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VOLUNTARY RETIREMENT SCHEME (VRS) IN PUBLIC SECTOR BANKS (PSBs) PARTICULARLY, THE STATE BANK OF INDIA (SBI)

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ABSTRACT

"Don't simply retire from something; have something to retire to."- Harry Emerson

Through the New Economic Policy of 1991, the Indian Government relaxed and removed restrictions on import and export. Significant changes in industrial and business sectors were observed. One of its important aspects is the Exit Policy, under which the business and industrial establishments are allowed to reduce their excess staff and employees. The Enterprise Reform Programme engendered downsizing bringing in its wake trauma for the employees. In order to allay the social impact caused and to eliminate unnecessary legal hurdles and complex procedures established under the Industrial Disputes Act 1947, the 'Voluntary Retirement Scheme' was introduced. It includes attractive severance package, training, retraining and redeployment programmes. The Narasimham Committee II came up with certain objectives for the banking reforms in India, and with this it also suggested introduction of Voluntary Retirement Scheme in the banks, wherever necessary, to reduce over manning. As a result, VRS was introduced in all public sector banks except Corporation Bank on non-discriminatory basis. This was accepted by more than one hundred thousand bank employees in different cadres and were allowed to retire. What makes the scheme a headline issue today are its contradictory objectives where on one hand it is spoiling the permanency of employment and on the other hand it takes about improved productivity and labor alignment. The impact of the scheme on employees, employers and on the society will be manifold and it will take decades to assess its real repercussions.

KEYWORDS: Voluntary Retirement; Sec 10(10C) of the Income Tax Act 1961, Rule 2BA of Income Tax Rules, 1962; Impact; Public Sector Banks- State Bank of India (SBI).

OBJECTIVES OF THE STUDY:

- To find out the reason for opting VRS and vice versa.
- To analyze & highlight the impact of VRS on working force of the Public Sector Banks and on working of the branch.
- To analyze the performance of bank since the initial phase i.e., 1996-97- post and pre VRS.

RESEARCH METHODOLOGY: The paper is based on Secondary data and the source of the data are mentioned in the references.

INTRODUCTION

As the name states, VRS is an early voluntary retirement scheme, wherein the subordinate is given an opportunity to retire early for an agreed compensation. Voluntary Retirement Scheme is approved with the sole purpose of easing the impact of job loss to the job losers. Owing to this very reason it is also known as "Golden Handshake", which is a clause in an executive employment contract. It caters the executive with weighty severance package in case of job loss through firing, restructuring etc. In India these types of benefits are on the higher side. Ordinarily, packages are offered to satisfy/attract the employees. In India owing to the involvement and hesitations of trade union movement against the process, the payment is set at a very lucrative term. The process intents at clipping the work force both quantity wise and quality wise to boost labor efficiency. The economy was opened before the globe due to the break of economic liberalisation. Predominantly the shift from 'man to machine' have feed the ways and means for 'the concept of early retirement'. It is the most human retirement technique used by the companies for the workforce employed in the industrial unit. It is a magnanimous, tax free severance payment given to the employees.

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What makes it a headline issue is its nature, whereby it has put axe on the permanency of employment which was gained over the decades of struggle by the working class.
Employers refer it as 'Golden Handshake', trade unions call it 'voluntary retrenchment scheme', and for the government it is 'unstated exit policy' which means that it is not codified. It was introduced in the early 1980s in the Central Public Sector Undertakings (PSUs) to reduce the extra labour force.
Voluntary Retirement Scheme is utilized as an exit policy by the businesses to optimally plan and further develop its human resources, covering the Human resource planning and development aspects.

LITERATURE REVIEW

Income Tax deduction

The Sec 10(10c) of the Income Tax Act 1961 states, "any amount received by an employee of a public sector company on voluntary retirement is exempted up to Rs 5 lakh." Furthermore, if an employee receives Rs 6 Lakh, he/she will be liable to pay tax on Rs 1 lakh.
The second proviso to Sec 10(10c) of the Income Tax Act, 1961 provides that no exemption will be allowed after the first assessment year.

