# Lakshmi Vilas Bank (LVB) Crisis

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**In News**

- Scheme of amalgamation of Lakshmi Vilas Bank with DBS Bank India Ltd approved giving benefits to about 20 Lakh account holders

**Background**

- LVB was placed under the prompt corrective action (PCA) framework in September 2019 considering the **breach of PCA thresholds as on 31st March, 2019.**
- The RBI has specified certain regulatory trigger points, as a part of prompt corrective action (PCA) Framework, in terms of three parameters, i.e. capital to risk weighted assets ratio (CRAR), net non-performing assets (NPA) and Return on Assets (RoA), for initiation of certain structured and discretionary actions in respect of banks hitting such trigger points.
- After taking into consideration various developments, the RBI had come to the conclusion that in the absence of a credible revival plan, with a view to protect depositors' interest and in the interest of financial and banking stability, there is no alternative but to apply to the Central Government for imposing a moratorium under section 45 of the Banking Regulation Act, 1949.

**Benefits**

- This will protect about 20 Lakh depositors' interest and will give financial stability to the Bank. LVB had been under moratorium for a period of 30 days
- LVB will be amalgamated with DBIL from the appointed

date and with this there will no further restrictions on withdrawal
- There will not be any job risk for about 4,000 employees who will be retained as per previous terms and conditions

**Prompt corrective action (PCA) framework**

**What is PCA?**

    - PCA norms allow the regulator to place **certain restrictions** such as halting branch expansion and stopping dividend payment.
    - It can even **cap a bank's lending limit to one entity or sector**.
    - Other corrective actions that can be imposed on banks include **special audit, restructuring operations and activation of recovery plan.**
    - Banks' promoters can be asked to **bring in new management, too**. T

- **The RBI can also supersede the bank's board, under PCA.**

**When is PCA invoked?**

- The PCA is invoked when certain **risk thresholds are breached.**
- There are t**hree risk thresholds** which are based on certain levels of asset quality, profitability, capital and the like.

The **third such threshold,** which is maximum tolerance limit, sets net NPA at over 12% and negative return on assets for four consecutive years.

**What will a bank do if PCA is triggered?**

- Banks are **not allowed to renew or access costly deposits** or take steps to increase their fee-based income.
- Banks will also have to launch a **special drive to reduce**

**the stock of NPAs** and contain generation of fresh NPAs.

- They will also **not be allowed to enter into new lines of business.** RBI will also impose restrictions on the bank on borrowings from the interbank market.

**What are the types of restrictions?**

- There are **two types of restrictions**, mandatory and discretionary.

**Mandatory restrictions** on dividend, branch expansion, directors compensation, while d**iscretionary restrictions** could include curbs on lending and deposit.