ALL INDIA BANK OFFICERS' CONFEDERATION

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Circular No. 2018/66 **Date: 21.09.2018**

To All Affiliates (Please Circulate)

Dear Comrades,

SAVE VIJAYA BANK

We reproduce the communication sent to all Director Members of the Board of Vijaya Bank vide our reference no. AIBOC/2018/73 dated 21.09.2018 on the captioned subject for circulation to all members.

With greetings,

(SoumyaDatta)
General Secretary

Text of Letter No.AIBOC/2018/73 dated 21.09.2018

LETTER No. AIBOC/2018/73 **Date: 21-09-2018**

The Board Members
Vijaya Bank

Dear Sir/Madam,

Save Vijaya Bank

Greetings from All India Bank Officers' Confederation (AIBOC), the apex organisation of Bank Officers' of over 3,20,000 members and whose affiliate is the recognized majority Association of Officers in **Vijaya Bank**.

We are writing to you in the backdrop of the recent announcement made by the Union Finance Ministerregarding the merger/amalgamation of the Bank of Baroda, Vijaya Bank and Dena Bank. We feel that this move is a unilateral imposition from above which goes against the interests of ~~the~~ other stakeholders of the banks.

AIBOC urges upon you as a respected Board Member of **Vijaya Bank** to take an objective view of the implications of such a decision thrust from above by the Finance Ministry on the bank's business operations, financial health, morale of the officers and employees and the confidence of the bank customers.

Decision-making with regard to bank mergers is happening through the Alternate Mechanism constituted by the Union Cabinet. Does this Alternate Mechanism have the necessary authority or parliamentary mandate to take such decisions without prior consultation with the Bank Boards and their concurrence? This has serious ramifications for the functional autonomy of the Bank Boards.

We place before you the following points with regard to the Union Finance Ministry's proposal for merger/amalgamation of the three banks:

1. The most serious problem plaguing the banking system today is that of NPAs and the consequent losses being made by the public sector banks on account of loan loss provisioning. How does merger/amalgamation help in the recovery of NPAs? Amalgamation of balance sheets of the three banks will only alter the NPA and capital adequacy ratios through financial engineering, without helping in the process of actual NPA recovery. This will only favour the willful and skilfulcorporate defaulters rather than restoring the financial health of the banks.

2. In a recent note to the Parliamentary Estimates Committee on Bank NPAs, former RBI Governor Dr. RaghuramRajan has termed bank mergers as a "non-solution" to the NPA problem. He has noted:

   We need concentrated attention by a high level empowered and responsible group set up by government on cleaning up the banks. Otherwise the same non-solutions (bad bank, management teams to take over stressed assets, bank mergers, new infrastructure lending institution) keep coming up and nothing really moves. Public sector banks are losing market share as NBFCs, Fintech companies, Payment Banks, the private sector banks et al.

   Why is the Union Government going against such sane advice, which emphasises on NPA recovery, and proceeding with the merger of the three public sector banks?

3. The Insolvency and Bankruptcy Code (IBC) process initiated by the Government has not yielded the desired results. As per the information disclosed by the Ministry of Corporate Affairs, out of the 26 cases that have been referred to National Company Law Tribunals (NCLTs), only 2 cases have been settled till date, leading to haircuts of around Rs. 28000 crore for the banks. The legal regime has been tilted towards the corporate defaulters, while the interests of the public sector banks are being subverted. NPA recovery through other channels like the ARCs has also failed, and emphasis has been laid on NPA write-offs, which have led to burgeoning losses for the banks. What is required is an overhaul of the NPA recovery regime, which makes it more effective, speedy and transparent. Exemplary penal action must be initiated against the willful defaulters and fraudsters in order to send a clear message to all stakeholders. Unfortunately, the political will required to adopt this course appears to be absent in the Union Government.

4. The Government's notion that we have too many public sector banks in the country whose numbers need to be brought down through mergers/amalgamations, is a prejudiced idea which does not have any basis in economic theory or empirical evidence. Bank branch penetration continues to remain low in India compared to our developing country peers, which warrants an expansion of bank branches and activities. Mergers/amalgamations on the other hand would cause greater concentration in banking, which will curb domestic competition and lead to reduction in bank branches. Moreover, given the much larger contagion effect of the failure of big banks on the financial system as a whole, concentration of banking can enhance financial fragility.

5. The claim that mergers/amalgamation always work to the advantage of all the parties and lead to synergies and greater efficiency due to economies of scale is not borne out by evidence. Most mergers across the world have not turned out to be successful. In India, the recent experience of the merger of the SBI subsidiaries with the parent SBI has also not been healthy, which can be seen in the deteriorating financials of the SBI in the last financial year. The proposed merger of the Bank of Baroda, Vijaya Bank and Dena Bank will have added complications since these banks have no history of shared business platforms.

6. The organisational disruption caused in these banks through the merger/amalgamation would relegate every other activity to the backstage. Banks involved will have to do fire-fighting for the next few years, adversely affecting other banking activities in order to integrate people, processes, technological platforms and procedures. The outcome may well be higher losses on account of provisioning and NPA accumulation, which will outweigh any efficiency gain that is being projected. Moreover, cost cutting measures through staff and branch rationalization will be severely detrimental to the interests of the employees and will vitiate the industry climate.

The luminaries who have occupied your position in the Bank Board in the previous period had collectively carried forward the vision underlying bank nationalisation, which had a transformational impact on the banking sector. We request you to consider whether the proposed merger/amalgamation of the three public sector banks is in keeping with that vision?

We believe that the bank managements, associations and unions have the inherent and collective strength to revive the public sector banks and restore their financial health. What is required is a favorable policy thrust from the Union Government in adequately recapitalizing the PSBs and improving the legal system to facilitate NPA recovery. We seek your support for this alternative vision and urge upon you to negate the proposed merger of the Bank of Baroda, Vijaya Bank and Dena Bank.

We look upon you to save **Vijaya Bank** and its identity.

With regards,

(SoumyaDatta)
General Secretary