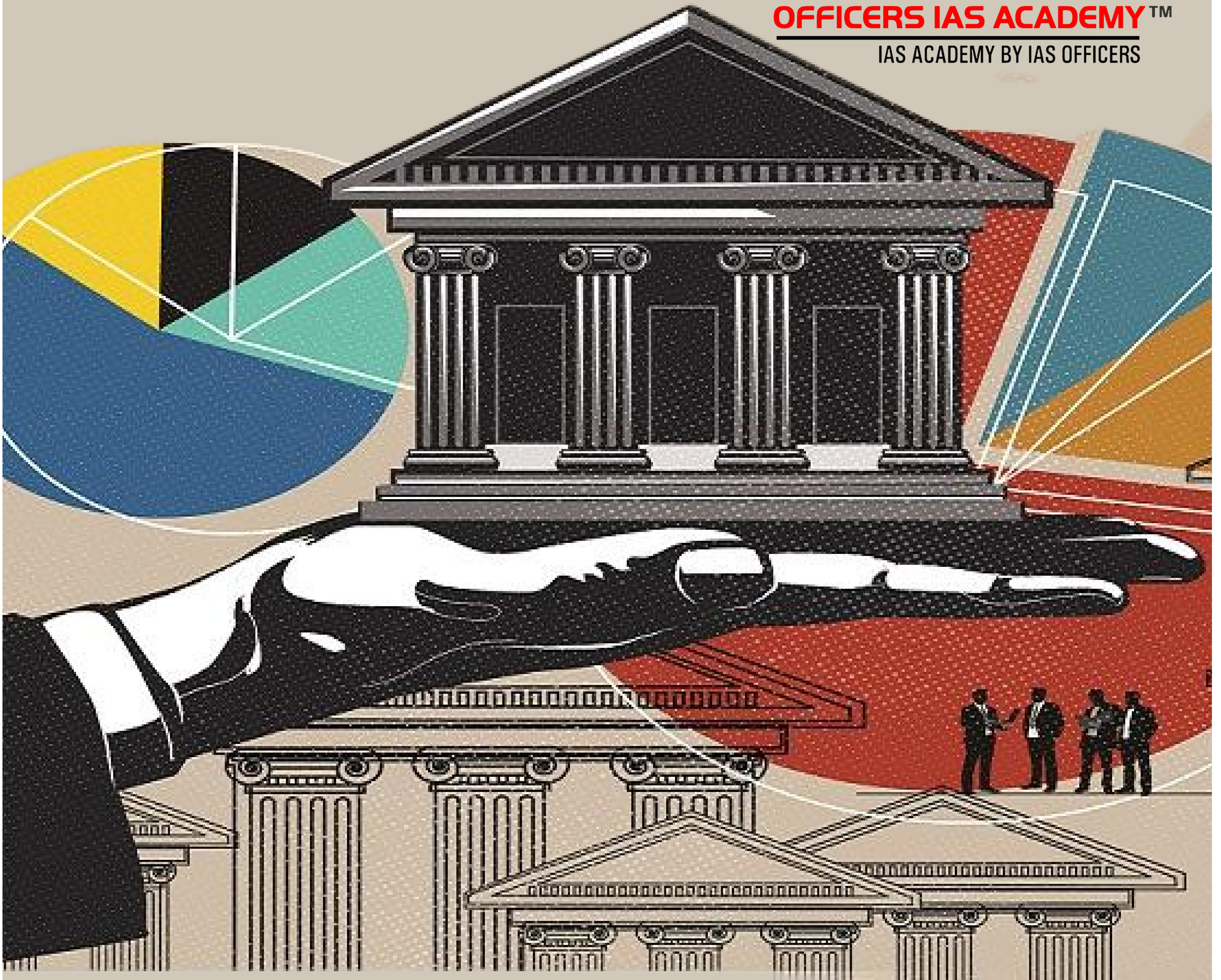




Prompt Corrective Action

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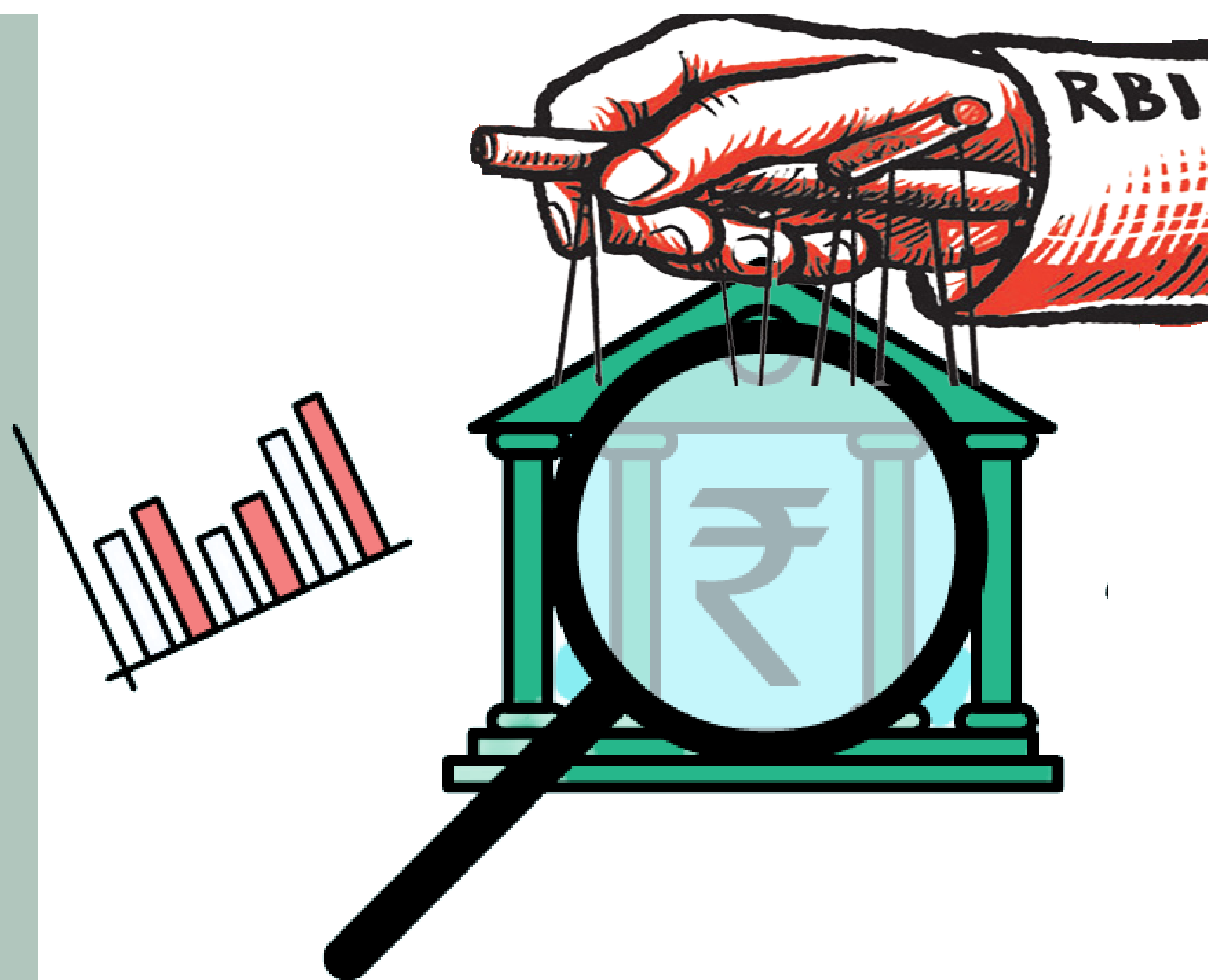
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What is Prompt Corrective Action (PCA)?

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The PCA framework specifies the trigger points or the level in which the RBI will intervene with corrective action if a commercial bank's financial condition worsens below a mark.



