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RBI's decision of extending Prompt corrective Action (PCA) to non-banking financial companies can strengthen financial system of the country. Discuss (200 words).

Ans.

RBI has decided to put in place a Prompt corrective action framework for troubled non-banking finance companies to restore their health.

Why this decision taken?

Until now, RBI had PCA framework for banking sector only but recently big financial firms like IL&FS, DHFL, SREI, Reliance which collect public funds through fixed deposit and non-convertible debentures collapsed in the last three years.

Now NBFS work :-

In recent NBFS grown in size, some of them are as big as small banks. There is a three tier of parameters.

Parameters	threshold 1	threshold 2	threshold 3
(1) Capital adequacy ratio,	300 basis points level of 15-12%	300-600 bps from 12-9%	600 bps from 9%

(2) - non performing assets	6 - 9%	9 - 12%	> 12%
(3) capital ratio - 0 falls	up to 200 bps 10 - 8%	more than 200 bps to 400 below to 6%	400 bps below < 6%

NBFS work according to this threshold and restrict, supervise, include pre-emptive time bound plan for companies.

⇒ Bad lender :- It will prevent bad lenders from going worse rather than brushing the issue aside.

⇒ NBFS :- the PCA framework will be reviewed after 3 years. So there is high chances for reforms in economic sector with current situation.

⇒ Option :- MPA have option to recover or selling out their companies. So they have choice according to situation.

⇒ even though RBI said that this framework is for restoring financial health. and may prove to be

good, improve government. we may take  
our use government initiative like  
'Amnisty bhayat' for financial  
support.