926)

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Patna - 800 001

CIRCULAR NO**. 09** **/**20120 DATE : 14.01.2020

TO,
ALL MEMBERS

LETTER TO DFS DEMANDING REVIEW OF MERGERS AND ACQUISITIONS IN PSBs

We reproduce hereunder the text of the **AISBOF Circular No.** 09 dated 14.01.2020, the contents of which are self-explicit.

With warm greetings,

(Ajit Kumar Mishra)
GENERAL SECRETARY

OUR UNITY : ZINDABAD-ZINDABAD
S.B.I.O.A. : ZINDABAD-ZINDABAD

TEXT

LETTER TO DFS DEMANDING REVIEW OF MERGERS AND ACQUISITIONS IN PSBs

We reproduce hereunder the text of AIBOC Circular No.2020/05 dated 14-01-2020 contents of which are self-explanatory for information of the members.

(Soumya Datta)
General Secretary

LETTER TO DFS DEMANDING REVIEW OF MERGERS AND ACQUISITIONS IN PSBs

We have sent a communiqué on 13.01.2020 to the Secretary, Department of Financial Services, Govt of India demanding a review of the decision of mergers and acquisitions in Public Sector Banks. Text of the letter is appended.

With greetings,

Sd/-
(Soumya Datta)
General Secretary

Text of Letter No. AIBOC/2020/03 dated 13.01.2020

Ref No. AIBOC/2020/03 **Date: 13.01.2020**

The Secretary
Department of Financial Services
Government of India
North Block
New Delhi - 110 001

Dear Sir,

Mergers and Acquisition in public sector banks

Greetings from All India Bank Officers' Confederation (AIBOC), the apex body of the Bank Officers' trade union with over 3,20,000 members, which is the largest trade union of supervisory cadre employees in the country and has been playing a pivotal role in the banking space of the country. Besides being major stakeholders in the functioning of the banking industry, our members are partners-in-progress of each and every banking institution. We are also connected to *terra-firma* and aware of the basic socio-economic issues across the globe.

2. We have been repeatedly stressing the point that the mergers and acquisitions of public sector banks are not in the interest of any stake holder – be it banks or customers or employees and officers, or the common citizen of the country. While our views have been substantiated by events unfolding, it appears that they have been ignored. Instead of engaging in a discussion to share and analyse our views, the Government first went ahead unilaterally, announcing amalgamation of three public sector banks – Vijaya Bank, Dena Bank and Bank of Baroda on 17.09.2018. Even as we registered our protests and continued our sustained efforts to drive home that M&A look good only on paper and presentations, rather than at the ground level, further mergers were declared involving that of 10 PSBs into 4 big banks on 30.08.2019.

3. We stand firm on our considered opinion and reiterate that these mergers / amalgamations are detrimental to the society at large and at the same time will have a negative impact on the financial and economic viability of these organisations. Even at the cost of repetition, we, as a responsible trade union, think that we are duty bound to highlight the following aspects for your consideration:

a. The process of mergers, apparently and visibly, is not in accordance with the laws framed from time to time. During August, 2017, Union Cabinet had accorded in-principle approval for amalgamation of the public sector banks through an Alternative Mechanism (AM) with a view to creating strong and competitive banks in public sector space to meet the credit needs of a growing economy, absorbing shocks and having the capacity to raise resources without depending unduly on the state exchequer. A few salient features of the Cabinet approval of the Framework for Consolidation of the PSBs were: (1) the decision regarding creating strong and competitive Banks would be solely based on commercial considerations; (2) the proposal must start from the Boards of Banks and (3) the proposals received from Banks for in-principle approval to formulate schemes of amalgamation shall be placed before the Alternative Mechanism (AM). In case of BoB-Dena-Vijaya, proposal emanated from 'Alternative Mechanism' of Ministry instead of being recommended by Boards of the said three banks. Similarly, the recent announcement of merger of 10 PSBs into 4 was also from Ministry of Finance (and not a decision of the individual banks' boards).