Prompt Corrective Action or PCA is a framework under which **banks with weak financial metrics are put under watch by the RBI**. The PCA framework deems banks as risky if they slip below certain norms on three parameters:



Capital
Adequate
Ratio (CAR)
Formula

=

$$\frac{(\text{Tier 1 Capital} + \text{Tier 2 Capital})}{\text{Risk Weighted Assets}}$$



Capital to Risk weighted
Asset Ratio (CRAR)

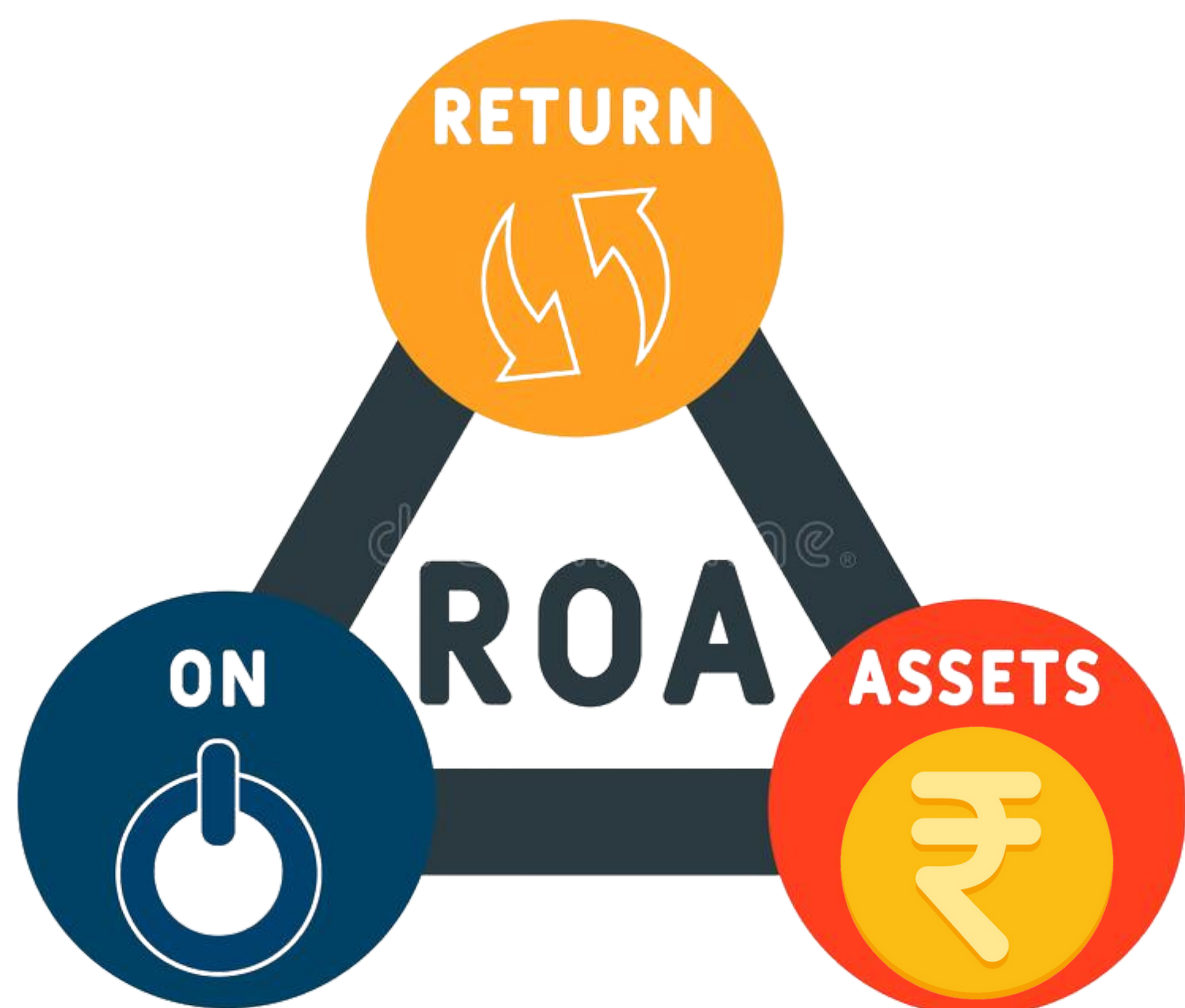


Net Non-Performing Assets
(NPA)



