NOTE ON PENSION UPDATION IN THE BANKING INDUSTRY

Some Crucial but Less Discussed Facts and Issues

1. Background and Basic Philosophy of the Pension Scheme

The pension scheme was introduced in the banking industry in 1995 after a long struggle and sustained organisational persuasion. It was designed broadly on the lines of the **Defined Benefit Pension Scheme** then existing in the Government sector and in the Reserve Bank of India (RBI).

The fundamental objective of introducing the Defined Benefit Pension Scheme was to provide bank retirees with a **secure, assured and risk-free financial benefit during their post-retirement life**, thereby serving the larger objectives of social security and social welfare.

The importance and legal character of the scheme were further strengthened by framing Pension Regulations with the prior consent and approval of the Government of India. These Regulations were notified in the Gazette of India and given statutory force. Significantly, **Regulation 56** was incorporated in the Pension Regulations, 1995, reflecting the intention that the banking pension scheme should operate broadly on the principles applicable to Government and RBI pensioners.

In the Government sector, periodic pension updation has become an accepted and established practice, particularly following the Fifth Pay Commission and the historic judgment of the Constitution Bench in **D.S. Nakara**.

RBI has also, with the approval of the Government, undertaken periodic exercises for updation/revision of basic pension. Three such exercises have taken place in recent years, demonstrating that pension updation is neither conceptually impossible nor financially unmanageable when there is institutional willingness to address the issue.

The fundamental question, therefore, is:

Why should bank pensioners, who were covered by a Defined Benefit Pension Scheme created on comparable principles, remain deprived of periodic pension updation for decades?

2. Dilution of the Spirit and Provisions of Pension Regulations

Since the introduction of the pension scheme in 1995, **six wage settlements** have been concluded over a period of nearly 30 years.

Among the important developments are:

- Introduction in 1998 of the concepts of **notional basic pay** for calculation of basic pension instead of the actual basic pay drawn at the time of retirement, resulting in a significant reduction in pension benefits.
- Non-implementation for a prolonged period of the provision relating to **100% Dearness Allowance** TO PRE-2002 Pensioners, despite the corresponding principle followed in RBI.
- Introduction from 2012 of **Special Allowance**, which was not reckoned for computation of basic pension, thereby creating an additional disparity between serving employees and future pensioners.
- Introduction of different index bases for Dearness Relief, resulting in different treatment of different generations of pensioners in 12^{th}
- Introduction of ex-gratia in the 12th Bipartite Settlement while excluding pensioners from the private sector, despite the fact that their pension arrangements are also governed by bilateral/bipartite settlements.
- The **Record Note of 2015**, which caused considerable concern among retirees regarding their existing and legitimate pension rights.

The cumulative effect of these developments has been a gradual departure from the original concept of pension as an instrument of **social security and social welfare**.

Instead of strengthening the pension system, successive settlements have, in several respects, diluted its original spirit. The issue of pension updation has consequently become a serious and growing backlog.

3. Discriminatory Approach Towards Pensioners During Negotiations

The system of bipartite negotiations has existed in the banking industry since 1966 and has been used to determine and periodically revise service conditions and superannuation benefits.

However, there appears to be a fundamental difference in the approach adopted towards serving employees and retirees.

While considering salary and allowance revisions for serving employees, several factors are considered, including:

- growth of the banking industry;
- profitability and financial strength of banks;
- paying capacity of employers;
- economic growth of the country;
- technological advancement; and
- the need to attract and retain talent.

There is no objection to this broader approach. Indeed, it is necessary for the healthy growth of the banking industry.

However, when the issue of pension updation is raised, these broader considerations appear to be replaced by arguments relating primarily to **fund availability, financial burden and paying capacity**.

This raises an important question:

Why should the economic and financial capacity of the banking industry be considered while revising salaries of serving employees but be disregarded when the legitimate pension rights of retired employees are considered?

More importantly, successive settlements have been signed without resolving the fundamental issue of pension updation.

This has resulted in increasing dissatisfaction and frustration among nearly **7 lakh bank pensioners**, many of whom have been waiting for updation for decades.

4. Selective Approach Towards Pension Updation

Another important issue is the **selective approach** adopted towards pension updation.

Whenever an exercise concerning pension revision or improvement of pensionary benefits has been undertaken, it has generally been linked to a particular settlement or category of retirees. Pensioners who retired under earlier settlements have consequently remained outside the benefit.