b. We observe that the process of 'top-down model' is being resorted to. PSBs are treated differently and indifferently for various purposes. It would be in the fitness of things to allow banks to take its considered, evaluated decision to choose whether M&A is beneficial to the entities concerned. It is a commonly held and accepted position that board of directors is the highest and competent authority in any organisation and not its owner (in this case, the Government). The owner shall exercise any powers only through Board of the bank and not by extra-constitutional and arm-twisting instructions. In case of PSBs, reverse engineering has been taking place. First Government announces *suo motu*, and every other process is engineered to suit the announcement of Government. Boards have lost their independence apparently and are made to obey the diktat of the government. Further, no bank board had any representative either from officers or workmen, when critical decisions such as merger / amalgamation are being endorsed by an 'incomplete' board. It is also being ensured that such decisions are taken 'unanimously' without even any note of dissent / comments.

c. Unlike PSBs, their private sector counterparts are not being imposed any decision of merger / amalgamation and such being the case and given their existing skill in catering to some of the niche sectors / public, the smaller size private sector banks would certainly take away the businesses of smaller acquiree banks in a big way.

d. Even though the plan for merger / amalgamation has been a hanging sword for the Banking industry, the announcement nevertheless, came as a surprise. This is because, even as on the 31st August 2018, answering a question (un-starred question no: 1482) regarding plans for mergers, the then Minister of State for Finance answered that there was currently no proposal in the Alternative Mechanism for consideration. If this be the case, then what changed in the matter within a period of a fortnight that forced the Central government to come up with its first of its kind of a *suo motu* announcement?

e. Our country has its uniqueness in diversity. We have cosmopolitan cities as well as the remotest corners which are devoid of the basic amenities viz. water, electricity and roads, let alone banking. Country needs variety of models of banking institutions, suiting the needs of citizenry – from banks financing exports, PSBs, cooperative banks, payment banks, niche banks to MFIs, SHGs etc. The banking sector, especially public sector banks, has been the driver of growth for the economy in our country. Therefore, in our considered opinion such highhanded and arbitrary decision, which defies logic and reason, will surely be catastrophic to the economy as a whole.

f. It appears that Government is pushing merger of PSBs with an apparent misplaced notion that fewer stronger banks will be '*Too Big to Fail*'. As bankers, we recall that the announcement of the first three way merger in public sector space came barely two days after the 10th anniversary of the largest bankruptcy filing in the banking history by Lehman Brothers, which was the fourth largest investment bank of United States! This makes one seriously wonder if we ever learn any lessons at all from the infamous Global Financial Crisis of 2008! In the aftermath of the Crisis, prominent economists had in fact prescribed a move towards smaller banks.

   Sir, there are umpteen number of examples world over, where high profile mergers / amalgamations which attempted to derive the best out of the so called 'synergy', have drastically failed. *New York Central and Pennsylvania Railroad, Quaker Oats and Snapple, Skype and eBay* are only a few from the many examples that can be found in this regard.

g. Several case studies have shown that merger announcements trigger displacement, confusion, anxiety and insecurity in staff, once again in turn leading to slowdown in business. Further, there is no compatibility in technology architecture in PSBs, with each bank having engaged multiple vendors for developing systems. To forge uniformity and implement a common system that would seamlessly cover all aspects of the banking business in the merged entity will be a major challenge that can stretch out for a very long time. Banks involved would obviously have to do fire fighting for the next few years in order to integrate people, processes and procedures, relegating basic banking activities to the backstage. At the end of the day, Government will be driving the customers of its own arm i.e. the PSBs to the private sector bankers!! There are apprehensions that the amalgamation may pose cyber security risks as expressed by Shri G. Padmanabhan, Former Executive Director of RBI recently.

h. History of M&A in banking should be an eye opener: Post banking reforms, there have been 32 mergers, all of them of private banks with the public sector banks. In 1993, however, RBI forced a merger between Punjab National Bank (PNB) and New Bank of India, as the latter had low liquidity rate. PNB suffered a net loss of Rs.96 crore in 1996, following the merger. It had to face several problems and litigations relating to absorbing the staff of New Bank of India in its stream. It reportedly took PNB five years and more to get over the merger effect. A similar fate was met by Oriental Bank of Commerce when Global Trust Bank (a widely cosseted new generation private sector bank) had to be merged with the former in 2004.

