

About 500 UCBs to shift to RBI's new remedial regime from today

CORRECTIVE ACTION. The PCA framework aims at enabling supervisory intervention at an appropriate time

K Ram Kumar
Mumbai

About 500 weak urban co-operative banks (UCBs), which are currently under the Reserve Bank of India's (RBI) supervisory action framework (SAF), will transition to the prompt corrective action (PCA) framework for remedial action with effect from April 1, 2025.

The Central bank's PCA framework will replace the SAF for financially unsound and poorly managed UCBs with effect from the aforementioned date.

THE OBJECTIVE

The objective of the PCA framework is to enable supervisory intervention at an appropriate time and re-



BIG MOVE. The PCA framework does not preclude the RBI from taking any other action as it deems fit at any time

quires the UCBs to initiate and implement remedial measures in a timely manner to restore their financial health. The PCA framework does not preclude the RBI from taking any other action as it deems fit at any time, in

addition to the corrective actions prescribed in the framework.

The SAF for weak UCBs, which was introduced in 2012, envisaged, in the initial stage of deterioration in the financial position, self-cor-

rective action by their management first and supervisory action by the Reserve Bank in case the financial position of the bank does not improve.

Capital and asset quality are the key common areas for monitoring when a scheduled commercial bank (SCB) or an UCB is put under PCA.

But the third area of monitoring differs — it is leverage for an SCB and profitability for a UCB.

D Krishna, former Chief Executive, the National Federation of UCBs and Credit Societies, said: "The PCA framework is very elaborate... The framework that is being brought in for UCBs is almost similar to that for commercial banks. This is not fair... Action to revive

UCBs should be taken at the incipient stage. We don't want the RBI to close down the banks."

ASSET QUALITY

Giving an example of asset quality, which is one of the key factors for supervisory monitoring, Krishna underscored that if the net NPA (non-performing asset) of an UCB under PCA is just above 6 per cent of its net advances, RBI requires them to raise capital and restricts declaration/payment of dividend.

AREA OF CONCERN

"UCBs depend on members for raising capital. If dividend is not paid, members will be discouraged from infusing fresh capital. So the bank could be in a spot," he said.