ALL INDIA BANK OFFICERS' CONFEDERATION

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Circular No. 2019/53 **Date: 10.09.2019**

<u>To All Affiliates (Please Circulate)</u>

Dear Comrade,

<u>SAVE ALLAHABAD BANK SAVE INDIA</u>

We have sent a communiqué to all the Directors of Allahabad Bank's Board requesting them to oppose the proposed merger with Indian Bank. Text of the letter is appended.

With greetings,

(Soumya Datta)
General Secretary

<u>Text of Letter No. AIBOC/2019/74 dated 10.09.2019</u>

Ref No. AIBOC/2019/74 **Date: 10.09.2019**

The Director,
Allahabad Bank

Dear Sir,

<u>SAVE ALLAHABAD BANK, SAVE INDIA</u>

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 Allahabad Bank Officers' Association (AIABOA) is the recognized majority Association of officers in **Allahabad 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 Allahabad Bank with Indian 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 Allahabad 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 merger is being thrust upon the board of the banks by the Govt. making scant regard for the independence and competence of the board. This has serious ramifications for the functional autonomy of the Bank Boards.

We place before you the following points with regard to the Union Finance Ministry's proposal for merger/amalgamation of the three banks:

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? 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 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.

3. 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.

4. 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 as has been stated in the foregoing.

5. 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.

6. Allahabad Bank has a glorious past. This is the oldest Joint Stock Bank of the country being established on 24th April, 1865.The history of Allahabad Bank is intrinsically linked with the development of trade and industry in India. The merger of Allahabad Bank at this stage will erase this glorious past while ignoring the recent accolades of the bank by way of being awarded the IBA Banking Technology 2019 award in the medium Bank category, Best Payment Initiatives award, Best Financial Inclusion initiatives award and the most innovative product using technology award. The bank was also adjudged as “Best Bank in Financial Inclusion amongst medium Banks. Allahabad Bank has been playing an important role in the state of **West Bengal** where out of the total credit outlay of Rs. 173075 crore, the share of the bank is Rs 19385 crore. The bank's Provision Coverage Ratio of around 75 percent is one of the soundest in the banking industry and still the bank could turn around and register a net profit of Rs 128 Cr in Q1 of the current fiscal credit for which should go to the entire family of Allahabad Bank including the honourable Board, the supreme policy making authority in the Bank.

7. Allahabad Bank is also the leading bank In the State of **Uttar Pradesh** where the business of the bank is around Rs.1 Lakh crorespread over nearly 1000 branches with a highly diversified priority sector oriented customer base. You will appreciate that in the backdrop of the business profile of the bank and its geographical spread no synergy of operation will be achieved by its forced merger with Indian Bank.

8. 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 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 Allahabad Bank with Indian 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. Please do not allow the government to claim that the proposed mergers were 'voluntary' and 'board driven' and not imposed upon.

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

With best regards,

Yours sincerely,

Sd/-
(Soumya Datta)
General Secretary
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