ALL INDIA BANK OFFICERS' CONFEDERATION

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Press Release

MERGER IS ONLY A STEP TOWARDS PRIVATISATION

All India Bank Officers Confederation, the largest officers' organization having membership of around 285000 officers vehemently opposes the stand of Govt. of India on merger of Public Sector Banks. This organization has time and again criticized such forced mergers and we will continue to protest such ill conceived plans of merger of Public sector Banks by GOI, Niti Ayog and RBI which can wreck havoc on India's financial mainstay. Earlier also we condemned the comments made by Sri Urijit Patel, Governor, RBI, in his address at the Kotak Family Lecture at Columbia University in New York, where he advocated merger and acquisitions of PSBs. We can well understand the fact that the merger of public sector banks is a part of the government's broader plan to privatize the public enterprises to attract foreign investment. In 2015, the government announced that it was opening up nine previously restricted economic sectors, including civil aviation, single-brand retail stores, pharmaceuticals and military production, to over 50% percent foreign direct investment and ownership. Government has always understated the efforts put in by the PSBs and its employees to successfully conduct the various ambitious Social Security Schemes of GOI such as Jan Dhan yojna, Mudra, Standup India etc. Very recently, the country has evidenced the exercise of 'demonetization' and it was these public sector banks which have burnt midnight's fuel to make it happen, though whether it is successful or not is yet in question. The brunt of demonetization had been directly encountered by the common men along with the poor Bankers; the pertinent question still remains unanswered; was it worth? RBI is yet to publish the official data on the amount of Black Money recovered, which was the main objective behind 'demonetization' as depicted by our Prime Minister. Moreover, it took all these PSBs more than 3 months of hard labour and toil to set right the upheavals which were created by demonetization. The Banks could not lend or recover loans for a few months post demonetization. The GOI seems to be opening the gateway for privatization of PSBs, and quite unashamedly brushing aside the contribution of PSBs in implementation of GOIs various social sector schemes. When the Govt wants to lean on PSBs for support, they have been made to do it forcibly, but when the question of supporting PSBs by pumping in fresh capital to revive their capital base comes at this critical juncture, the govt has cunningly withdrawn, revealing an abominable double cross. Infact, the Public Sector Banks are spending their hard earned money for expenses related to Jandhan, Demonetization, pension schemes, Swachh Bharat Mission, Yoga Day etc.

In India and world over, there have been innumerable instances where Mergers and takeovers of banks has been unsuccessful because of reasons like unsuccessful consolidation of banks' working systems and methodology, asymmetric organisation restructuring, improper and hasty communication, inappropriate human resources integration, unsystematic assessment of risk pre-merger, lack of synergy, illogical managerial decision and lack of cultural consideration. There are replete of examples world over which have been unsuccessful such as the Merrill Lynch and Bank of America and Dresdner Bank and Deutsche Bank to cite a few. In fact, in the international realm of Banking industry, the failed merger of Deutsche Bank and Dresdner Bank in the year 2000 had become a subject of mockery in a well organized economy like Germany.

Reasons for these fruitless attempts of merger were culture misfit, non-committed efforts and lack of vision of management leadership in apt integration of organisational resources, improper perception of management among stakeholders leading to complete failure to even comply with banking financial compliances. Hasn't it been experienced in the past that when the merger of two banks or group/associate of banks occurs, it creates problems of multitude type like improper working environment with non-synergetic working styles, creation of huge debts, pressure on balance sheets, unsystematic and skewed financial portfolio which are NPA (Non-Performing assets) ridden, risky toxic assets creations and their future effects are deleterious to say the least. The recent SBI's decision to merge its associate banks has left a poor impression on stakeholders and internal customers (employees) too with lack of clarity of Service Conditions. For the first time in history, SBI has incurred a loss of Rs.381 crores. There are conflicts and tensed situation with lack of visibility in technology adaptation too in the merged and takeover scenarios. We fail to understand as to why the loyal customers who prefer specific banks for their needs will be denied the opportunity to have a choice to access banking service in their preferred bank. It is sure to create an aura of distrust and dissatisfaction. Bank mergers in Indian scenario is an ugly picture which will eventually lead to decline in job opportunities, youth unemployment, lack of systematic job profiles with huge pendency of disparate work processes among merged banks and entities, huge debt ridden NPAs with solvency issues in future. Post-merger consolidation in India will open flood gates for foreign private sector banks to inundate the Indian banking sector with unemotional, unsocial attitude or lack of societal obligation sense and purely profitability driven motive, which will eat into the market share and mind share of loyal banking customers and eventually, drive off the indigenous Indian banks from the market. The Regional Comprehensive Economic Programme (RCEP) under negotiation is likely to permit more banks from China, Malaysia, Singapore, etc into our country. 75% of the population whose income is below Rs.5000/-pm (Head of the family's) will be the most affected. There will be scenario where funding the infrastructure projects will be non-viable because of lower ROI (return on investment), building and piling of NPAs (Non-Performing assets), lower internal rate of return with high gestation period and costly propositions funding long term projects with short term funds putting enormous pressure on banks to perform with heavy targets and there will be little possibility to deviate from the thin line of constraint driven decision to perform after merger. Banking compliance internationally will be a challenge too and failure to adhere to BASEL III norms will be having its undesired effect on foreign investors investing in banking sector and Indian currency and share market. The perception created on foreign investors will drive off the FDI (Foreign Direct Investment) and FII (Foreign Institutional Investment) as there will be huge volatility and speculation in banking and allied sectors. Human resources problems will be visible with apprehensions on shutdown of smaller bank branches, fewer opportunities for career progression, staff unemployment with cost-optimization scenarios leading to excessive dependence on technology, trust deficit among customers, unfathomable weak asset creation having multiplier and accelerating effect on building NPAs.