i. The merger of SBI and its associates in FY'17 also witnessed similar disruptions. It did not bring any apparent value addition to either SBI (acquirer) or the Associates (acquirees) or to their huge workforce. Immediately after the merger, the total NPA of the merged entity shot up by Rs.48,000 crore as on 31st March 2018 in just one year from what it was as on the date of merger (01st April 2017). The growth in business decreased to 4.78% as at the end of March, 2018 compared to 9.70% as at 31.03.2017 and 9.25% as at 31st March, 2016, whereas the GNPA of the SBI increased to 10.91% as at 31st March, 2018 compared to 9.11% as at the end of March, 2017 and 6.44% as at 31.03.2016. Also, SBI's operating profit came down drastically, not to mention the first ever loss in over a decade after accounting for provisions. There have been numerous instances where there was huge flight of business post-merger on account of chaos caused by various 'disruptions' as well as the sense of loss of identity. As per Bloomberg, the State Bank merger also resulted in closing down of 1,805 branches, fall in staff count by 15,762 due to retirement (including VRS) despite new addition of 3,211 branches and administrative hassles even though this merger was within SBI group, where natural synergies were far more than that prevalent in case of the ten banks, which have been identified for merger now.

   The amalgamation of the Bank of Baroda, Vijaya Bank and Dena Bank has resulted into various complications since these banks had no history of sharing business platform and commonality in any aspect – be it technical, culture of work, geography or the business mix. The outcomes are likely to be: lower operating profits, higher provisioning coverage ratio and NPA accumulation, which will outweigh any efficiency gain that has been projected. Moreover, cost-cutting measures through staff and branch rationalisation will be severely detrimental to the interests of the employees and will vitiate the industry climate. Moreover, it will have a major impact on the customer base of each bank. We should not forget that the customers have strong loyalty towards their banks and any impairment would do more harm than good to both banks and its customers. Further, the HR issues that have cropped up following the merger have caused deep angst and frustration amongst the officers' fraternity belonging to E-Vijaya and E-Dena Bank.

j. As per Section 9 (2) (c) of the Banking Companies Acquisition & Transfer of Undertakings Act, 1970/1980, Government, in consultation with RBI, may make a Scheme for reconstitution and amalgamation of any PSU bank with any other bank. Here, consultation with RBI is mandatory. Government has never disclosed the views of RBI with regard to BoB-Dena-Vijaya amalgamation or the recent merger of 10 PSBs into 4 to public at large. Hence, the decision is in violation of the above Section.

k. As per Banking Companies (Acquisition & Transfer of Undertaking) Act, 1970/1980 as well as State Bank of India Act, appointment of directors from workmen and non-workmen employees is mandatory so as to protect the interest of employees.

   It would be pertinent to mention here that very conspicuously, vacancies in the boards of the public sector banks arising out of previous workmen & officers' nominee directors have not been filled in despite our protracted correspondence, appeals and even directions by judiciary.

   Thus, taking the views of the employees of PSBs that are going to be amalgamated, has never happened, which is not in tune with the provisions of the Bank Nationalisation Act, 1970/1980.

l. It is a hard truth that M&A in banking is by itself an anti-thesis to Bank Nationalisation. The pious objective of spreading banking facility to masses gets defeated, as M&A reduces number of banks and branches in the garb of rationalisation of bank branches. Thousands of branches across the country have been / are being closed as obvious fallout of the recent bank mergers. If M&As are continued, banking-next-door shall become a mirage for millions and millions in this country. While there are umpteen number of banks ready to serve the riches, it is only PSBs who serve the poor, downtrodden, under privileged, farmers, SHGs, women, working class and the rural, semi-urban and urban population, which are not preferred to be served by elite new age private banks.

