

Impact of PCA framework on resource mobilization: A study on IOB and IDBI banks

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Abstract:

This paper is more contemporary as Government of India is mulling to transform banking industry to achieve \$ Five Billion economy by 2024. Primarily, this paper is aimed to study the resources mobilization tendency during PCA framework by selected PSBs namely Indian overseas bank and Industrial Development Bank of India Ltd.

Key words: Bank, PCA, Deposits, PSBs

Introduction:

Ancient India has glorious history of having greater share in the World trade and exports, in concurrence that Government of India announced its aim to achieve the \$5 trillion economy. After independence our nation is consistently trying to improve its share in global trade arena with greater efforts. Current status is not up to the mark in the international trade, there are several aspects and thing have to bear the blame where as things are now moving expediently with a target of achieving greater share. India needs to improve its share in terms of exports for betterment of Nation.

The following measures are taken to improve exports:

1. New Foreign Trade Policy for five years from 2015 to 2020
2. During Mid-term review, Interest subvention of 2% for labor intensive and MSME sectors is announced and implementing
3. Established a new division under the Department of Commerce of Government of India to monitor development of Logistics infrastructure and related issues.
4. Interest equalization scheme for export credit for labor intensive and MSME sectors is announced and implementing.

5. Agriculture export policy announced with aim to double farmers' income by 2022.
6. Major reforms announced and implemented with aim to improve Ease of doing business, those reforms yielded good rank in ease of doing business ranking, moved Ease of doing Rank from 142 in 2014 to 77 in 2018.
7. Trade Infrastructure for Export Scheme (TIES) is announced to augment export infrastructure to enhance exports.

All above mentioned measure are concerned about incentivizing existing exports not concerned with expansion of business and creating new business avenues. Here banks need to play pivotal role to address this gap financing to MSME and labor incentive sectors.

Very Basic functions of Banks are accepting deposits for the purpose of lending for various income generating activities. Primarily Banks have greater role in achieving the target of \$5 Trillion economy, in the banking arena the Public sector banks have lion's share in terms of size as well as numbers. In our country for SMEs and Medium corporates major source of finance given for business expansion and Working capital extended by banks. Hence Banks have pivotal role among all stake holders in terms of economic development and entrepreneurship promotion. At this crucial juncture majority of the PSBs are plagued with massive Non-Performing Assets due to various reasons and market conditions. Majority of PSBs are under PCA framework of RBI. With greater urgency government need to revitalize PSBs by taking various regulatory and suitable policy measures apart from political will. By mobilizing the low cost resources Banks can improve Profitability and Net Interest Margin (NIM).

A bank can be placed under PCA framework based on the audited Annual Financial Results and the Supervisory Assessment made by RBI. However, RBI may impose PCA on any bank during the course of a year based on the circumstances.

The Reserve Bank of India has specified benchmark parametric levels known as regulatory trigger points to bring the banks under the ambit of prompt corrective action (PCA) Framework, those mentioned regulatory trigger points are namely Capital to risk weighted assets ratio (CRAR), net non-performing assets (NPA) and Return on Assets (RoA). Upon mentioned trigger points PCA frame work starts on the banks which curbs certain power and actions interms of credit sanctions, branch expansion etc. The PCA framework is applicable only to commercial banks and not extended to co-operative banks and non-banking financial companies (NBFCs). The PCA framework would apply without exception to all banks operating in India.

There is no direct impact on resource/Deposit Mobilization in terms of PCA frame work imposed by RBI; it could impact sentiments of customers due to poor credit management, profit of the bank etc. Under PCA framework, Banks need to focus on more improving of quality of assets i.e. Loan recoveries.

About IOB:

Indian Overseas Bank has been under PCA frame work from the year 2015 and it is one the oldest bank with great history and heritage. Chronology of events related to Indian Overseas Bank is mentioned below.

1. IOB established on 10.02.1937 by Great personality Shri Chidambaram Chettyar.
2. Initially established to deal foreign exchange business as Main objective.
3. Nationalized in the year 1969 along with other 14 Major Banks with Business Mix of Rs.112.60 Crore
4. Moved PCA framework in the Financial Year 2015-16 with upsurge of NPAs.

About IDBI Bank:

Now, IDBI Bank Ltd is functioning as a full service universal bank that serves the customers from all segments. IDBI established as developmental financial institution on 01.07.1964 by Government of India the same status continued till 30.09.2004.