Net NPAs Gross = NPAs - Provisions

Gross Advances - Provisions



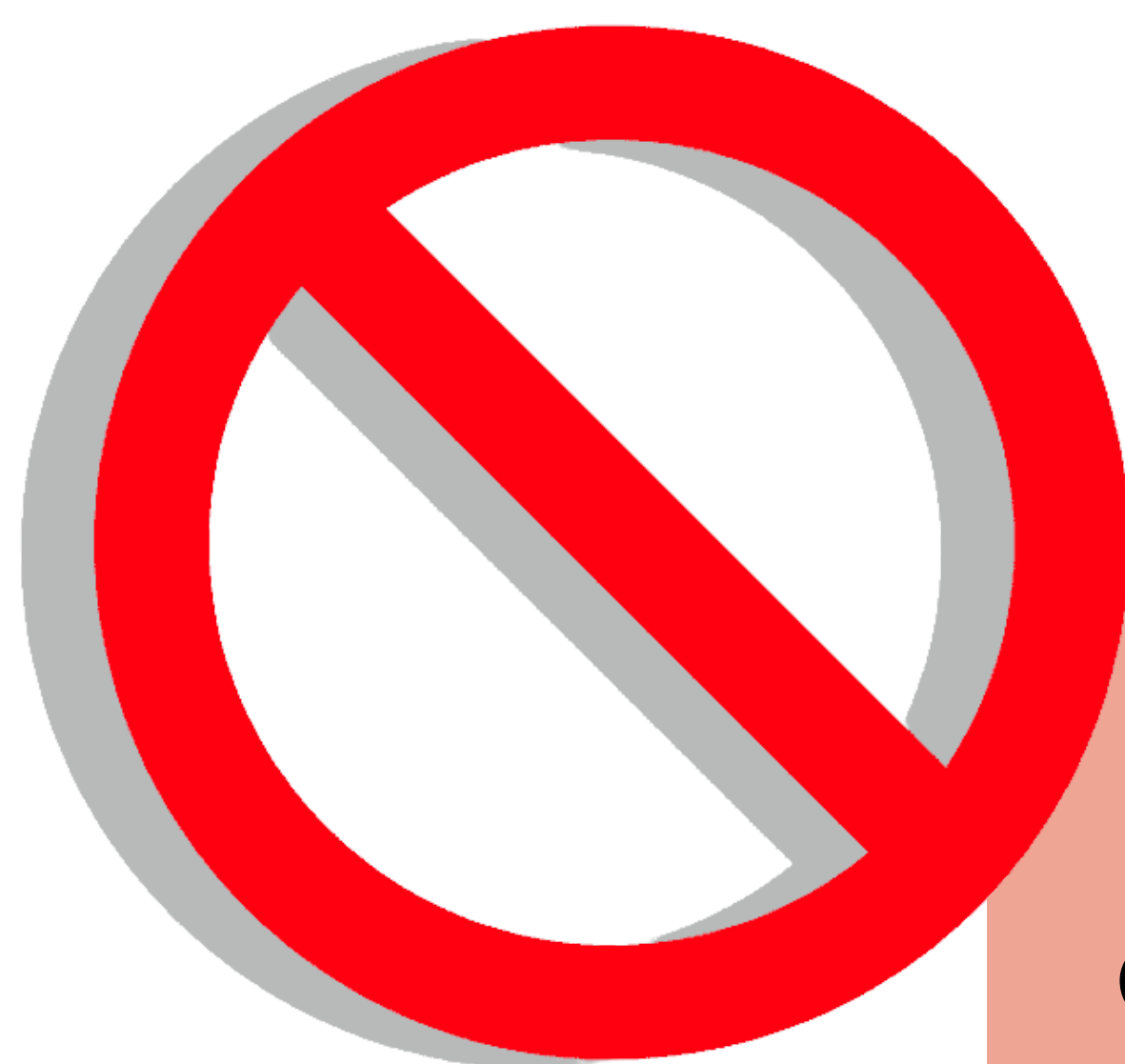
Return on Assets (RoA)

The PCA Framework **applies** only to commercial banks and does not cover cooperative banks and non-banking financial companies.

PCA
BANK
Commercial

What will happen when a bank is brought under PCA?

