GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF FINANCIAL SERVICES
LOK SABHA
UNSTARRED QUESTION NO. 670
TO BE ANSWERED ON THE 20TH JULY 2018/ ASHADHA 29, 1940 (SAKA)
Prompt Corrective Action Norms

670. SHRI A. ARUNMOZHITHEVAN:

Will the Minister of FINANCE be pleased to state:

(a) whether the Reserve Bank of India (RBI) has enforced lending restrictions on many public sector banks;

(b) if so, the details thereof;

(c) whether the RBI had released revised Prompt Corrective Action (PCA) norms classifying the degree of risk into three categories; and

(d) if so, the details thereof and the steps taken by the PSBs on the said directives of the RBI?

ANSWER
Minister of State in the Ministry of Finance
(SHRI SHIV PRATAP SHUKLA)

(a) and (b): Reserve Bank of India (RBI) has informed that under Prompt Corrective Plan, it has enforced lending restrictions on certain banks such as restriction on expansion of high risk weighted assets, reduction in loan concentrations to stressed sectors, industries or corporate, restrictions on fresh credit to unrated borrowers, etc.
(c) and (d): The Prompt Corrective Action (PCA) framework for commercial banks was first prescribed, *vide* circular dated December 21, 2002. This framework was reviewed and the revised PCA framework for Commercial Banks was put in place on April 13, 2017 making it effective from April 1, 2017.
The key areas for monitoring banks under the revised PCA framework continue to be capital, asset quality and profitability while leverage is monitored additionally as part of PCA framework. The indicators tracked for capital, asset quality and profitability are CRAR/Common equity Tier 1 ratio, Net NPA ratio and Return on Assets respectively. Risk thresholds 1, 2 and 3 have been defined, breach of which, result in invocation of PCA and certain mandatory and discretionary actions.
The objective of the PCA framework is to facilitate the banks to take corrective measures including those prescribed by the Reserve Bank, in a timely manner, in order to restore their financial health. The framework also provides an opportunity to the RBI to pay focussed attention on such banks by engaging with the management more closely in those areas. The PCA framework with prescription of certain mandatory and discretionary actions, is thus, intended to encourage banks to eschew certain riskier

activities and focus on conserving capital so that their balance sheets can become stronger.

The banks under PCA are subjected to close monitoring through monthly monitoring of various financial metrics and quarterly meetings of the top management of the banks with the senior management of RBI. The continuous monitoring, focussed attention and close engagement with the top management of these banks is aimed at restoring the financial health of the banks.

PSBs have reportedly taken several initiatives so as to improve their respective degree of risk under Capital ratios, Net NPA and ROA. Some of the steps taken by PSBs include *inter alia,* rationalisation of risk weights, establishment of Stressed Asset Management Verticals, review of NPA accounts and prompt action initiation for recovery for restricting slippage, activation of Asset Recovery Management (ARM) branches, improvement in provision coverage ratio thereby improving net NPA ratio, increasing CASA ratio, improving coverage of digital banking, initiating expenditure control measures, sale of non-core assets, explore the possibility to sell its unused immovable properties to unblock its resources, focus on recovery, etc..

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