The erstwhile IDBI was converted into a banking company – IDBI Ltd. - to undertake the entire gamut of banking activities while continuing to play its secular DFI role. Desirous of fuelling its business growth, IDBI Ltd. merged its subsidiaries - the erstwhile IDBI Bank, IDBI Home Finance Ltd., IDBI Gilts, and the erstwhile United Western Bank Ltd., with itself over a period of time. IDBI Ltd. also changed its name to IDBI Bank Ltd. to reflect its widened business functions.

IDBI Bank Limited has been categorized as a private Bank with effect from 21.01.2019 as LIC acquired more the 51% share in its paid up capital of the bank here after for all regulatory purposes IDBI treated at par with Private Banks.

Inflation when rises moderate to high can be seen as a giant devil which possibly destroy the Nation and Wealth of the Nation best examples Venezuela and Zimbabwe to name in recent times. It influences every sphere of life and all types of institutions, banks have no exception to it.

Research Gap in Literature:

Huge monotonous research happened on impact and management of NPA, it also includes qualitative and quantitative aspects of research as well. There are very few cases which studied indirect relation between resource mobilization and NPA/PCA framework.

Need of the study:

In the context of achieving the target of \$5 Trillion economy it become necessary to study the impact of PCA on select PSBs to enable different stake holders to make policy decisions and also for academic purpose, PSBs needed to augment their strength to bolster support to MSME and Small corporate.

Objective of the study:

To find out whether there is any Impact of the PCA frame work on deposits/resources mobilization with respect to select PSBs namely, Indian Oversea Bank and Industrial Development Bank of India Ltd, their comparative response to PCA framework by comparing post and pre PCA deposit position.

Research Methodology:

Pearson Correlation Coefficient is good measure to find association between two variables, with help of the Pearson Correlation Coefficient; we study the association between resource mobilization between IOB and IDBI bank before PCA and after PCA based on each quarter deposit position. Inflation index is also used in the study for better understanding.

Data:

Data used to analysis is secondary data extracted from the concerned bank's website as a measure of disclosure. Inflation Index Points are gathered from Government of India website. The data is more reliable and authenticated.

As on Date (Based On Balance Sheet)	IOB			IDBI Bank		
	Rs. Deposits*	Inflation Index Points(CPI)	Deposits (Base Year 2001)	Rs Deposits*	Inflation Index Points(CPI)	Deposits (Base Year 2001)
31.03.2009	100116	148.0	67645.9	112401	148.0	75946.6
30.06.2009	100806	151.3	66611.9	115554	151.3	76357.3
30.09.2009	109435	161.7	67691.8	130677	161.7	80831.1
31.12.2009	106249	167.3	63495.4	142798	167.3	85337.5
31.03.2010	110795	170.7	64918.9	167667	170.7	98242.4
30.06.2010	109461	172.0	63640.1	157204	172.0	91397.7
30.09.2010	118142	178.3	66247.9	154305	178.3	86526.2

