

ALL INDIA BANK OFFICERS' CONFEDERATION

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Circular No. 2019/26

Date: 10.04.2019

To All Affiliates (Please Circulate)

Dear Comrade,

PROPOSED MERGER OF LVB & IBHF – LETTER TO RBI

We reproduce hereunder our communication sent to the Governor, Reserve Bank of India vide our letter no. AIBOC/2019/48 dated 10.04.2019 on the captioned subject. Copy of the letter has also been sent to the Secretary DFS and Chairman IBA.

With greetings,

(Soumya Datta)
General Secretary

Text of letter no. AIBOC/2019/48 dated 10.04.2019

The Governor
Reserve Bank of India
Central Office Building
Shahid Bhagat Singh Marg
Mumbai – 400001

Respected Sir,

Proposed merger of LVB (Lakshmi Vilas Bank Ltd) & IBHF (India Bulls Housing Finance) – Request for declining RBI's approval

Greetings from **All India Bank Officers' Confederation (AIBOC)**, the apex trade union organisation of supervisory cadre representing over 3.20 lakh Bank Officers of the country.

2. Adverting to a communication addressed by Lakshmi Vilas Bank (LVB) to NSE and BSE vide their letter dated 05.04.2019 intimating the outcome of the Board Meeting held on the same day about merger/ amalgamation with India Bulls Housing Finance (IBHF), we would like to share our serious concerns with your good selves as a trusted regulator of the banking industry in India.

3. It is needless to point out that amalgamations, mergers, takeover and acquisitions, by whatever name called, ultimately reduces the number of players in the field. This has gross consequences of decreased competition, creation of a monopoly and results in inconvenience to the common man. We are very sure that you would have analysed the situation and are aware of closure of a large number of bank branches in guise of branch rationalisation by State Bank of India, post-acquisition of its associate banks. Further, we are also confident, as a regulator, you would have analysed its impact and whether such M&As have resulted in the perceived level of efficiency or uptick in performance of the Banks.

4. It is proven fact that Banks in India have played a predominant role in the economic growth of the country. Services of Banks in the arena of social banking are immeasurable. Lakshmi Vilas Bank has been working at par with PSBs during their existence of past 93 years. They are trusted by more than three generations of customers, who passionately, emotionally connect with them. These Banks, not being so large, but having substantial

network and deposit resources, are always a soft target for take over and acquisition. It is but natural that NBFCs/Para Bankers/HFCs try to gobble such banks to avail of, enjoy cheaper funds, robbing the citizenry of a customer-friendly, next-door banking. By such process, banks tend to move away from the common man's reach. We are sure that, you will not abet any customer-friendly, trusted and home-grown bank(s) to disappear from the banking map, just because the boards of both entities take commercial decision.

5. We are more skeptical about the cause and the effect of present amalgamation of LVB with IBHF. Generally, NBFCs are now in liquidity crisis. A striking point is that IBHF is a HFC and not a banking entity. It has credit portfolio of around Rs.1,00,000 crore spread across the country without any social obligations. Its credit portfolio is not as dispersed as a Bank's lending as latter is subject to the prudential norms set out by RBI. A sectoral failure will be catastrophic and may drag the amalgamated entity into peril.

6. Another relevant aspect to be noticed conspicuously is that IBHF was one of the failed applicants for a universal banking license in 2013. IBHF was also denied a banking license. Now, IBHF is trying to become a banking company by itself, through this amalgamation, which is a clear-cut case of circumvention of the prevailing laws.

7. It may be a fact that LVB has suffered losses in couple of years. This should not be a criterion for amalgamation. The bottom line depends upon various aspects, from the policy of the State on Directed Lending, NPA Norms, Policy Rates, write offs, economic and business cycles so on and so forth. To quote an example, monies kept by banks as CRR does not earn anything to them, but Banks have to pay several crores of rupees of interest to the depositors on such monies, which have a direct bearing on the profitability. The impact of NPA on the profitability needs to be reviewed/ reconsidered in the context of recent Hon'ble SC's verdict on nullifying the RBI circular dated 12.12.2018 on revised framework for stressed assets resolution. This being the situation, loss cannot be a trigger for merger/ acquisition in the larger interest of society. Notwithstanding, being alive to the situation, our affiliate Lakshmi Vilas Bank Officers' Association (LVBOA) has embarked upon a Turnaround Strategy plan for next 5 years to make the Bank more efficient and has been working on it steadfastly. LVBOA has deeply engaged its members in pro-business activities for improving the business and in many recovery measures like "Name & Shame" and "One Aim One Voice" which have been contributing to the bank's growth. RBI may kindly look into this aspect also and help LVB to regain its glory.

8. We urge that number of banks should not be reduced. Large populace, geographic expanse of the country demands more and more banks. But, M&A results in closure of existing branches defeating the very theme of mass banking. At the end of the day, the citizenry suffers. This will be an anti-thesis to spirit enshrined in the Constitution of India. Social and economic equality will get huge setback.

9. The subject proposal of amalgamation will be submitted to your good office for approval. Old generation private sector banks are akin to PSBs and are subjected to same yardstick that of PSBs. We demand that these should be merged with PSBs, if the situation demands so. But, under no circumstances, the huge infrastructure, resources which have been nurtured over decades be handed over private entities. We vociferously call upon you to decline the amalgamation proposal.

10. We also take this opportunity to implore upon you for a comprehensive review of norms relating to NPA and Capital Adequacy which befits our country. Differentiated Capital adequacy norms should be introduced keeping in view the robust CRR/SLR deployments by the Banks, more especially of PSBs as they have sovereign backing up also. We also urge upon you not to allow any M&A in banking space. Para-banking/NBFC/HFCs should be denied permission to acquiring, taking over, any bank.

We would like to prompt that ***Banks belong to the billions and billions of people of this country, and should not be handed over to billionaires.***

With best regards,

Yours sincerely,

Sd/-

(Soumya Datta)
General Secretary
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