Only six PSBs cross ‘desirable’ level of 70% provision coverage ratio

K Ram Kumar Mumbai | Updated on February 15, 2019 Published on February 15, 2019

While public sector banks (PSBs) have substantially ramped up their loan-loss provisions and strengthened balance sheets in the first nine months of the current financial year, only 6 out of 21 PSBs, have crossed the ‘desirable’ level of 70 per cent provision coverage ratio (PCR) as of December-end 2018.

What is PCR?

PCR is the ratio of provisioning to gross non-performing assets, and indicates the extent of funds a bank has kept aside to cover loan losses.

The six PSBs that had over 70 per cent PCR as of December-end 2018 are: Bank of Maharashtra (81.08 per cent), Bank of India (76.76 per cent), IDBI Bank (75.21 per cent), Oriental Bank of Commerce (74.99 per cent), State Bank of India (74.63 per cent), and Bank of Baroda (73.47 per cent).

Though Life Insurance Corporation of India has acquired 51 per cent stake in IDBI Bank, the Reserve Bank of India has not yet notified the change in its classification as a private sector bank.

The five PSBs that were close to the 70 per cent PCR mark as of December-end 2018 are: Allahabad Bank (69.64 per cent), Central Bank of India (69.52 per cent), UCO Bank (69.49 per cent), Punjab National Bank (68.85 per cent), and Andhra Bank (68.47 per cent). The remaining 10 PSBs have PCR ranging from 58.84 per cent (Union Bank of India) and 66.60 per cent (Dena Bank).

“PCR has gone up because NCLT (National Company Law Tribunal) cases (40 large corporate accounts referred to the tribunal by banks as per the RBI’s list 1 and list 2) have been substantially provided for. So, banks’ balance sheet is getting strengthened.

“The unprovided portion is narrowing down. So, going forward, profitability of banks will improve (due to write-back from recoveries),” said BK Divakara, former Executive Director of Central Bank of India.

In a bid to ensure that banks build up provisioning and capital buffers in good times (when profits are good) so that the same could be used for absorbing losses during a downturn, the RBI, about a decade back, had prescribed that banks should augment their provisioning cushions so that their total PCR, including floating provisions, is not less than 70 per cent.

A few years after introducing PCR, the central bank did not insist on banks maintaining 70 per cent PCR. But it now appears that 70 per cent PCR is the ‘desirable’ level that the RBI wants banks to achieve, going by Deputy Governor Viral Acharya’s speech last October.

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Bank of Baroda State Bank of India Oriental Bank of Commerce IDBI Bank Ltd

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