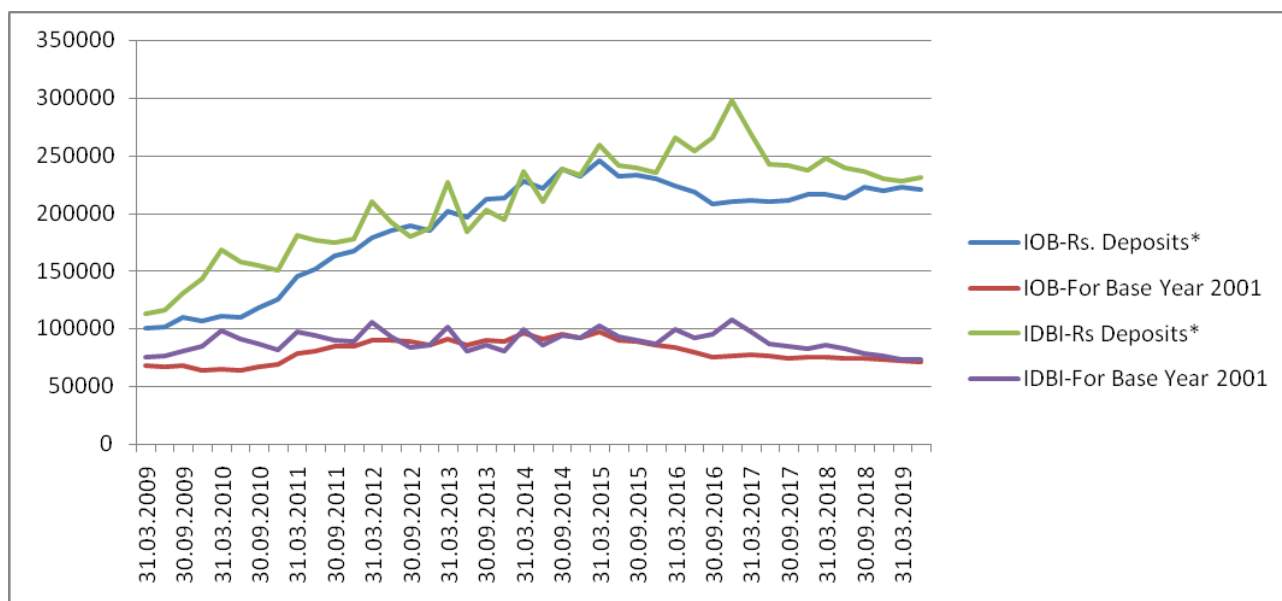
31.12.2010	125062	182.7	68464.6	150239	182.7	82247.6
31.03.2011	145229	186.0	78080.1	180486	186.0	97035.5
30.06.2011	151173	187.3	80697.3	176282	187.3	94100.7
30.09.2011	163579	194.7	84030.3	174441	194.7	89610.1
31.12.2011	167006	198.0	84346.5	177123	198.0	89456.1
31.03.2012	178434	199.3	89515.4	210493	199.3	105598.5
30.06.2012	184882	206.3	89603.6	191747	206.3	92930.7
30.09.2012	189115	213.7	88509.4	180087	213.7	84284.1
31.12.2012	185573	218.0	85125.2	186623	218.0	85606.9
31.03.2013	202135	222.7	90779.2	227116	222.7	101998.2
30.06.2013	196213	228.3	85932.7	183277	228.3	80267.3
30.09.2013	212705	236.7	89875.4	202559	236.7	85588.3
31.12.2013	213319	241.0	88514.1	193858	241.0	80439.0
31.03.2014	227976	238.0	95788.2	235774	238.0	99064.7
30.06.2014	221879	244.0	90934.0	210343	244.0	86206.1
30.09.2014	239224	252.7	94679.7	238006	252.7	94197.6
31.12.2014	232822	253.0	92024.5	233199	253.0	92173.5
31.03.2015	246049	253.7	96997.0	259836	253.7	102432.1
30.06.2015	232064	258.3	89831.2	241328	258.3	93417.3
30.09.2015	233026	264.3	88156.1	239282	264.3	90522.8
31.12.2015	230670	269.3	85644.8	234691	269.3	87137.7
31.03.2016	224514	268.0	83773.9	265720	268.0	99149.3
30.06.2016	218484	274.3	79641.8	254031	274.3	92599.4
30.09.2016	208058	278.3	74751.4	265679	278.3	95453.5
31.12.2016	210861	276.7	76214.8	298194	276.7	107781.0
31.03.2017	211343	274.3	77038.8	268538	274.3	97887.5
30.06.2017	210748	278.3	75717.8	243058	278.3	87326.2
30.09.2017	211548	285.0	74227.4	241566	285.0	84760.0
31.12.2017	216592	287.0	75467.6	236978	287.0	82570.7
31.03.2018	216832	287.3	75463.6	247932	287.3	86287.2
30.06.2018	213168	289.3	73675.6	239896	289.3	82913.4
30.09.2018	223169	301.0	74142.5	236227	301.0	78480.7
31.12.2018	220311	301.7	73031.3	229966	301.7	76231.8
31.03.2019	222534	307.7	72329.6	227372	307.7	73902.1
30.06.2019	221171	314.0	70436.6	230784	314.0	73498.1

