

# ALL INDIA BANK OFFICERS' CONFEDERATION



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## To All Affiliates (Please Circulate)

Dear Comrade,

### LETTER TO SHRI ARUN JAITLEY, HON'BLE FINANCE MINISTER, GOVT. OF INDIA REGARDING AMALGAMATION OF BANKS - A REGRESSIVE STEP IN BANKING

We reproduce hereunder our letter no. AIBOC/2019/27 dated 25.02.2019, sent to Shri Arun Jaitley, Hon'ble Finance Minister, Govt. of India contents of which is self-explicit.

With greetings,

(Soumya Datta)  
General Secretary

### Text of letter no. AIBOC/2019/27 dated 25.02.2019

The Hon'ble Finance Minister  
Government of India  
North Block  
New Delhi - 110001

Respected Shri Arun Jaitley ji,

### AMALGAMATION OF BANKS A REGRESSIVE STEP IN BANKING

It has come to our notice through media reports that while addressing the RBI Board on 18<sup>th</sup> February, 2019; you have purportedly commented that "India needs fewer but mega PSBs". Your statement (as reported in [www.moneycontrol.com](http://www.moneycontrol.com) on 18.02.2019 under the headline 'FM addresses RBI Board, pitches for bank mergers') ".....India needs fewer and mega public sector banks which are strong in every sense, from borrowing rates to optimum utilisation of resources, the economies of scale, as far as banking sector are concerned, are of great help," is totally unacceptable. We unequivocally denounce such a statement as it is oblivious to the actual challenges being confronted by the Banking sector and is only reflective of an anti-PSB mindset.

02. We note with consternation and dismay that your Government has been actively pursuing a fallacious policy of forced amalgamations of banks touting it as the panacea for all maladies afflicting the Banking Sector. Nothing can be further divorced from the actual ground realities of the Banking Sector. The crisis in India's banking sector cannot be resolved by amalgamations. The main crisis in the banking sector is a result of intertwined problems of burgeoning non-performing assets and slowing down of credit growth. The strategies based on amalgamation have spectacularly failed in the West and will continue to fail elsewhere. At a time when we need more branches to achieve financial inclusion, the amalgamation of three public sector banks (Bank of Baroda, Vijaya Bank and Dena Bank), will result in the closing down of existing branches of these Banks, which will only result in making the achievement of the goal of financial inclusion a distant dream. There have been 39 amalgamations and takeovers during the post nationalisation period, which includes the SBI amalgamation. It is important to draw lessons from all these amalgamations. All banks reduced their presence in the rural and semi-urban centres as direct fallout of amalgamations.

03. The government's claim of higher efficiency due to economies of scale is presumptive in the light of experience both in India and abroad. The global financial crisis of 2007-08 had undisputedly established that when institutions are too big, regulatory interventions could get diluted resulting in the state monitored bail outs at the tax-payers' cost. Had amalgamations been the ultimate remedy to all ills afflicting the banking sector, the amalgamation of SBI and Associates would have brought about a sea change in SBI's fortunes. India's largest bank was in the red for the first time in over two centuries, posting a record loss of Rs. 6547 crore in 2017-18. Post amalgamation, NPAs of SBI has further gone up to Rs 2.25 lakh crore. The government's contention that amalgamations would make banks stronger globally does not hold water. Even if all the PSBs are merged into one, we cannot match global banks in terms of capital strength.

04. Former RBI Governors, Shri Y V Reddy, Shri D Subba Rao and Shri Raghuram Rajan have on one occasion or the other, cautioned the government against thinking of consolidation as the only way to achieve a Banking Utopia. In 2011, former RBI Governor Shri Y V Reddy had said "There is a global consensus that banks that are too big to fail are source of serious risk to financial stability."

05. Sir, you are aware that people are at the epicentre in the banks. The culture of the institution is inseparable with the culture of the regions, especially so when the Bank concerned has a largely regional presence. A lack of clear understanding of human resources and cultural issues has impeded the success of amalgamations across periods and nations. Banks are the nerve centre of trade, commerce and business in a country. Banking plays a very important role in the economic development of all the nations of the world. In fact, banking is the life-blood of modern commerce. In planning to build another mega bank through amalgamations of heterogeneous entities without seriously attempting to reform governance issues, the government is embarking on a venture which is fraught with risks of failure. The amalgamation of the banks would surely affect the interests of all stakeholders and will not be beneficial to them

06. The Amalgamation of Vijaya Bank, Dena Bank and Bank of Baroda is also meant to improve the parameters of the merged entity through financial engineering, rather than actually improving NPA recovery. This is nothing but adoption of an absolutely myopic view of the problems of the Banking industry. While the Government proclaims that an amount of close to Rs 3 lakh crore has already been recovered in favour of banks and creditors, it has chosen to remain silent on the amount of 'haircuts and write-offs' that banks and other financial creditors are being forced to absorb by way of resolution of loans through Insolvency and Bankruptcy Code (IBC). We demand that a white paper be published by the Government of India detailing the amount of recovery through IBC channel since its promulgation, vis-a-vis the actual loan outstanding. The people of our nation have a right to know how much of a hit Banks are taking as a result of such 'hair cuts'.

07. Sir, your emphasis on "economies of scale" seems to be a euphemism for the fact that larger bank balance sheets created through amalgamations would be able to absorb more losses on account of NPA write-offs and haircuts. The reality of "optimum utilisation", to which you referred, can be seen in branch closures and reduction of bank staff in post-merger SBI. Net branch expansion turned negative for the PSBs in 2017-18. Post amalgamation, the SBI has closed down a substantial number of Branches. At a time when the private sector banks have increased their recruitment, the total employee strength of the PSBs fell by over fifty thousand between 2014-15 and 2017-18. Over half of this job loss has happened in SBI.

08. The need of the hour is to expedite the implementation of the existing laws in the country to bring to book big ticket corporate defaulters, who think they can usurp public money with impunity, which would effectively clean up the Balance Sheets of the PSBs and also reduce the clamour for more capital from the exchequer. Ours is a diverse country with wide variations in culture, language religion, social customs et al. The multiplicity of Banks with strong regional presence is a socio-economic manifestation of such diversity. Our unity lies in our diversity. Any attempt to steamroll this vibrant diversity into big unified behemoths will certainly prove to be counter-productive and is destined to be an economic and political blunder of humongous proportions which might not be acceptable to posterity in the years to come.

Against the above backdrop, as a responsible Trade Union representing the aspirations of over 3.20 lakh officers, we earnestly urge upon your good office to rescind the decision of Amalgamation of three PSBs viz. Bank of Baroda, Vijaya Bank and Dena Bank for the greater interest of the country, and also to refrain from any such retrograde action in future.

With best regards,

Yours sincerely,

Sd/-

**(Soumya Datta)**  
**General Secretary**  
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