UCOBANK RETIREES' ASSOCIATION KARNATAKA (Regd)

(Regd as S.No: 699/97-98 Dated 20/01/1998 with the
Registrar of Societies, Karnataka)

Regd Office: C/o UCOBank, 3rd Floor, 13/22, Kempegowda Road, Bangalore-560009
Website: urakar.com

UBRA-KAR/CIR/115/2014-2017 20/06/2017

To All Members of our Unit.

Dear Comrades,

Sub: What is meant by PCA for UCOBank
Ref: Business Line article by Radhika merwin dated 19/06/2017

Please find reproduced the above article for your information and where our bank is placed. UCOBank is not the only Bank who has been our under PCA.. IDBI Bank, Central Bank of India, Bank of Maharashtra and Dena bank are now in the list. We understand Indian Overseas Bank is also on the watch list.

Yours faithfully,

Ravindra Krishna

EXTRACT OF THE ARTICLE:

What RBI's corrective action means

By: Radhika Merwin

The measures do not limit the normal operation of banks. Don't panic

If you are one who swears by safe bank deposits, any whiff of trouble at your bank is bound to worry you. The RBI, invoking Prompt Corrective Action (PCA) on a few banks such as IDBI Bank, UCO Bank and, recently, Central Bank of India, has no doubt rattled depositors. Social media, abuzz with misinformation, has only made matters worse.

So, if you are worried about your deposits being frozen or your bank going belly up, shed such thoughts. The RBI's PCA involves monitoring certain key performance indicators of banks, and taking corrective measures, if need be, to restore the financial health of a bank. The RBI only recently clarified that the PCA was not intended to constrain the normal operations of the banks for the general public.

But that is not to say that depositors can completely disregard the RBI's action. It can offer some cues on the financial parameters that determine the health of your bank.

What is PCA?

While the recent hullabaloo over banks' sorry state of affairs has made depositors sit up and take stock of every action by the RBI against banks, the PCA framework is not a new animal.

It has been in operation since December 2002 and the guidelines put out in April this year were only a revised version of the earlier framework. The PCA framework has three risk threshold levels (with 1 being the lowest and 3 the highest); and breach of capital, asset quality and profitability levels lead to banks being bucketed in one of the three threshold levels.

Let us consider capital first. The key aspect of a bank's capital is its ability to absorb losses. Since much of banks' activities are funded by deposits, and have to be repaid at a future date, it is imperative that a bank carries sufficient amount of capital to remain viable.

Thankfully, regulatory efforts around Capital Adequacy Ratio (CRAR) make it easy for you to assess a bank's capital position. Current norms under Basel-III require banks to maintain a minimum CRAR of 9 per cent (plus 1.25 per cent of counter cyclical buffer).

Address for Correspondence : C/o Ravindra Krishna, # 9, Krishna Block, 1st Main, Seshadripuram, Bangalore-560020. Ph. : 080-23369434, Mob : 0-9448041842, E-mail : ravikru@gmail.com

Under PCA, banks with total CRAR of less than 10.25 per cent but more than 7.75 per cent will fall under threshold 1. Those with CRAR of more than 6.25 per cent but less than 7.75 per cent will fall in the second threshold. In case a bank's common equity Tier 1 (the bare minimum capital under CRAR) falls below 3.625 per cent it gets bucketed under the third threshold level.

Essentially banks with weak capital are put under watch.

The second parameter to gauge the health of a bank is its level of non-performing assets (NPAs). Banks that have a net NPA of 6 per cent or more but less than 9 per cent fall under threshold 1, and those over 9 per cent but less than 12 per cent fall under the second level. Banks with net NPA of 12 per cent or more fall under the third threshold level.

Among the other parameters that drive the RBI's decision to invoke PCA, is profitability. Banks with negative return on asset (ROA) for two, three and four consecutive years fall under threshold 1, threshold 2 and threshold 3, respectively.

High net NPA and negative ROA led the RBI to invoke PCA against IDBI Bank, UCO Bank and Central Bank of India recently. IDBI Bank has a net NPA of 13.2 per cent as on March 2017. Central Bank of India has net NPA of 10.2 per cent of loans and UCO Bank 8.9 per cent as of March 2017. All three have reported negative ROA for the second consecutive year.

Corrective action

Hence, if any of the risk thresholds are breached, the RBI can invoke a correction action plan or PCA. So, what does this include?

Contrary to erroneous reports, the corrective action does not limit the normal operation of the banks. Depending on the threshold levels, the RBI can place restrictions on dividend distribution, branch expansion, and management compensation. Only an extreme situation — breach of the third level of threshold — would identify a bank as a likely candidate for resolution through tools such as amalgamation, reconstruction, and winding up.

So, just because the RBI has drawn out a corrective action for your bank, it does not mean your bank's operations are constrained.

The RBI's corrective measures are intended to strengthen the banking system over the long run and protect depositors' interest. Deposit insurance under the Deposit Insurance and Credit Guarantee Corporation of India (DICGC) is an added safety net in the worst of times.

But since each depositor is insured up to Rs 1 lakh (for both principal and interest), ensure you apportion your deposits in different banks.