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Merger and Amalgamation of Urban Co-Op. Banks

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Introduction :-

Approach towards Consolidation:

The committee on Banking sector reforms chairman : M. Narasimham, 1997 Observed and recommended, in respect of structural issues (consolidation and convergence) of the indian banking system in general and cooperative banks in particular, that

- (i) Mergers should not be seen as a means of bailing out weak banks
- (ii) A case by case examination of weak bank! should be undertaken to identify those which are potentially revivable with a programme of financial and operational restructuring.
- (iii) The UCBs should also be brought within the ambit of the board of financial supervision (BFS) the duality in control (by registrar and RBI) should be dispensed with,
- (iv) all the cooperative banking institutions should come under the discipline of banking regulation (Act, 1949)

The Laws governing Amalgamation and mergers issues of UCBs

- (a) The (state) cooperative societies Acts,
- (b) The multi state cooperative societies Act, 2002
- (c) The banking regulation (As applicable to cooperative societies) Act, 1949
- (d) The deopsit insurance corporation Act,1961

Amalgamation and merger between or among UCBs having exclusive area of operation within the same state and at their own initiatives

Sec. 17 (1) : A cooperative society (UCB), inter-alia is empowered to decide on it's A amalgamation with another society (UCB), with the previous approval of the registrar. however, a decision in this regard should be taken by the cooperative society in a special general meeting called for the purpose with two-thirds majority of the members present and voting for the resolution moved for the purpose. the registrar is empowered to accord approval to the proposal only if

- a. The cooperative society after passing the said resolution, had given notice to all its members, creditors and other interested persons, thereby, giving them the option (to be exercised within one month from the date of receipt of such notice) of becoming

members of any of the new cooperative societies of their share or interest or dues proviso, and

b. All members land creditors and other interested persons have assented to the decision or deemed to have been asented (if failed to exercise the option within one month from the date of receipt of notice proviso it)

c. all the claims of members and creditors and other interested persons who exercised the option have been met in full or otherwise satisfied (sec. 17(1) proviso (iii))

Effect of Amalgamation and Merger and Transfer of Assets and Liabilities :

1. I Regardless of anything contained contrary to the provisions of Transfer of property Act, 1882, the resolution of the cooperative societies concerned with amalgamation shall become sufficient conveyance to vest the assets and liabilities of the societies in the amalgamated society.
2. The amalgamation of cooperative society is not to affect the rights or obligation of the cooperative societies so amalgamated or not to render any legal proceedings defective which might have been continued or commenced against societies which have been amalgamated.
3. As and when two or more cooperative societies have been amalgamated, the registration of such cooperative societies should be cancelled on the date of registration of amalgamated society.

Amalgamation and Merger of UCBS - HR Related problems: Fitment of personnel:

Under sec.45 of the Banking A Regulation Act,1949, the Reserve bank is given the right of resolving any doubt or difference as to whether the qualifications and experience of another set of employees, [Proviso to sec.45(5) (i)] In a scheme of amalgamation of cochin Nayar Bank (Transferor Bank), the Reserve Bank, in the process of integration of employees, equated 3 years of service of the employee in the transferor bank with one year service in the transferee bank. This scheme of reserve bank of india was held proper by the court. (1978 S.L.R. 585)

Right of employees tranferred to another Bank :

The right of the employees in the transferor bank is that the transferee bank would treat them at par with its own employees of corresponding rank or status subjected to the qualifications and experience. the only right of such employee whose service is continued, therefore, is to claim of corresponding rank of status subject to equivalent qualifications and experice and nothing more, in other words, if the scheme provides for continuance of the service of three years from the date on which the scheme is sanctioned, the tranferee bank cannot discriminate between such employees and its other employees or corresponding rank or status.

Arrears of salary is liability to be discharged by Transfer or Bank :

As far as service conditions are concerned, the arrears of salary is a liability to be discharged by the transfer or bank and not the transferee bank.

Age of retirement according to the rules of the transferee bank :

After amalgamation of banks, employee services were continued in the transferee bank. It was held that the terms and conditions of service in the transferee (amalgamating) bank were not protected and they only had a right to claim parity with other employees of transferee bank. Hence, it was held that the employees of transferor bank were not entitled to the benefit of higher retirement age on the basis of service conditions in erstwhile bank.

Liability of the Transferor Bank :

Generally, the liability of transferor bank is limited to the extent specified in the scheme of amalgamation prepared by the Reserve Bank of India. However, that does not absolve the transferee bank from other contractual obligations of the transferor bank which are not governed by the scheme if such obligations are made binding on the transferee bank, because of other statutory provisions. One such matter is the appointment of legal heirs of deceased employees on compassionate grounds.

Merger and Amalgamation of UCBs:

Merger and amalgamation provides an inorganic route for expansion, facilitating in the process consolidation, and emergence of strong entities and also paving the way for non-disruptive exit of weak unviable entities. In view of these merits, the Reserve Bank provided transparent and objective guidelines for granting no-objection to merger proposals. The Reserve Bank looks into the financial aspects of the merger only with a view to protecting the interests of depositors and financial stability. Almost invariably, banks voluntarily approach the Reserve Bank to obtain no objection for their merger proposal.

Guidelines on mergers are intended to facilitate the process by delineating the pre-requisites and steps to be taken for merger between banks.

The process of merger and amalgamation is elaborate. The application for merger giving the proposed scheme has to be submitted by the acquirer bank to the Registrar of Cooperative Societies (RCS)/Central Registrar of Co-operative Societies (CRCS) and a copy of the proposal is simultaneously forwarded to the Reserve Bank along with certain specified information. The Reserve Bank examines the proposals and places the same before an expert group for screening and recommendations. On evaluation, if the proposal is found to be suitable, the Reserve Bank issues no objection certificate (NOC) to the RCS/CRCS and the banks concerned. RCS/CRCS, being the authorities vested with the responsibility of administering the Co-operative Societies Act, then issues the order of amalgamation of the target UCB in compliance with the provisions of the Act under which the bank is registered. Pursuant to the issue of guidelines on merger of UCBs, since February 2005, Reserve Bank received 107 proposals for merger in respect of 92 banks. The Reserve Bank has issued NOC in 68 cases. Of these 61 mergers became effective upon the issue of statutory orders by the RCS/CRCS concerned.

- **Conclusion :**

1. Lack of professionalism
2. Political interference and inefficient now how to policy makers

3. Un-licened UCBs
4. Low level of computerization due to lower fund availability
5. No central recruitment - faulty recruitment system, excess staff, poor skill upgradation
6. Low level of operational efficiency
7. High operating cost

• **References :**

1. RBI bulletins
2. Sahkari Maharashtra
3. CAB, Pune
4. MSC Act,1960
5. www.rbi.org.in