1. CPI stands for Consumer Price Index

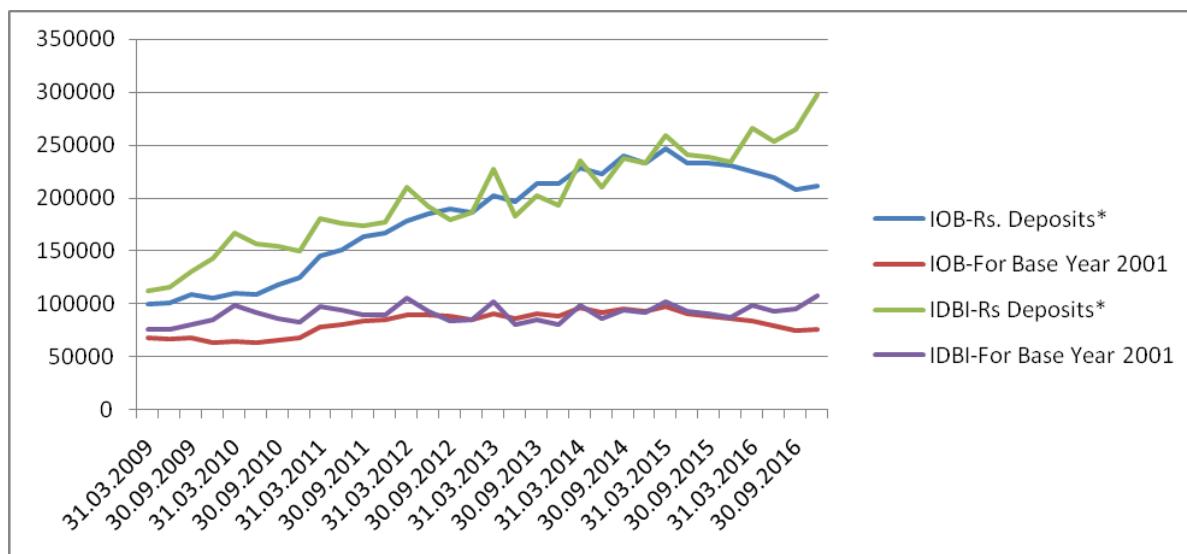
2. *In Crores

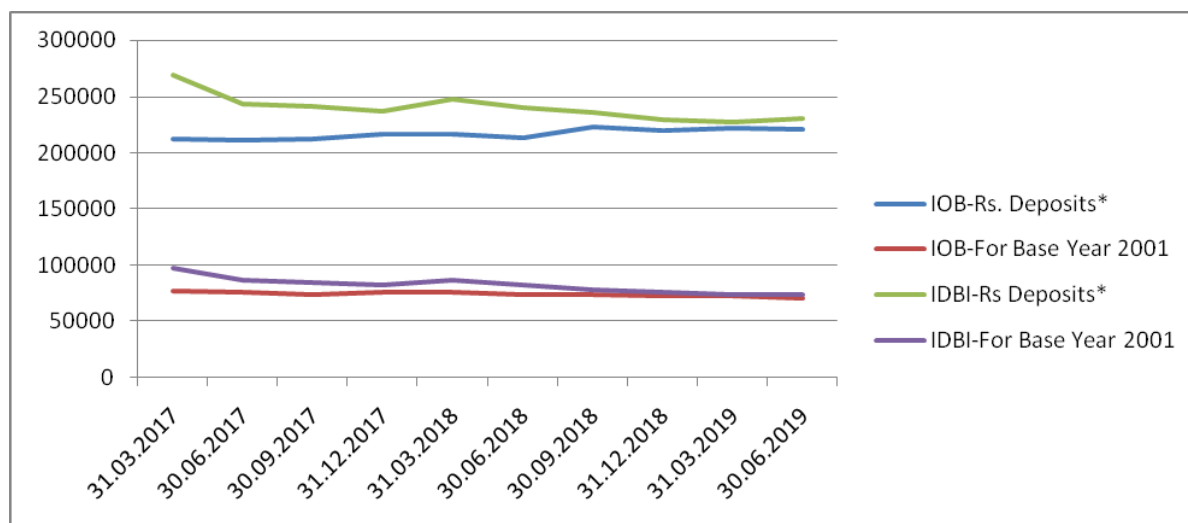
Data analysis and Interpretation:

Line Chart (IOB Vs IDBI Bank) ** Total Duration



Line Chart (IOB Vs IDBI Bank)Before PCA (i.e. Before 31.03.2017)**



Line Chart (IOB Vs IDBI Bank) **After PCA(i.e. 31.03.2017 to 30.06.2019)

Statistical Item	Normal without Inflation			with Inflation Discounting base Year 2001		
	Before PCA	After PCA	For Total Duration	Before PCA	After PCA	For Total Duration
IOB Vs IDBI	0.8765	-.6837	0.8794	0.3378	0.8922	0.4301

Limitations:

1. The study is limited to the IOB and IDBI
2. Other Factors are not taken into consideration
3. IOB is in PCA ambit from Financial Year 2015-16 but IDBI Bank is moved to PCA frame work from Financial Year 2017-18, for the purpose of study After PCA period is covered from Financial Year 2017-2018 onwards for both the Banks.

The conclusion:

In terms of deposit position both banks are not showing any growth after PCA framework or in some instances mere a meager growth is recorded.

Case A: Normal without Inflation Discounting	Case B: with Inflation Discounting base Year 2001
Before PCA: Strong Positive Correlation exhibited	Before PCA: Weak Positive Correlation exhibited
After PCA: Moderately Negative Correlation Exhibited	After PCA: Strong Positive Correlation Exhibited

For Total Duration: Strong Positive Correlation exhibited	For Total Duration: Moderate Positive Correlation exhibited
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Statistical analysis gave a tricky result for interpretation. We can conclude that imposition of PCA framework certainly has negative impact on resources mobilization.

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