

ALL INDIA BANK OFFICERS' CONFEDERATION

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Date: 04.09.2019

To All Affiliates (Please Circulate)

Dear Comrade,

SAVE CORPORATION BANK SAVE INDIA

We have sent a communiqué to all the Directors of Corporation Bank's Board requesting them to oppose the proposed merger of Corporation Bank and Andhra Bank with Union Bank of India. Text of the letter is appended.

With greetings,

(Soumya Datta)
General Secretary

Text of Letter No. AIBOC/2019/71 dated 04.09.2019

Ref No. AIBOC/2019/71

Date: 04.09.2019

The Directors,
Corporation Bank

Dear Sir,

SAVE CORPORATION BANK, 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 Corporation Bank Officers' Organisation(CBOO) is the recognized majority organisation of officers in **Corporation 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 Corporation Bank & Andhra Bank with Union Bank of India. We feel that, this move is a unilateral imposition, which goes against the interests of all stakeholders. The decision taken by Finance Minister will beget havoc in the Indian economy.

AIBOC urges upon you as the respected Member of the Board of **Corporation 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, integration of technology platform, amalgamation of HR & cultural issues, financial health, morale of the officers and employees and the confidence of the bank customers.

Decision-making in respect of bank merger is happening through the Alternate Mechanism constituted by the Union Cabinet. Indian economy is indeed facing a financial crisis and it is adversely affecting all the spheres and this phenomenon is unfortunately manipulated by Government. Does the Alternate Mechanism has the necessary authority or mandate of the Parliament 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.

As a Director of the Bank, we are sure that you are aware of the economic situation in which the country is placed. Another economic slowdown and consequential financial crisis is apprehended by the economists. The sluggish economy is hitting every facet of the economic activity and this phenomenon is being portrayed differently by the Government. The GDP grew at 5% in the first quarter of FY 20, marking the slowest growth since the fourth quarter of FY13. We place before you the following points which are relevant to reckon the situation in which the country is placed and why the mergers and amalgamations are unwelcome.

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 provisioning for loans. How does merger/amalgamation help in the recovery of NPAs? The Net NPA of Corporation Bank is 5.71% and after consolidation of three banks, the figure will be 6.30 %. Amalgamation of balance sheets of the three banks will only alter the NPA and capital adequacy ratios through financial engineering, without helping the process of actual NPA recovery. This will only favour the willful and skilful corporate defaulters rather than restoring the financial health of the banks.
2. 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 noted, “We need concentrated attention by a high level empowered and responsible group set up by the government on cleaning up the banks. Otherwise the same non-solutions (bad bank, management teams to take over stressed assets, bank mergers, and new infrastructure lending institution) keep coming up and nothing really moves.”

Public sector banks are losing market share on account of increase in the corporate NPAs and Fintech companies, Payment Banks and the private sector banks are carrying out unfair means to earn profit ignoring the public interest completely.

It is a question to contemplate, why is the Union Government going against such sane advice, which emphasizes 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 has 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 them. 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 the 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 will 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, the recent experience of the merger of the SBI subsidiaries with the parent SBI and Bank of Baroda with Vijaya Bank and Dena Bank 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 Union Bank of India, Andhra Bank and Corporation Bank will have added complications since these banks have no history of shared business platforms. As things stand out today, the combined balance sheet of the proposed new entity will have NPA ratio 6.30 % (existing 5.71%), and Gross NPA ratio is 15.51% (existing NPA 15.35%) which could only deteriorate further in the next fiscal.
6. The organizational 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.
7. The FM is of the view that merger will lead to ‘large cost reduction potential due to network overlaps’. In reality, the cost reduction is achieved only through staff and branch rationalization which will be severely detrimental to the interests of the employees and will vitiate the industry climate. This will compound the existing unemployment problem by killing the current and future employment generation in the country.

8. As regards Corporation Bank, as you know a group of philanthropists of that day, under the visionary leadership of Khan Bahadur Haji Abdullah Haji Kasim Saheb Bahadur started the Bank on 12th March, 1906 with just Rs. 5000 as its capital to develop banking habits with Swadeshi touch among people of Udupi – the temple town of the then undivided South Canara District, Karnataka with motto of Bank being *Sarve Janah Sukhino Bhavanthu* – “Prosperity for All.” The Bank which started with first day business of 38 rupees, 13 annas and 2 pies has grown into a premier Public Sector Bank with total business of over Rs. 3 lakh crores and net worth of Rs. 16668 crores as on 30th June, 2019. During this journey of 113 years, the Bank has witnessed two World Wars and two worst famines and withstood them like a solid rock while hundreds of banks ceded to the crisis. The bank eventually emerged as a well-managed private sector bank. After nationalization in April, 1980, the Bank has grown rapidly by crossing business of Rs. 1000 crore in 1985. Subsequently, the bank pioneered in cash management service and grew as a market leader backed with strong financials. The bank received many laurels and stood out amongst peer banks by securing recognition of “Best Public Sector Bank under mid-sized Banking Category” consecutively, for several years during the dawn of this millennium. Today, Corporation Bank with over 2500 offices, 3000 ATMs and more than 300 e-lobbies across the country is recognized as one of the most customer-friendly and tech - savvy banks in the industry.

Today, the Bank has carved a niche for itself in the industry for its excellent and unparalleled customer service - with a fame of ‘Public Sector Bank with a Private Sector Service Culture.’ To realize the goal of financial inclusion, Corporation Bank has engaged more than 700 business correspondents to extend banking services to people from the un-banked area.

The Bank has developed a galaxy of products and services for the progress of customers nationwide. With Corp housing and car loan, the Bank has gone ahead to give wings to the long pending dreams of the customers. With Corp Signature, Corp Payroll and Super Premium Savings account, the Bank has gone ahead to serve the creamy layer of the working professionals. Corp MSME has been championing the young entrepreneurs to be the best in their business from the day of inception. The Bank has revamped the existing Internet Banking with a package viz., “FEBA”- Finacle e-Banking Application and the same has been made available to customers with effect from 10.09.2018.

Corporation Bank surpasses the benchmark of excellence, winning a galaxy of awards and accolades. The Bank has bagged three awards instituted by Chamber of Indian Micro Small & Medium Enterprises [CIMSME] consecutively for the 5th year in a row under the following categories:

- Best MSME Bank Award - Runner up (Emerging Category).
- CSR Initiatives & Business Responsibility Award - Winner (Emerging Category)
- Best Bank for Promotional Schemes Award - Runner up (Emerging Category)

The Bank also bagged “National Payments Excellence Awards - 2017” winner in commercial Banks Category B for excellent performance in RuPay Cards, instituted by NPCI for Financial year 2017-18 and was endowed with Investor Relations Awards - 2018. The Bank added a feather to its cap by bagging the Best Community Development Award in 2018. Bank was also conferred BEST MSME BANK-WINNER - 2018 award. Corporation Bank received three Aadhaar Excellence Awards instituted by Unique Identification Authority of India (UIDAI). Bank also bagged three SKOCH Order-of-Merit 2018 Award.

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, as such decision involves withering away of the institution itself.

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.

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 Union Bank of India, Andhra Bank and Corporation Bank.

Please express your views as per your conscience and not merely surrender to the diktat of the powers that be. Your opinion can make or mar the Bank's future and country's economic prospects. Say **No** to the proposal of merger. Kindly place your objections when such resolution comes up in the ensuing Board Meeting.

We wish that Corporation Bank should grow from strength to strength and hold its flag high.

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

With best regards,

Yours sincerely,

Sd/-
(Soumya Datta)
General Secretary
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