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Prompt Corrective Action Framework

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Why is in news? RBI lifts PCA restrictions on Central Bank of India

The Reserve Bank of India (RBI) has decided to take Central Bank of India out of the Prompt Corrective Action (PCA) restrictions subject to certain conditions and continuous monitoring.

PCA is a framework under which banks with weak financial metrics are put under watch by the RBI and the framework was revised in 2021.

The PCA norm is a **supervisory tool** and is imposed when a bank breaches certain regulatory thresholds on capital to risk weighted assets ratio (CRAR), net NPAs and return on assets (RoA).

The **RBI introduced the PCA framework in 2002** as a structured early-intervention mechanism for banks that become undercapitalised due to poor asset quality, or vulnerable due to loss of profitability.

Capital, Asset Quality and Capital-To-Risk Weighted Assets Ratio(CRAR), NPA ratio, Tier I Leverage Ratio, will be the **key areas for monitoring** in the revised framework.

However, the revised framework **excludes return on assets** as a parameter that may trigger action under the framework.

The framework **applies to all banks operating in India**, including **foreign banks** operating through branches or subsidiaries based on breach of risk thresholds of identified indicators.

However, **payments banks and small finance banks (SFBs) have been removed** from the list of lenders where prompt corrective action can be initiated.

It aims to **check the problem of Non-Performing Assets (NPAs)** in the Indian banking sector.

It is intended to **help alert the regulator as well as investors and depositors** if a bank is heading for trouble.

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

Withdrawal of restrictions imposed will be considered **if no breaches** in risk thresholds in any of the parameters are observed **as per four continuous quarterly financial statements**.