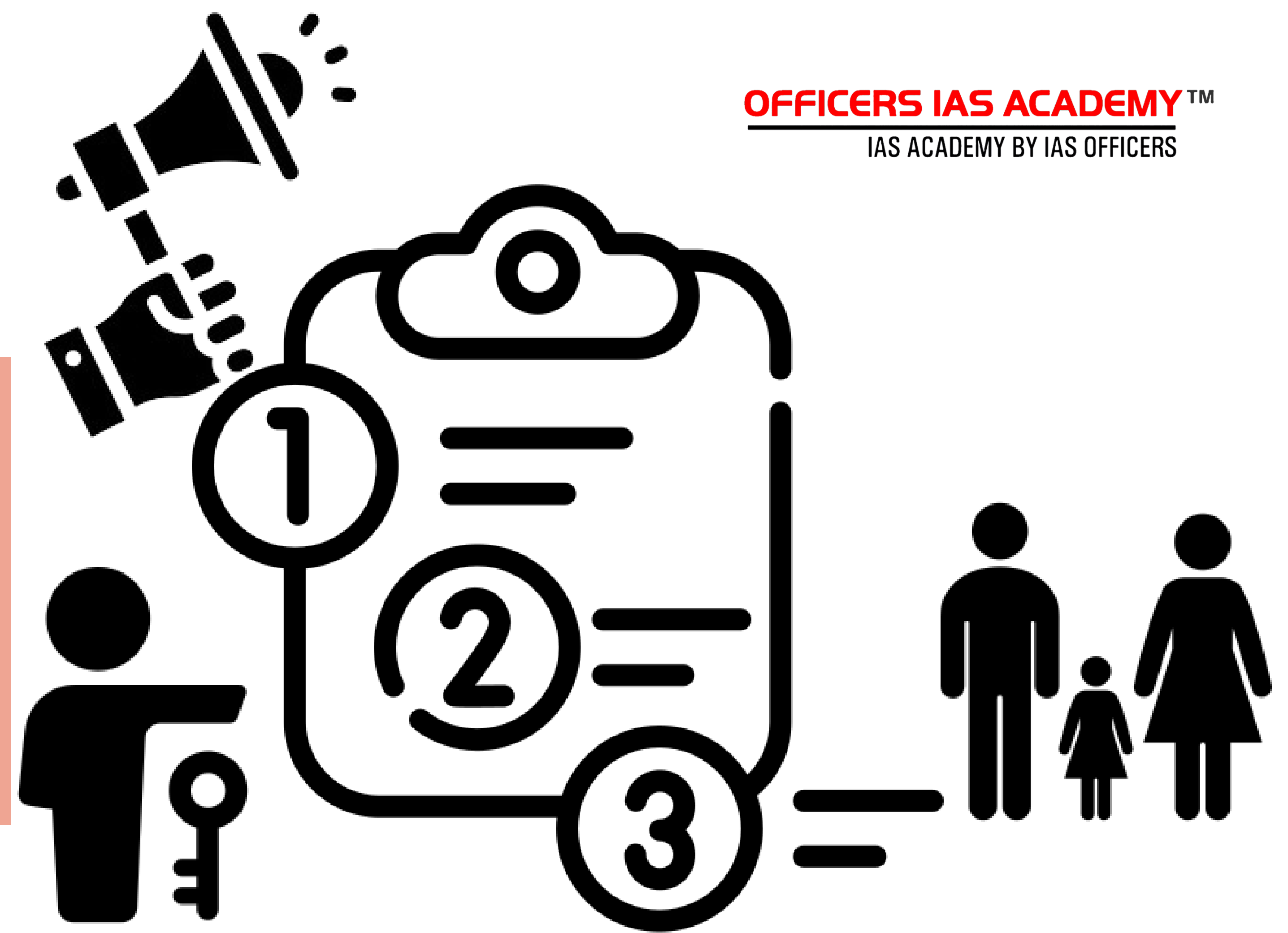
When these parameters reach the set trigger points for a bank, the RBI will initiate certain structured and discretionary actions for the bank including



Restriction on dividend distribution/remittance of profits;