Rule 2BA of Income Tax Rules, 1962

Rule 2BA is basically a set of guidelines for the Section 10(10C), that details about taxable income/amount received by an employee under VRS scheme. The aforementioned Rule doesn't touch upon the expenditure incurred by the employer once the assessee pays the payment beneath the VRS scheme developed by them. The Section 35DDA and the prescribed rules, if applicable, deals with the treatment of expenditure or outgoing of the employer. Requirement of Rule 2BA (i) is not applicable in case an amount is received by an employee of a public sector company under the Voluntary Retirement Scheme formulated by such public sector undertaking.

Eligibility Criteria

Though the eligibility criteria differ from company to company but conventionally it applies in the following cases:
(i) Employees attained 40 years of age or completed 10 years of service.
(ii) Applies to all including workers and Executives but excluding the Directors of the Company.

Withal, a business firm may opt for a Voluntary Retirement Scheme under the following circumstances:
(i) Due to recession in the economy;
(ii) Globalization;
(iii) Businesses become unviable due to intense competition in the market;
(iv) Due to mergers, acquisition and takeovers;
(v) Due to decline in productivity;
(vi) Due to change in management and business environment;
(vii) Due to obsolescence of Product/Technology;
(viii) Due to joint-ventures with foreign collaborations.

Steps to introduce and implement the scheme

1. In case a company is a Public Sector Undertaking, prior approval of government is a necessity.
2. Employees above 40 years of age and one's with more than 10 years of service can avail the benefits of the same.
3. Union of employees to be informed regarding the scheme introduction in the firm.
4. Communication to employees through circular or other means.
   4.1. Circular content
      The employer issues a circular communicating the decision to offer VRS mentioning-
      (a)- detailed reasons for downsizing;
      (b)- eligibility criteria to apply for the same;

(c)- benefits offered;
(d)- the rights of an employee to accept and reject such applications for VRS;
(e)- date upto which the scheme is open and such applications are welcomed;
(f)- indicate Income Tax incidence (optional);
(g)- schemes not eligible in future for employment in the establishment.

5. For implementation counselling is a necessity.
6. After receipt of application, they are scrutinized for decision making.
7. Worksheet prepared for the accepted applications, which includes benefits as well as other dues like provident fund, gratuity, tax incidence etc.

Merits of Voluntary Retirement Scheme

1) There is no legal obstacle in implementing the scheme, which makes it the most human way to reduce the excess workforce and due to which the firm's reputation remains intact.
2) The employees are offered an affective financial payment than what is granted under retrenchment laws.
3) The nature of the schemes debars the need for enforcement, which may incite more conflicts and disputes.
4) Flexibility in application to certain divisions, departments with excess manpower, granted.
5) Lowers the overall cost as allows savings in employee costs. Despite initial upfront cost it reduces payroll costs or wage bills remarkably over a period of time.

Negative consequences due to Voluntary Retirement Scheme

1) Give rise to the fear of uncertainty and sense of insecurity among employees.
2) Sporadically possible gains are outweighed owing to the heavy severance costs.
3) Trade unions protest the operating of such schemes causing disturbance in normal operations.
4) May result in reduction of the company's skill base, which will prove to be a huge loss to the management as some of the good, capable and competent employee may also apply for separation.

Hurdles in implementing VRS:

Problems may arise while implementing the scheme, as it deals with the lives of those who are given an opportunity to end their careers instantaneously and apparently do nothing for the rest of their lives. A few problems are forecasted by the management and appropriate action plan was drawn for it (Chitra, 2004). Basic problems are:

(i) Non acceptance of VRS
(ii) Over acceptance of VRS
(iii) Operational problem
(iv) Post VRS Blues

Vital bar in the acceptance of the scheme is trade union. Unions does not easily welcome any type of change even made with genuine reasons. Furthermore, over acceptance of VRS in (Chitra, 2004) PSU banks also faced the same issue.

Post Voluntary Retirement Scheme Measures:

To maintain the morale of the retiring employees' firms usually take few measures. Separate scheme for Counseling, Retraining and Redeployment (CRR) of retired employees of central public sector enterprises (CPSEs), are run by many nodal agencies covering the Human Resource Development aspect.

