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## Modelling the recovery of Indian banks under prompt corrective action framework: TOPSIS methodology

by K.C. Arora, L. Ramani

**Abstract:** The current study empirically investigates the comparative financial health of each of the 12 Indian banks under the Prompt Corrective Action (PCA) framework considering multiple triggers of PCA framework collectively. A model for predicting the recovery of these banks from PCA has been proposed based on three different multi-criteria decision making methods (MCDM), one being the TOPSIS (Technique for Order of Preference by Similarity to the Ideal Solution) proposed by Hwang and Yoon (1981) to rank the set of alternatives. It has been hypothesised that higher the rank, the faster could be the recovery of a bank out of PCA framework based on multiple trigger values of these banks for three to four years from the date of the revised PCA framework. The results have got amply validated with the action of the Indian banking regulator (RBI) to declare some of the banks out of PCA framework immediately after the declaration of financial results of the banks for Quarter 3 of the Financial Year 2019. The approach and methods employed are novel and have important managerial implications for the banks and the regulator to gauge the quantum of risk of a bank under PCA framework and compare it with that of other similar banks.

**Keywords:** *prompt corrective action; Reserve Bank of India; CRAR; CET1; NNPA; leverage ratio; weighted average deviation index; TOPSIS methodology.*

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