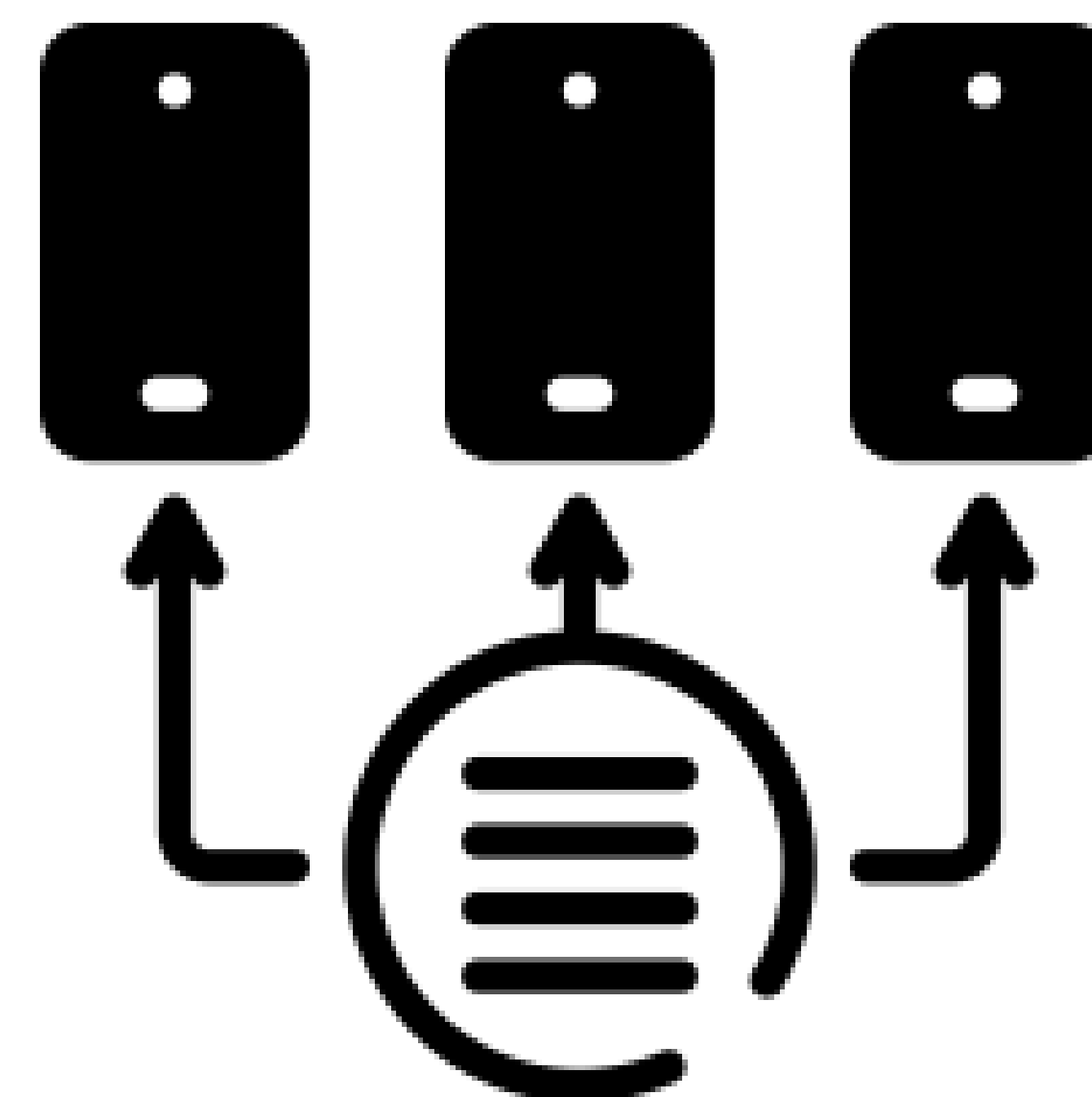


Requirement on
promoters/owners/parents
to bring in more capital;



Restrictions on
branch expansion;

Higher provisioning
requirement; and,



Restrictions on management compensation.