IMPACT OF THE VOLUNTARY RETIREMENT SCHEME ON THE PUBLIC SECTOR BANKS (PSBs)

The Indian banking system is experiencing the dynamic nature of the environment. What matters the most in any economic system is the structure and the size of the financial sector, to achieve sustained economic growth. The financial sector acts as a medium for the transfer of financial resources from savers to borrowers. The economic functions of financial sector in terms of liability asset transformation are described by Rangarajan (1998, pp.130); size transformation; risk transformation and maturity transformation. Consequently, sizeable financial development would mean improvement in efficiency of the banking sector, leading to higher growth, both at the firm level and the macro level. Surplus employees are one of the main reasons for low profitability of PSBs. Furthermore, research shows that comparatively high establishment costs and low business per employee are in support of the scheme as well as in support of rightsizing public sector banks. As a result, in September 2000 all the chief executives of nationalized banks were asked by the Union finance ministry to quickly prepare a VRS. Between November 15, 2000 and March 31, 2001 VRS was introduced in all public sector banks except Corporation Bank on non-discriminatory basis. For the first scheme Indian Banking Association guidelines were followed and it was open to all permanent employees with 15 years of service or 40 years of age.

After implementation of the scheme following issues were observed, which objectives of this study are:

(i) The banks were supposed to fund the scheme by themselves either through their own funds or by taking loans from other banks/financial institutions or any other source.
(ii) It was thusly formulated that no new staff would be provided to replace the retired staff.

The Unprecedented Outcry Against VRS in The State Bank of India (SBI)

In 1955 through an Act of Parliament the State Bank of India was formed and it took over the Imperial Bank. The State Bank of India group comprises of seven associate banks, namely:

1. State Bank of Hyderabad
2. State Bank of Indore
3. State Bank of Mysore
4. State Bank of Patiala
5. State Bank of Saurashtra
6. State Bank of Travancore
7. State Bank of Bikaner & Jaipur

Since the bygone era, the State Bank of India was considered to be the largest bank in India in terms of network of branches, revenues and workforce with its wide range of services offered for both personal and corporate banking.

Research reveals that, in February 2001 the Voluntary Retirement Scheme (VRS) introduced by this largest public sector bank (PSB) of India faced severe opposition from its employees. In December 2000, the scheme was approved by SBI board in response to the Federation of Indian Chambers of Commerce and Industry's (FICCI) report on the banking industry, which read about 35% overstaffing of the Indian banking industry. Ergo, in order to trim the workforce and reduce staff cost, the Indian Banks Association (IBA) drafted a VRS package for the PSBs, further approved by the Finance ministry. SBI introduced the Voluntary Retirement Scheme as a 'Golden Handshake,' but owing to various reasons it was perceived to be a retrenchment scheme by its employee unions. They asserted that NPAs were the real problem that plagued the banks and therefore introduction of VRS was completely unnecessary. Unions were of the opinion that the reason behind the closure of rural branches due to acute manpower shortage would be VRS.

Therefore, it was alleged that the introduction of this scheme was a result of improper manpower planning. In February 2001, a directive altering the eligibility criteria for VRS for the officers was issued by SBI and in its consequence, applications of around 12,000 officers were rejected. The officers whose applications were rejected formed an association called SBIVRS optee Officers' Association to oppose this SBI directive. They claimed that a discriminatory policy in granting the VRS was adopted by the bank.

Consequently, after its implementation a decrease in the SBI’s net profit was observed from Rs 25 billion (1999-00) to Rs 16 billion (2000-01). Apart from this, SBI’s average estimated cost per head for implementation of VRS and its seven associated banks was calculated to be Rs 0.65 million and Rs 0.57 million respectively.