History bears the testimony that merger has always reduced the number of branches which ultimately cuts down the number of employees and officers as well. In the wake of the merger of State Bank of India and its five associates, more than 1500 number of offices / branches are proposed to be reduced. Quite surprisingly although, we can see that the Reserve Bank of India, in recent times, has given approval to several entities to set up payment banks and small banks in order to widen the reach of the banking services in India and to achieve central government's goal of financial inclusion; and on the other hand, the government has come out with all guns blazing with its plans of merger of the public sector banks reducing banks and branches. Any sane mind would question that why the public sector bank branches are minimized by way of merger of banks when the payment banks and small banks are given the license to achieve the goal of financial inclusion. It is also very pertinent to note that a payment bank can only undertake limited banking functions as per the Banking Regulations Act, 1949. When they do not have the permission to lend loans to the needy then how they would meet the financial needs of our countrymen? The available facts and figures also bear the testimony that the ratio of Indian Bank branches is much lower compared to the other developed and developing economies of the world. Even the Chief of the country's largest lender State Bank of India Smt. Arundhati Bhattacharya earlier had stated that the merger of associate banks was not a priority at the current juncture. The public sector banks are passing through a difficult period with deteriorating asset quality and fast receding capital base. The banks need capital for absorbing many of the losses out of stressed assets. It is very unfortunate to learn that the Governor of the regulator of Banks in India commented that merger of banks would help in dealing with the problem of stressed assets of these Banks which is very immature and irresponsible on his part. It is a well-known fact that the NPA position of PSBs today is not the creation of the Banks per se, rather it is to the lopsided policies of successive govts which virtually paved the way for sanction of big ticket size Corporate Loans to a handful of chosen borrowers, most of whom have turned wilful defaulters. Neither RBI nor the successive govts could come out with any stringent recovery mechanism for such loans, and have been continually passing the buck on to PSBs. This has been pointed out by the Parliamentary Standing Committee on Finance. The declaration of willful default as a criminal offence is still to see the light of the day, which further worsens the situation for the PSBs. It is the need of the hour that our regulators come out with more teeth for tackling NPAs, as recommended by the Parliament Standing Committee instead of making such irresponsible statements Those handful of corporate loans, which have today cut a sorry NPA profile of PSBs have been thrust upon them without considering external factors like change in International Trade agreements, global market trends etc. Rather, it seems that RBI is hell bent on implementation of BASEL III Norms and Asset Quality Review (AQR) by any means, even knowing that the AQR will result in mounting losses for the banking sector.

Mere merger and acquisition of weaker Bank's would not help to get rid of problems which needs greater introspections rather than an abrupt remedial measure. Instances from past can be illustrated how mismanaged and ill timed mergers or acquisitions of huge multinationals had resulted in huge mess. A recent experience, being the instance of Tata's exit from Tata-Chorus. Vodafone-Hutchinson Essar chaos over their merger deals, internationally the famous **Quaker Oats Company and Snapple Beverage Company merger fiasco in 1994, America Online and Time Warner etc. are to name a few.**

With the recommendation of Justice Dharmadhikari, Indian Airlines was merged with Air India in 2007 by Mr. Praful Patel as Civil Aviation Minister. Shri Ashwani Lohani, Managing Director, Air India had stated in July 2016 that "the biggest reason for the downfall of this airline was the merger between erstwhile Air India and Indian Airlines, which was done despite the fact that both carriers are totally opposite of each other. There were many differences between the two companies in terms of work culture, areas of operation, compensation, working conditions, entitlements etc. The merger resulted in massive discontent and frustration amongst the staff. The subsequent demerger of ground handling and engineering companies added to the problems. In hindsight, it appears that a no merger scenario may have been preferable". Now talks of privatizing Air India is heard of everyday.

