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RBI REVISES PCA FRAMEWORK FOR BANKS, TO BE EFFECTIVE FROM 1 JAN

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Banking, NPAs and RBI

The Reserve Bank of India (RBI) has reviewed and revised the existing PCA framework for Scheduled Commercial Banks (SCBs), and the changes will be effective from 1 Jan, 2022.

The objective of the PCA framework, RBI said, is to enable supervisory intervention at appropriate time and require the supervised entity to initiate and implement remedial measures in a timely manner, so as to restore its financial health.

RBI said the PCA framework would apply to all banks operating in India including foreign banks operating through branches or subsidiaries based on breach of risk thresholds of identified indicators.

Capital, asset quality and leverage of the banks are some of key areas that will be taken into consideration for monitoring. The indicators that will be tracked for capital, asset quality and leverage would be CRAR/ common equity tier I ratio 2 , net NPA ratio 3 and tier I leverage ratio 4 respectively.

A bank will generally be placed under PCA framework based on the audited annual financial results and the ongoing supervisory assessment made by RBI.

RBI may impose PCA on any bank during the course of a year (including migration from one threshold to another) in case the circumstances so warrant.

When a bank is placed under PCA, one or more corrective actions may be prescribed based on the risk threshold. The Central bank has defined three risk thresholds for banks based on different parameters.

Under the risk threshold 1, the RBI will impose mandatory restrictions on dividend distribution of profits. Under the risk threshold 2, the RBI is empowered to slap restrictions on branch expansion, domestic or overseas, in addition to mandatory actions of threshold 1.

RBI said negative return on assets (RoA) criteria for determining risk threshold removed in the revised rules.

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