

1. RBI's decision of extending PCA to NBFCs can strengthen financial system of country. Discuss?

Prompt corrective action (PCA) allowed the RBI to place weaker banks under restrictions until they undergo adequate repair. Till now only banks were under PCA but RBI <sup>has</sup> ~~has~~ decided to extend PCA to non-banking financial companies (NBFCs).

NBFCs :-

These companies are registered under Companies Act 1956, they provide loans, acquisition of stocks etc.

Issues with NBFC

→ The NBFCs like Infrastructure Leasing and Financial Services (IL&F) and Oswal Housing Service ~~has~~ faced huge losses.

→ High NPA is the major reason.

Advantages of NBFC

→ In last five years NBFC have doubled their balance sheet from ≈ 20.2 lakh crore to ≈ 49 lakh crore, a tremendous growth.

→ They act as a alternate source for credit.

→ easily accessible.

But due to its less regulatory measures we are losing many NBFCs so RBI decided to bring under PCA as they are help in tremendous growth of country.

Track indicators

RBI tracks 3 major indicators

→ Capital to risk assets weighted ratio → it is percentage of ratio of capital to risk asset.

→ Tier I leverage ratio - It's the core capital like share equity, remaining currencies etc.

→ Non-performing assets (NPA) - The borrower is unable to pay the principal or interest ~~imposed~~ for the loans taken.

If any NBFC impeaches these value then they are brought under PCA.

### Government Initiative

→ Government will now allow RBI to regulate NBFC because they play the important role in India's money supply.

→ RBI will can impose restrictions on expanding NBFC branches, forgiving loans etc to reduce NPA.

→ RBI's these measures will bring NBFC out of trouble.

This RBI's decision of extending PCA to non-banking financial companies (NBFCs) can strengthen financial system of the country.