Prompt Corrective Action (PCA)

Prompt Corrective Action (PCA) is a framework in which banks with weak financial records are placed under the supervision of the Reserve Bank of India.

The first time PCA was used by the RBI was in 2016 when the number of Non-Performing Assets (NPAS) belonging to state-run banks rose beyond acceptable levels.

This article will give details about the PCA within the context of the Civil Services Examination.

How does a Prompt Corrective Action work?

The PCA framework allows a regulator to place specific restrictions like stopping payment of dividends or setting up new bank ranches. It also gives powers to place a cap on a bank's lending limit to one sector.

Other corrective actions are as follows:

1. Special audits
2. Restructuring operations
3. Activation of a recovery plan
4. Superseding the banks board of directors
5. Brining in new management

A Prompt Corrective Action framework is evoked when certain limitations placed on banks are exceeded; these limitations are based on levels of asset quality profitability, and capital. Another restriction is when the number of negative returns on assets run into four consecutive years.

What are the types of restrictions placed under a PCA?

Under the Prompt Corrective Action Framework there are two types of restrictions

1. Mandatory: The restrictions on dividend branch, extensions and directors compensations falls under this category
2. Discretionary: Restrictions on lending and deposit are under this category.

An example of mandatory restrictions being imposed were on two banks in the past - IDBI Bank and UCO Bank.

What is the impact of PCA?

Prompt Corrective Actions have the following impact:

- The PCA is an unprecedented, if not exceptional action that impacts the customer relationship with the bank. This is not good in the long run as it will impact the credit history of the bank and will raise questions about its management.

- It can accelerate loss of market loss and further decline the position of public sector banks, allowing foreign or private banks to fill in the gap.

The Government of India feels that the PCA measures are an economic hindrance and thus feel certain norms should be relaxed. In addition it is also perceived that the dispute between the government and the RBI may impact India's images as an investment destination.

Frequently Asked Questions related to Prompt Corrective Action

Why is Prompt Corrective Action required?

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

How many banks are under PCA in India?

There are 11 banks under PCA in India they are as follows:

1. Allahabad Bank
2. United Bank of India
3. Corporation Bank
4. IDBI Bank
5. UCO Bank
6. Bank of India
7. Central Bank of India
8. Indian Overseas Bank
9. Oriental Bank of Commerce
10. Dena Bank
11. Bank of Maharashtra.

Is Prompt Corrective Action applicable to Private Banks?

As per the RBI "Private banks cannot remain under the PCA framework forever. If the promoters are unable to revive the bank for a long period of time, the RBI may look to auction the assets, liabilities, and operations of the bank".