4. The banking in public sector space can be improved a lot by way of dedicated move towards initiation of the following steps:

a. *Framing of appropriate norms and improving infrastructure*: For the present status, PSBs are not alone to be blamed. To say a few: private bankers did not finance infrastructure; PSBs handle less profitable business of lower segments of society and activities alien to banking; banks have divided and fragmented attention and eventually evolved faulty lending policies; illogical NPA norms have been forced upon – such as imposition of Asset Quality Review etc. In the guise of cleansing balance sheet, Insolvency and Bankruptcy Code (IBC) was brought in, which in turn resulted in the forced haircuts, reducing the bottom line as well as top line of the public sector banks. There is a need to frame and implement laws that criminalise wilful default, frame industry specific NPA norms and bring out adequate infrastructure / knowledge base to handle the banking business – deposits as well as advances. M&A will not address any of the above issues.

b. *Augmenting human resources in PSBs*: The mother of all ills plaguing the banking sector today is inadequate human resources in Banks. Recruitment occurred, on substantial scale, in 1980s. Thereafter it was only in trickles. Personnel recruited in 1980s are gradually retiring now. Knowledge bank is getting depleted. Unless there is an immediate recruitment on large scale, the capacity building cannot take place, which worsens the situation.

c. *Making banking industry attractive to grab and retain talent*: Banks are saddled with non-banking activities. Perhaps, we are the only nation where bank does umpteen number of activities, in addition to banking – from Aadhar seeding to implementation of social security schemes. Many transactions in banks are unremunerative and paid lesser than the cost of conducting such transactions. Bank employees have carried out all these activities with full commitment and zeal, more particularly, as and when calls have been given by the Central Government. Growing discontent and lack of job satisfaction coupled with incommensurate pay and perquisites have been causing increasing attrition rate among the young bankers. All such factors need to be looked into so that the PSBs stay profitable and continue their contribution towards nation building.

5. Today's need of the hour is to learn from the mergers / amalgamations of the past – in our country as well as across the world. It would be prudent to have 'Good Banks' than 'Big Banks'. Mergers cannot resolve or clean up the balance sheets; rather the NPAs of the merged entities would simply add up. The improvement in certain ratios, if any, is tantamount to mere financial engineering or window dressing, without resolving the crux of the problem or addressing the fundamentals.

6. As a responsible organisation of the bank officers' community, it is our bounden duty to bring to your attention, time and again, the ill effects of M&A. Sir, we strongly believe that the bank managements, associations and unions have the inherent and collective strength to rejuvenate the public sector banks and restore their financial health in the interest of our overall economic growth and development.

7. In this backdrop, the AIBOC urges upon the Government to reconsider the M&A initiatives and instead launch a comprehensive overhauling of the entire stressed assets recovery mechanism, including:

a. Ensuring immediate and strict penal action against corporate fraudsters and wilful defaulters.
b. Publishing and making the list of corporate defaulters' public.

c. Making the IBC process more transparent and effective in order to recover NPAs and stopping huge haircuts for the public sector banks.
d. Strengthening the public sector banks through recapitalization and implementation of the approved Turnaround Plans, without hampering normal banking operations through unreasonable restrictions under such as Prompt Corrective Action (PCA).
e. Augmenting human resources to keep the knowledge bank sustaining and growing.

To sum up, mergers are not in the interest of any. It does not make Indian banking industry strong and resilient. It appears to be more of a confused reaction based on misplaced assumptions. The challenges faced by the banking sector need a holistic approach to identify, isolate and cleanse the whole system as well as individual banks. What is being thought to be the panacea has turned out to be just an arbitrary decision which will only aggravate the situation beyond control, possibly to a tragic meltdown. PSBs are the temples of modern India. They have contributed majorly to build the country and its economy to such heights. They are the major engine to realise the dream of $5 Trillion economy, if nurtured well. We, therefore, fervently appeal before your good office to review the regressive decision of the recent mergers and rescind it in the best interest of the country and its people.

With best regards,

Yours sincerely,

Sd/-
(Soumya Datta)
General Secretary