This approach fails to recognize a fundamental reality:

The longer a pensioner has been retired, the greater is the erosion in the real value of his or her basic pension.

A pensioner who retired 15, 20 or 25 years ago cannot reasonably be expected to maintain the same standard of living on an **unrevised basic pension** while the cost of living has increased substantially.

The issue is particularly serious in the case of very old pensioners. Those who retired in or before 2000 have already waited for more than 25 years for pension updation. Their number has now declined substantially due to mortality.

This creates a compelling humanitarian and social justice dimension to the demand.

The principle of **"last in, first considered"** cannot be allowed to become a permanent substitute for comprehensive pension updation.

A rational updation policy must take into account the entire body of pensioners, including those who retired under earlier settlements.

5. Is the Bank Pension Scheme Really a "Funded Scheme"?

A major issue requiring serious examination is the repeated description of the bank pension scheme as a **"funded pension scheme."**

The pension scheme in the banking industry is essentially a **Defined Benefit Scheme**. The benefits are determined under the Pension Regulations.

For example:

- Regulation 35 deals with computation of basic pension;
- Regulation 37 deals with Dearness Relief on basic pension; and
- Regulation 41 deals with commutation.

The entitlement of a pensioner arises from the Pension Regulations and is not dependent merely upon the amount standing to the credit of a pension fund on a particular date.

The pension fund is intended to ensure that the statutory pension liabilities of banks can be met and provides an additional financial safeguard. **It should not, however, be confused with the fundamental principle governing a Defined Benefit Scheme.**

In a Defined Benefit Scheme, the **benefit determines the liability and the required corpus**, rather than the size of the corpus determining the pensioner's legal entitlement.

Thus, the appropriate question should not be:

“**How much money is available in the pension fund?”**

but rather:

“What pension is legally and reasonably payable to the pensioner under the Defined Benefit Scheme, and accordingly funds in the pension fund need to be provided.”

The annual actuarial assessment of the adequacy of the pension fund is intended precisely to address this issue.

6. Difference Between Defined Benefit and NPS

It is useful to distinguish the banking Defined Benefit Pension Scheme from the National Pension System (NPS).

Under NPS, the eventual pensionary benefit is substantially linked to the performance of the accumulated corpus and the investment returns generated on it. Better investment performance can result in higher benefits, while lower performance can adversely affect the benefit.

The individual contribution/corpus is identifiable and quantifiable for the individual subscriber, and the structure of the scheme is therefore fundamentally different.

In contrast, under a **Defined Benefit Pension Scheme**, the pension benefit is determined according to prescribed rules and formulae.

Therefore, describing the bank pension scheme merely as a "funded scheme" and using the size or availability of the fund as the principal argument against pension updation is conceptually misleading.

It is particularly unfortunate if such an argument remains unchallenged during negotiations.

The distinction between **"funding of a pension liability"** and **"determination of the pension benefit"** needs to be clearly understood and forcefully placed before the negotiating authorities.

7. Pensioners Are Major Stakeholders in the Pension Fund

There are presently about **7 lakh active pensioners** and a substantial number of potential future pensioners.

The aggregate value of pension funds maintained by banks is stated to be around **₹4.50 lakh crore**.

The existing pensioners constitute a very substantial proportion of the beneficiaries of these funds. Yet pensioners have no effective representation in the management or oversight of the pension funds.

The pension funds are managed through Boards of Trustees appointed by the banks, but retirees, despite being the principal beneficiaries, do not have corresponding representation.

This raises an important issue of **stakeholder participation and transparency**.

If pensioners are the beneficiaries of the pension fund and if decisions concerning pension directly affect their livelihood and financial security, there is a strong case for providing appropriate representation to retirees in the mechanism governing pension funds.

The demand for such representation deserves to be examined independently and pursued with seriousness.

8. Retirees Must Be Recognized as an Independent Stakeholder

One of the most fundamental issues confronting the retiree movement is the absence of any structured mechanism for consultation with pensioners.

Pension provisions have been modified on several occasions during the last three decades, often affecting the financial interests of existing and future pensioners.

Yet retirees have had little or no direct role in these decisions.

There are presently about 7 lakh active bank pensioners. They are directly affected by every decision relating to pension, Dearness Relief, pension updation, medical insurance and other post-retirement benefits.