The State Bank of India & Other Banks- Comparison

In accordance to the reports, staff costs for 1999-2000 worked out to Rs 4.5 billion as against Rs 4.1 billion in 1998-99. In addition to this, the emergence of competition from the new private sector banks (NPBs) further added to SBI's problems. The NPBs were technologically advanced to make up for their size unlike SBI which had 9,000 branches, and merely 22% of those (1935 branches) were connected through Internet. In contrast all of HDFC Bank's branches were connected by internet. In 2000 it was revealed that in comparison to HDFC’s net profit per employee (Rs 0.96 million) was very less that is, Rs 0.43 million only. Not only this but also the NPA level of SBI was calculated to be around 7.18% as against HDFC's 0.73%
Analysts asserted that the strengths of SBI that is, reach, customer base and experience had now become its biggest problem. Thus it won’t be wrong to conclude that the technological tools like ATMs and the Internet had completely changed banking dynamics. To protect its business and remain profitable, SBI implemented VRS as a part of an over-all cost cutting initiative.
The Voluntary Retirement Scheme package provided (whichever of these is less) 60 days' salary for every year of service or the salary to be drawn by the employee for the remaining period of service. 50% of the payment was to be made immediately, while the rest could be paid in cash or bonds. The pension or provident fund could be availed as per the option exercised by the employee. It was offered to the permanent staff who had put in 15 years of service or were 40 years old as of March 31, 2000.

The Unprecedented Protest

The unions alleged the move was taken in haste without undertaking proper manpower planning and further professed that it would lead to acute shortage of manpower in the bank. Further, they also asserted that the move would not be feasible as there was an acute shortage of officers in the rural and semi-urban branches, which were yet to be computerized. Moreover, it was also alleged by them that the management was compelling its employees to opt for the scheme without their willingness. They further mentioned that the retirement age was bought down from 60 years to 58 years to pressurize the senior bank officials. Diversification policy of business as planned in December 2000, with the French insurance company Cardiff, for entering the life insurance business was further questioned. They were of the opinion that it would significantly boost workforce burden and, will adversely affect the customer services. The unions claimed the scheme to be counterproductive as the increased business would not be properly handled. Despite all the protests, approximately 35,000 applications for VRS were received by the bank. Though the policy was meant for reducing the clerical and the sub-staff, but the maximum number of optees turned out to be from the officers’ cadre. Analysts pointed out the following reasons owing to which the clerical staff didn’t opt for the VRS:

S.No.	**Various reasons to reject the Voluntary Retirement Scheme (VRS)**		
1.	**Financial Reasons**	**Job Related Reasons**	**Personal Reasons**
1.1	Scheme was not attractive financially	Happy with the present job	Family responsibilities
1.2	No alternative Employment/ Business opportunities	Expecting another opportunity of VRS	Other reasons
1.3	Not eligible	Better promotional prospectus after VRS	
		Better working conditions after	

		VRS	

According to reports, 33% of the total officer cadre in the bank opted for VRS and the total number of applications from officers worked out to 19,295.
Seeing the situation SBI decided to issue a circular allowing only those officers to opt for the scheme who had crossed the age of 55 years. Through another circular SBI further barred the treasury managers, forex dealers and a host of other specialized personnel, from seeking VRS in addition to those employees who had not served rural terms. Those who were doctorates, MBA's, Chartered Accountants, postgraduates in computer applications, were declared to be not eligible for the same. In another circular, SBI restricted the loan facilities to the personnel who had opted for the Voluntary Retirement Scheme. Only those were asked to pay interest at the market rate who wished to continue a housing loan even after accepting VRS. After these restrictions, only 13.4% of the officers were left eligible for VRS instead of the earlier figure i.e., 33%. Those applicants who couldn't meet the newly set eligibility criteria alleged that the bank was practicing discrimination in implementation and mentioned that no other banks had introduced such criteria's and denied the VRS opportunity to the officers.
Media reports declared SBI's VRS implementation decision as arbitrary, discriminatory and belying the voluntary character of the scheme. Various valid contentions were made which believed that if the bank was so particular about the fact that only 10% of its staff leave under the Scheme, then it could have closed the scheme immediately after receiving the required number of applications. It was asserted that the 35,000 applications (14% of the total workforce) could not be considered high as against the response received by other public sector banks such as Syndicate Bank (22%) and Punjab & Sind Bank (19%), where all the applications that were received were all accepted for VRS. As mentioned above in March 2001 the officers who were denied the VRS formed an action group and accused SBI for violating the guidelines of the Government and the Indian Banks Association.
A delegation of VRS-denied officers while accusing SBI mentioned that any shortfall in the number of officers could easily be met by promoting suitable clerks by citing the example of Syndicate Bank, where approximately 1,000 clerical staff was promoted to the officer's level. Across India various petitions were filed in the High Court's challenging SBI's decisions. The association even met the Finance Minister and further submitted a memorandum to the SBI management.

