ALL INDIA BANK OFFICERS' CONFEDERATION

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Circular No. 2019/49 **Date: 04.09.2019**

To All Affiliates (Please Circulate)

Dear Comrade,

SAVE ANDHRA BANK SAVE INDIA

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

With greetings,

(Soumya Datta)
General Secretary

Text of Letter No. AIBOC/2019/70 dated 04.09.2019

Ref No. AIBOC/2019/70 **Date: 04.09.2019**

The Director
Andhra Bank

Dear Sir,

SAVE ANDHRA 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 All India Andhra Bank Officers' Federation (AIABOF) is the recognized majority association of officers in Andhra 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 the Andhra Bank & Corporation Bank with Union Bank of India. We feel that, this move is a unilateral imposition, which goes against the interests of all stakeholders of the banks. The decision taken by Finance Minister will beget havoc in the Indian economy.

AIBOC urges upon you as the respected Board Member of Andhra 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 loan loss provisioning. How does merger/amalgamation help in the recovery of NPAs? The Net NPA of Andhra Bank is **5.73% as on 30.06.2019** and after consolidation of three banks 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 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.

2. In a note to the Parliamentary Estimates Committee on Bank NPAs, former RBI Governor Dr. Raghuram Rajan had termed bank mergers as a "non-solution" to the NPA problem. He had observed:

   "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 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. Andhra Bank has a glorious history. Founded by the eminent freedom fighter and a multifaceted genius Dr.Bhogaraju Pattabhi Sitaramayya, the bank had a significant role in the Swadeshi movement. The bank which was registered was registered on 20 November 1923 and commenced business on 28 November 1923 with a paid up capital of Rs.100,000 (US$1,400) and an authorized capital of Rs.1 million (US$14,000), became a wholly owned Government bank in the second phase of nationalization in 1980. Andhra Bank was ranked 532nd for the year ended 31 March 2007 amongst Top 1000 Banks in the world by "The Banker" – a London-based publication based on Tier I Capital as defined by Basel's Bank for International Settlements (BIS). Andhra Bank has been doing yeomen service in the area of Financial Inclusion and is the regarded as the people's bank especially in the states of Andhra Pradesh and Telangana. Andhra Bank with it's massive branch network of 2885 branches with a strong workforce of 21817. The **Bank has been awarded as the "Second Best Performing Public Sector Bank" from PFRDA for the FY 2018-19 and MD & CEO of our Bank was awarded in APY "Leadership Capital" campaign by PFRDA.** If the proposed merger goes through, the glorious history of the Bank and its contribution in nation building will sink into oblivion.

6. 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 thing today the combined balance sheet of the proposed new entity will have NPA ratio 6.30 % (existing **5.73%**), which could only worsen further in the current and next fiscal.

7. 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. 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.

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 what your conscience tells you to and not merely surrender to the diktat of the powers that be.

We look upon you to save Andhra Bank and its identity.

With best regards,

Yours sincerely,

Sd/-

(Soumya Datta)
General Secretary
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