RBI/2024-25/55

DOS.CO.PPG.SEC.No.8/11.01.005/2024-25 July 26, 2024

All Primary (Urban) Co-operative Banks

Madam / Dear Sir,

Prompt Corrective Action (PCA) Framework for Primary (Urban) Co-operative Banks (UCBs)

Please refer to the circular DOR (PCB).BPD. Cir No. 9/12.05.001/2019-20 dated January 6, 2020 on the Supervisory Action Framework for Primary (Urban) Co-operative Banks (UCBs).

2. The existing Supervisory Action Framework (SAF) for UCBs has since been reviewed. Accordingly, the revised framework replacing the SAF, under the nomenclature Prompt Corrective Action (PCA) Framework is contained in the enclosed **Annex**.

3. The PCA Framework shall be applicable to all UCBs under Tier 2, Tier 3 and Tier 4 categories except UCBs under All Inclusive Directions[1]. Tier 1 UCBs, though not covered under the PCA Framework as of now, shall be subject to enhanced monitoring under the extant supervisory framework. The exemption of Tier 1 UCBs from the PCA Framework shall be reviewed in due course.

4. The objective of the PCA Framework is to enable supervisory intervention at an appropriate time and require the UCBs to initiate and implement remedial measures in a timely manner, to restore their financial health. The PCA Framework does not

[1] UCBs under All Inclusive Directions (AID) shall continue to be monitored as hitherto including with respect to the conditions under AID. A suitable transition time shall be provided to such UCBs for compliance with the provisions of the PCA Framework, as and when these come out of AID.

preclude RBI from taking any other action as it deems fit at any time, in addition to the corrective actions prescribed in the Framework.

5. The provisions of the PCA Framework will be effective from April 1, 2025.

6. UCBs which are currently subject to supervisory actions on the basis of circular DOR (PCB).BPD. Cir No. 9/12.05.001/2019-20 dated January 6, 2020 referred above will continue to be governed by the restrictions imposed on them. Such UCBs will be considered for an exit from SAF or to be placed under PCA on a case-by-case basis by the Reserve Bank of India.

7. A copy of this circular should be placed before the Board of Directors of your bank in its next meeting and a confirmation thereof should be sent to the office of the Senior Supervisory Manager concerned.

8. With effect from April 1, 2025, instructions contained in this circular shall supersede all earlier instructions issued on SAF.

Yours faithfully,

(Tarun Singh)
Chief General Manager

Enclosure: PCA Framework for Primary (Urban) Co-operative Banks

Annex

PCA Framework for Primary (Urban) Co-operative Banks

A. Capital, Asset Quality and Profitability will be the key areas for monitoring in the revised PCA Framework.

B. Indicators to be tracked for Capital, Asset Quality and Profitability would be CRAR, Net NPA Ratio (percentage of net NPA to net advances) and net profit, respectively.

C. The PCA Framework would apply to all Primary (Urban) Co-operative Banks (UCBs) in Tier 2, Tier 3 and Tier 4, based on breach of risk thresholds of identified indicators.

D. Breach of any risk threshold (as detailed under) may result in invocation of PCA.

PCA matrix – Parameters, Indicators and Risk Thresholds				
Parameter	**Indicator**	**Risk Threshold 1**	**Risk Threshold 2**	**Risk Threshold 3**
(1)	(2)	(3)	(4)	(5)
Capital (Breach of CRAR)[2]	CRAR – Minimum Regulatory Requirement, as applicable*	Up to 250 bps below the Indicator prescribed at column (2)	More than 250 bps but not exceeding 400 bps below the Indicator prescribed at column (2)	In excess of 400 bps below the Indicator prescribed at column (2)
Asset Quality	Net Non-Performing Advances (NNPA) Ratio	>=6.0% but <9.0%	>=9.0% but < 12.0%	>=12.0%
Profitability	Net profit	Incurred losses during two consecutive years	--	--
* For Tier 2 to 4 UCBs as per the glide path provided for achieving the regulatory minimum CRAR of 12% by March 31, 2026.				

[2] Reserve Bank of India - Press Releases (rbi.org.in)

E. A bank will generally be placed under PCA Framework based on the Reported/Audited Annual Financial Results and/or the ongoing Supervisory Assessment made by RBI. However, RBI may impose PCA on any bank during the course of a year (including migration from one threshold to another) in case the circumstances so warrant. Although supervisory action taken will primarily be based on the criteria specified under the PCA Framework, the Reserve Bank will not be precluded from taking appropriate supervisory action in case stress is noticed in other important indicators/parameters or in case of serious governance issues. Also, the Reserve Bank will not be precluded from taking any supervisory action other than those indicated in this circular, based on the merits of each case.

F. Exit from PCA and Withdrawal of Restrictions under PCA - Once a bank is placed under PCA, taking the bank out of PCA Framework and/or withdrawal of restrictions imposed under the PCA Framework will be considered: a) if no breaches in risk thresholds in any of the parameters are observed as per four continuous quarterly financial statements, one of which should be Audited Annual Financial Statement (subject to assessment by RBI); and b) based on supervisory comfort of the RBI, including an assessment on sustainable improvement in key financials of the bank.