Post VRS Days

In accordance to the reports, it was said that by March 2001 SBI's total staff strength was expected to come down to around 2,00,000 from the pre-VRS level of 2,33,000. Because an average of 5000 employees were retiring each year, therefore the analysts declared VRS as an unwise move. By end of 2001, SBI had relieved over 29,000 employees through the VRS. Observing this, the analysts mentioned about the tremendous increase in the workload on the existing workforce.
As per the reports of Industry Watchers, by 2010, the entire SBI staff that was recruited between mid of the period that is, 1960 and 1980 would retire. Consequently, SBI would lack sufficient workforce to manage over 9000 of its branches. SBI after this faced another major hurdle in the form of the Government's proposal to scrap the Banking Service Recruitment Board (BSRB) because the bank at this point lacked expertise in recruitment procedures.
In the post-VRS scenario, SBI planned the following:

1. to merge the 440 loss-making branches and
1.1. announced redeploy additional administrative manpower to frontline banking jobs.
2. to reduce its regional offices from 10 to 1 or 2 in each circle.

In August 2001, after the daily concurrent audit got affected it was made mandatory for a single officer to take charge of 3 or 4 branches.
According to the reports, in various departments like internal audit, concurrent audit, monitoring, inspection of borrowals acute shortage of staff was observed. It was later revealed that those employees who had a high workload went on work-to-rule agitation, blaming the scheme for their problems.

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Analysts believed that the State Bank of India must take serious steps to restructure its HRD policy with a sole objective of restoring its employee's confidence and retaining the talented personnel. Despite many strong organizational strengths and an excellent training system, SBI had lost its experts to its competitors. Ergo, it was also highlighted that the employees of mostly all the new private sector banks were former employees of the State Bank of India. The framers themselves flouted bank's well-defined promotion policy and, consequently, employees with good track records were sidelined most of the times. Owing to the reason that the hard work was not praised and was frequently sidelined, the bank received maximum VRS applications from the officer cadres as they were demoralized and de-motivated for the most of the time. What had dealt a severe blow to the employees of the organization is its arbitrariness and insensitivity at the corporate level. The much awaited moment was whether SBI would be able to reorganize its HRD policy and retain its talented personnel or not.

THE TRIUNE: SUGGESTIONS, INNOVATION, AND GLOBALISATION:

Due to retirement, many employees might face personality issues. With the job loss they might lose the self-confidence as well. This can be overcome by forming a voluntary organisation among them wherein the retired personnel can join it and can further solve their respective problems faced after retirement. Moreover, the government can also participate in the same by creating awareness amongst them on how to utilize the compensation in the proper way like investing in shares and debentures etc. By considering aforementioned suggestions, the organisations can also focus on developing its employees who have separated from the firm covering the Human Resource Development aspect even after separation. The following update on some of the issues faced would make the triune easy to understand:

Update on the then existed scenario

The reports show, that approximately 20 percent of the staff in public sector banks was to be retired by 2015, forcing the Reserve bank of India to term the decade ending 2020 as the decade of retirement.

The Khandewal Committee, which was set up to look into human resource matters in the banking sector, in its report mentioned that the next two and a half years will see retirement of 80 % at general manager level, 65 % at deputy general manager level, and 58 % at the assistant general manager level.

The crisis was a result of the voluntary retirement scheme, which was launched in the 1970s and 1980s after the nationalisation of banks, and later in the 1990s owing to the introduction of computers.

CONCLUSION

Through this research all the possible attempts have been made to know more about VRS i.e., Voluntary Retirement Scheme and its impact on the Public Sector Banks. Additionally, attempts have also been made to find out the reason for not opting VRS and vice versa. The research also aimed at analyzing & highlighting the impact of VRS on existing employees and on working of the branch. Withal, the performance of banks since 1996-97- post and pre VRS is also analyzed through this study.

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