It is therefore difficult to justify a system in which decisions affecting retirees are taken without meaningful consultation with their representative organisations.

AIBRF has consistently maintained that retirees should be recognized as an **independent and legitimate stakeholder** in matters concerning their pension and other post-retirement benefits.

Direct dialogue with retirees should not be viewed as a challenge to the role of serving employees' unions. Rather, it should be regarded as a necessary mechanism for ensuring that the specific interests and concerns of retirees are properly presented.

9. Need for Direct Dialogue with Retirees

Despite repeated representations, there has not been an effective institutional mechanism for direct dialogue between retiree organisations and the negotiating authorities.

The present arrangement, under which serving employees' organisations alone deal with pension-related issues affecting retirees, has resulted in a serious representational gap.

Retirees should have the opportunity to:

1. present their views directly;
2. explain the historical background of pension updation;
3. place actuarial and financial arguments before the authorities;
4. explain the hardship caused by non-updation;
5. suggest practical models for updation; and
6. participate in discussions on issues directly affecting their pension rights.

The demand for **direct dialogue with IBA/Government** is therefore not merely an organisational demand. It is fundamentally a demand for **fair representation and natural justice**.

10. The 13th Bipartite Settlement — A Critical Opportunity

The next Bipartite Settlement is expected to commence shortly in accordance with the direction of the Government.

This makes the forthcoming settlement particularly important for bank pensioners.

For retirees, **Pension Updation is the single most important pending issue**, with a backlog extending over several decades.

If the issue is not satisfactorily addressed in the forthcoming settlement, the backlog will become even more difficult to resolve in future.

The present situation therefore requires a focused, united and time-bound strategy.

AIBRF should make every possible effort to ensure that pension updation is placed at the center of discussions relating to the 13th Bipartite Settlement.

11. The Way Forward

In view of the above, the following course of action may be considered:

(a) Direct dialogue with IBA and Government

AIBRF should intensify its demand for recognition as an important stakeholder and for **direct dialogue with IBA and the Government** on pension-related matters.

(b) Comprehensive updation

The objective should be **comprehensive pension updation covering the entire body of bank pensioners**, rather than selective benefits confined to pensioners of a particular settlement.

(c) Challenge the "fund constraint" argument

A detailed financial and actuarial analysis should be prepared to demonstrate that the availability of pension funds cannot by itself be treated as the determinant of pension entitlement under a Defined Benefit Scheme.

(d) Representation in pension fund management

The demand for appropriate representation of retirees in the management/oversight mechanism of pension funds should be examined and pursued.

(e) Government intervention

If direct dialogue with IBA and the negotiating unions does not produce a satisfactory mechanism, AIBRF may consider requesting the Government of India to constitute an **independent committee** to examine the various aspects of pension updation and recommend a practical and equitable solution.

(f) Political and public support

The ongoing programmes of approaching Members of Parliament, Ministers and other public representatives should continue and be further intensified.

The objective should be to explain the issue not merely as a demand of a retiree organisation but as an important question of **social security, fairness and justice for senior citizens who served the banking industry for several decades**.

(g) Support from Central Trade Unions

AIBRF may also consider approaching **the Central Trade Unions** and other appropriate organisations for their support on the issue of pension updation.

(h) Organisational mobilization

The organisational programmes pursued by AIBRF over the last several years should be accelerated, with particular emphasis on coordination among affiliates, communication with pensioners and sustained engagement with policymakers.

12. Conclusion

Pension updation is no longer an issue that can be postponed indefinitely.

The pension scheme was introduced in 1995 with the objective of providing **assured social security to bank retirees**. After nearly three decades, the basic pension of a large section of pensioners has remained frozen at levels that bear little relationship to the prevailing cost of living.

The issue is not merely financial.

It concerns **fairness, equality, social security, dignity in old age and the legitimate expectations created by the Defined Benefit Pension Scheme**.

The forthcoming 13th Bipartite Settlement provides a critical opportunity to address this long-pending issue.

AIBRF must therefore pursue a clear and focused strategy with determination. At the same time, the organisation should remain open to practical and financially sustainable solutions that can provide meaningful relief to pensioners across different generations.

The objective should be simple and unequivocal:

A fair, comprehensive and equitable system of pension updation for all eligible bank pensioners.

After detailed discussion, an appropriate **time-bound action plan** may be finalized, keeping in view the forthcoming 13th Bipartite Settlement and the urgency of the issue.

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