Board for Financial Supervision:

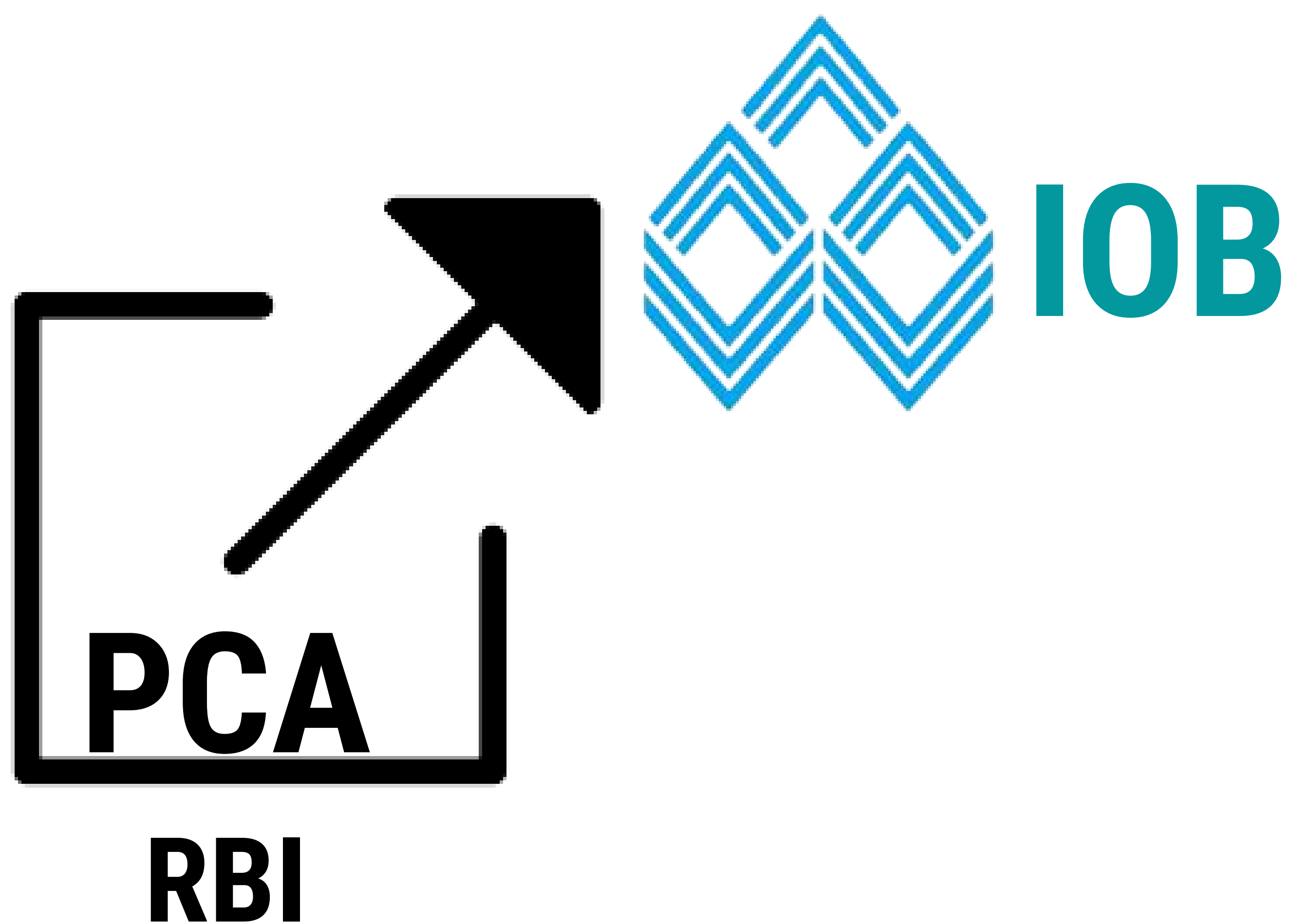
The Board for Financial Supervision (BFS) of RBI is **chaired by the RBI Governor** and includes the four deputy governors and a few other board members.



BFS has been entrusted by the central bank board to review the performance of the banks under PCA.



Why in news?



The Reserve Bank of India took Indian Overseas Bank out of the Prompt Corrective Action Framework.



Reference:

<https://www.thehindu.com/business/Industry/rbi-lifts-pca-curbs-on-iob-post-review/article36743456.ece>