ALL INDIA BANK OFFICERS' CONFEDERATION

(Registered under the Trade Unions Act 1926, Registration No.3427/Delhi)

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Circular No. 2019/46 **Date: 02.09.2019**

To All Affiliates (Please Circulate)

Dear Comrade,

SAVE PNB SAVE INDIA

We have sent a communiqué to all Directors of Punjab National Bank's Board requesting them to oppose the proposed merger of United Bank of India and Oriental Bank of Commerce with PNB. Text of the letter is appended.

With greetings,

(Soumya Datta)
General Secretary

Text of Letter No. AIBOC/2019/67 dated 02.09.2019

Ref No. AIBOC/2019/67 **Date: 02.09.2019**

The Director
Punjab National Bank

Dear Sir,

SAVE PNB, SAVE INDIA

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

We are writing to you in the backdrop of the recent announcement made by the Union Minister of Finance and Corporate Affairs, Mrs Nirmala Sitharaman on 30th August, 2019 regarding the merger/amalgamation of United Bank of India and Oriental bank of Commerce with Punjab National Bank. We feel that this move is a unilateral imposition, which goes against the interests of all stakeholders of the banks.

AIBOC urges upon you as the respected Board Member of Punjab National 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 being thrust upon the Board of the banks by the Govt. showcasing scant regard for the independence and competence of the board. This has serious ramifications for the functional autonomy of the Bank Boards.

Further, you are well aware that the Board is currently deficient in constitution because of the non-appointment of Workman and Officer Directors, which is mandatory under the Bank Nationalisation Act(s) and the Schemes made thereunder, and/or other equivalent extant and applicable statutory provisions. Such unilateral decision has profound consequences for the Bank, and the Board cannot take such a crucial decision without the participation of such Directors. If the Board proceeds to deliberate on such a decision and eventually approves it, such procedure would clearly be illegal and vitiated for want of quorum. The provision(s) of law that validates such decisions despite a deliberate non-appointment of mandatory Workman and Officer Directors by the government are presently under challenge before Hon'ble Supreme Court (in TC(C) 21 of 2019, *AIBOC v. Union of India* and connected matters) and notice has been issued to the Government on the same. You are therefore requested to not consider the agenda item relating to merger or acquisition in the meeting of your Board prior to the appointment of such directors.

Furthermore, on the merits of the merger, independent of the processual issue noted above, we place before you the following points with regard to the Union Finance Ministry's proposal for merger/amalgamation of the three banks for your kind consideration:

1. Punjab National Bank has already experienced one disastrous merger with New Bank of India in 1993. RBI report dated 04.10.1999 states "The experience of bank mergers in the public sector has so far been limited to that of New Bank of India with the comparatively strong Punjab National Bank in 1993. The result of this merger was no different from the worst apprehensions expressed above. A direct result of the merger was that Punjab National Bank, a strong bank with uninterrupted record of profits, had to record a net loss in 1996 of Rs. 95.90 crore. The bank also had to face litigation and other problems especially relating to service conditions of the personnel taken over some of which are still persisting. The merger clearly demonstrated the futility of merging banks with different work cultures, ethic and skill levels of the employees whereby even the stronger bank was put to severe stress. Till today little evidence is available of any worthwhile advantage having accrued to Punjab National Bank from the merger".
2. PNB has recently come out of the red in the first quarter of the current fiscal after the humongous scam and its impact on the Bank. This was made possible due to the sheer commitment, dedication and diligence of the workforce in general and the vision of the board. At this point of time, the decision of the govt. on the board of the bank to absorb two more banks will again be a fiasco as that was witnessed in the SBI merger of Associate banks, which resulted in SBI posting a staggering loss of Rs 6547 crore in FY 18.
3. 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 wilful and skilful corporate defaulters rather than restoring the financial health of the banks.
4. In a note to the Parliamentary Estimates Committee on Bank NPAs, former RBI Governor Dr. Raghuram Rajan has termed bank mergers as a "non-solution" to the NPA problem. He has stated "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."

   It is a question to ponder why the Union Government going against such sane advice particularly at this juncture, when the GDP has administered a growth of just 5% marking the lowest growth since Q4 of FY 13. The PSBs are required to play a dominant role in revival of the economy, which could only possibly happen by making the individual banks stronger and not by merger of entities.
5. 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.
6. The claim that mergers/amalgamation always work to the advantage of all the stakeholders and lead to synergies and greater efficiency due to economies of scale is not borne out by evidence as has been stated in the foregoing. As things stand today, the combined balance sheet of the proposed new entity will have a CASA ratio of 40.52% (existing 42.16), CRAR ratio 10.77% (existing 9.73%), net NPA 6.61% (existing 6.55) which could only worsen further in the current fiscal.
7. 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 points noted above and other issues have to be discussed, deliberated on from the point of view of the workmen and the officers and that can be properly and effectively done only when their representatives are duly allowed to participate in the meetings and the decisions of the Board. You

are, therefore, requested to persuade the Government of India to take immediate steps to appoint such directors *prior to* consideration of any such agenda of merger or acquisition.

8. 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 and take a conscientious and prudent decision.

   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 favourable policy thrust from the Union Government and the apex regulator 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 Punjab National Bank with United Bank of India and Oriental Bank of Commerce.

We look upon you to save **Punjab National Bank** and **"Save India"**

With best regards,

Yours sincerely,

Sd/-
(Soumya Datta)
General Secretary
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