Not all PCA banks may benefit from RBI review

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A central bank panel under governor Urjit Patel could next month revisit its corrective regime framework for weak banks that don't have international operations. The decision to review the prompt corrective action (PCA) norms, made at a the Reserve Bank of India's (RBI) board meeting on Monday that also marked a sharp de-escalation of the weeks-long stand-off between the government and the central bank, could benefit as many as nine of the 11 stressed banks (barring IDBI Bank and Uco Bank) that don't have notable presence outside India, a source told FE.

The review could take place as early as the first week of December. Also, the panel could revisit the three indicators of the PCA framework—capital-to-risk-weighted-assets ratio (CRAR), net non-performing assets (NPA) and return on assets (RoA). A bank that breaches stipulated thresholds in any of these runs the risk of inviting the PCA action.

However, no substantial dilution of the PCA framework by the central bank's Board for Financial Supervision is expected as yet, because the review will be guided by the need to ensure that the broader banking system remains robust and no collateral risks spill over from this move, said the source. Nevertheless, the review could offer some hope for Punjab National Bank, that is struggling to recover from the Nirav Modi fraud, apart from Union Bank–both face risks of PCA action unless they fix their strained finances quickly.

The high CRAR norms, retained at 9% as of now, has been a bone of contention between the government and the RBI, with the former pushing for a relaxation on grounds that it is a solid 1 percentage point higher than the Basel-III requirement. As such, the government believes the PCA framework is very stringent and has called for its alignment with the best globally to allow them some headroom fro growth, while the RBI has cautioned against any dilution.