By implementing Mr. P.J. Nayak Committee report Public Sector Banks will also face the same situation and Govt will have a reason to privatize them which will handover huge assets to the private sector. Among the 38 mergers and acquisitions (M&A) since nationalization of banks, many posed severe problems. The inefficient New Bank of India merger with Punjab National Bank (both public sector banks) and takeover of the failed private sector bank – Global Trust Bank Ltd by Oriental Bank of Commerce, another PSB, took no less than a decade and over for makeover of balance sheets of the merged banks. In the case of former, human resource and cultural issues posed severe discomfort while in the case of the later, technology of GTB being the most sophisticated compared to the one prevailing with the OBC, the later took more than a decade to assimilate it. At this juncture, we propose that GOI and RBI drop the plan of merger and acquisition and look to book the corporate defaulters which alone can change a lot many things in the Banking sector in India.

In the days to come, the position of NPAs will worsen if the names of willful defaulters are not published immediately and they are treated as criminal offenders. The government and the RBI failed miserably to bring in any stringent act or regulation to deal with the large corporate defaulters which account for more than 60 percent of the public sector banks' NPAs. Very unfortunately, the govt. instead of infusing in capital to these banks or to bring in some stringent laws to recover the dues from these corporate defaulters, is rather busy with all sorts of plans to merge the banks. As a responsible Trade Union, we wish to raise our voice very strongly against these vexatious steps of the govt of India. We urge on the government and the RBI Governor not to proceed with these ill-motivated steps which will adversely impact the health of the PSBs in our country and will be inimical to the cause of the weaker section of the society; or else we will be left with no other option other than moving ahead with our organizational steps.

It is also pertinent to note that the meeting of the Chiefs of the public sector banks named as "Gyan Sangam" was held on 2nd and 3rd January, 2015 at Pune which laid a road map for privatization of public sector banks. The BJP led government at the centre took the lead for this summit. All the presentation papers were readied by the ministry of finance with McKinsey, a multi-national company (MNC) as knowledge partner. The participants were divided into six panels headed by chairmen of Allahabad Bank, NABARD, Indian Bank, Andhra Bank, State Bank of India and Bank of India. The quintessence of this presentation is to privatize public sector banks (PSBs). It is a matter of shame that being heads of the PSBs, they have been party to the presentation of papers which essentially is a drive towards privatization of PSBs. It is strange that former chairman of Axis Bank P J Nayak who headed a panel advocating privatization of PSBs was also a part of the summit. The whole idea in this circuitous process is to hand over the PSBs to the private corporates. With the cap of individual voting rights in nationalised banks enhanced to 10 per cent from 1 per cent in the year 2012 and with the FDI cap fixed at 74 per cent, the risk of ownership of PSBs going into the hands of foreign based MNCs is very high. The GyanSangam also suggested consolidation (merger) of PSBs. In their view only five PSBs have the acquisition capability and the rest are to be targets. **The RBI report dated August 27, 2013 itself admits that consolidation of banks will result in rationalization of branch network which may lead to closure of branches and redeployment of staff and consolidated banks may rather cater to big ticket business, in the process adversely affecting financial inclusion.** The same report says that there is empirical evidence (Dymski-1999) that one consequence of the merger wave in US banking in 1990s has been that loan approvals for racial minorities and low income applicants have fallen and the extent of this decline was more severe for large banks. The report further insisted that Consolidation could also result in less competition which will ultimately pave the way for arbitrary pricing of products which will be detrimental to the interest of the masses. It is very astounding to see that the same regulator of banks which acknowledged the ill effects of merger just four years back has now come with all guns blazing at the PSBs to merge and privatize them. It surely raises the eye brows of many and brings in serious amount of suspicion the RBI is acting under the influence of the govt at the centre and it does not have any autonomy whatsoever which is a very serious issue.

Further hardly 5-10 per cent of the 6,32,000 villages have a bank branch of PSBs. The number of rural branches has been reduced from 54 per cent in 1994 to 33 per cent in

2014. Nearly 43 per cent of the rural credit is financed by money lenders, landlords etc. The number of suicides of farmers for want of institutional credit at low interest with long repayment period is on the increase. Hence merger and consolidation of PSBs are sure to be detrimental to the interests of the rural poor particularly farmers who are the backbone of our Nation.

We all still remember how the earlier NDA government headed by Vajpayee introduced a bill in the Lok Sabha in December 2000 to reduce the government shareholding to 33 per cent thus paving way for privatization of PSBs. The united determined struggle of the bank employees and officers including through observance of several days' strike to oppose privatization attempt and the solidarity support to the movement extended by a few democratic parties only prevented such a catastrophe. Again the present government is promoting the idea of privatization of PSBs.

We would like to reiterate and put it in clear terms that we strongly resist the ill-motivated ploy of merger and acquisition of Public sector Banks by the govt and the RBI. We also demand the immediate implementation of the recommendations of the Parliamentary Standing Committee on Finance on NPAs and if it is done and NPA comes down then there is no need for additional capital.

In a nutshell, merger is a step towards privatization only and the people of the country whose taxes have contributed to the Public Sector Banks should oppose this move. AIBOC is launching a massive signature campaign and will intensify the agitations if the move continues.

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