G. When a bank is placed under PCA, one or more of the following corrective actions may be prescribed:

Mandatory and discretionary actions		
Specifications	**Mandatory actions**	**Discretionary actions**
Risk Threshold 1	i. Bank to raise capital either from existing members or by issuance of equity and other permissible capital instruments ii. Restriction on declaration/payment of dividend/donation iii. Appropriate restrictions on capital expenditure, other than for technological upgradation	<u>Common menu - Actions pertaining to:</u> i. Special Supervisory Actions ii. Strategy related iii. Governance related iv. Capital related v. Credit risk related vi. Market risk related vii. HR related

Mandatory and discretionary actions		
Specifications	**Mandatory actions**	**Discretionary actions**
		viii. Profitability related
Risk Threshold 2	In addition to mandatory actions of Threshold 1, i. Restriction on branch expansion	ix. Operations/Business related x. Imposition of All Inclusive Directions/ Cancellation of Banking License
Risk Threshold 3	In addition to mandatory actions of Thresholds 1 & 2, i. Appropriate restrictions/ prohibition on expansion of total size of the deposits	xi. Any other

<u>Common menu for selection of discretionary corrective actions</u>

1. **Special Supervisory actions**
    i. Special Supervisory Monitoring Meetings at quarterly or other identified frequency
    ii. Special inspections/targeted scrutiny of the bank
    iii. Cause a special and/or additional audit of the bank under the extant supervisory mechanism and/or through external auditors
    iv. Resolution of the bank by Amalgamation or Reconstruction (Ref.: Section 45 of Banking Regulation Act 1949)

2. **Strategy related actions**

    RBI to advise the bank's Board to:

    i. Activate the Action Plan that has been duly approved by the supervisor
    ii. Review the progress under the Action Plan on quarterly/monthly basis and submit the post-review progress report to RBI
    iii. Undertake a detailed review of business model in terms of its sustainability, profitability of business lines and activities, medium and long-term viability, etc.
    iv. Review short term strategy focusing on addressing immediate concerns

v. Review medium term business plans, identify achievable targets and set concrete milestones for progress and achievement
vi. Undertake business process reengineering as appropriate
vii. Undertake restructuring of operations as appropriate
viii. Restriction on expansion of size of the balance sheet
ix. Explore merger option if steps taken by it do not appear to be yielding the desired results; seeking a Board-approved proposal for merging the UCB with another bank or converting itself into a credit society

3. Governance related actions

i. RBI to actively engage with the bank's Board on various aspects as considered appropriate
ii. RBI to remove managerial persons under relevant provisions of the BR Act 1949 as applicable
iii. RBI to supersede the Board under Section 36AAA of the BR Act 1949 (AACS)
iv. RBI to appoint Additional Directors on the Board under relevant provisions of the BR Act 1949 as applicable
v. RBI to impose other restrictions or conditions permissible under the BR Act, 1949

4. Capital related actions

i. Detailed Board level review of capital planning - UCB to submit a Board-approved Action Plan for increasing CRAR to minimum regulatory requirement or above within 12 months
ii. Submission of plans and proposals for raising additional capital
iii. Requiring the bank to bolster reserves through retained profits
iv. Restriction on investment in non-core business activities/ concerns
v. Restriction in expansion of high risk-weighted assets to conserve capital
vi. Reduction in exposure to high risk sectors to conserve capital
vii. Restrictions on increasing stake in non-core business activities/ concerns

5. Credit risk related actions

i. Preparation of time-bound plan and commitment for reduction of stock of NPAs - UCB to submit a Board-approved Action Plan for reducing its Net NPAs below the Risk Threshold 1
ii. Preparation of and commitment to plan for containing generation of fresh NPAs
iii. Higher provisions for NPAs/ NPIs and as part of the coverage regime
iv. Strengthening of loan review mechanism
v. Restrictions/ reduction in total credit risk weight density (e.g. restriction/ reduction in credit for borrowers below certain rating grades, restriction on fresh loans and advances carrying risk-weights more than 100% and/or beyond the specified limit, restriction/ reduction in unsecured exposures, etc.)
vi. Reduction in loan concentrations in identified sectors, industries or borrowers; Curtailment of sanction/ renewal of credit facilities to sectors/ segments having high proportion of NPAs/ defaults
vii. Reduction in exposure limits for fresh loans and advances
viii. Sale of non-banking assets
ix. Reduction in high risk-bearing assets
x. Avoiding renewal of limits for defaulting borrowers
xi. Action plan for recovery of assets through identification of areas (geography-wise, industry segment-wise, borrower-wise, etc.) and setting up of dedicated Recovery Task Forces, Adalats, etc.
xii. Prohibition on expansion of credit/ investment portfolios other than investment in government securities/ other High-Quality Liquid Investments

6. Liquidity / Market risk related actions

i. Restrictions on dealings/ reduction in borrowings from the inter-bank market
ii. Restrictions on accessing/ renewing wholesale deposits/ costly deposits
iii. Prohibition on expansion of size of the deposits
iv. Improving liquid assets to short term liabilities ratio

7. HR related actions

i. Restriction on staff expansion

ii. Review of specialized training needs of existing staff

8. Profitability related actions

i. Appropriate restrictions on capital expenditure

ii. Restrictions/ reduction in variable operating costs

9. Operations related actions

i. Measures for reduction in interest and operating/ administrative expenses

ii. Restrictions on branch expansion plans

iii. Reduction in non-core business activities

iv. Restrictions on entering into new lines of business

v. Reduction in leverage through reduction in non-fund-based business

vi. Reduction in risky assets

vii. Restrictions on non-credit asset creation

viii. Restrictions in undertaking businesses as specified

ix. Restriction/ reduction of outsourcing activities

x. Restrictions on new borrowings

xi. Identifying and closure of loss making/ non-remunerative/ unviable businesses

xii. Restrictions on entering specified business/ new line of business/ branch expansion

xiii. Rationalise branches, closing down or merging loss-making branches to the extent feasible

10. Other actions

i. Any other specific action that RBI may deem fit considering specific circumstances of a bank.

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