P.L.RAJ IAS & IPS ACADEMY

Building Bureaucrats Since 2006

2. Insolvency And Bankruptcy Code- Economy

The Insolvency and Bankruptcy Code (IBC), introduced in 2016 to create a time-bound insolvency resolution mechanism, has completed a decade of operation. Over this period, the IBC has fundamentally transformed India's approach to debt recovery, business restructuring, and creditor protection. The framework has emerged as the most effective debt recovery mechanism, contributing to improved credit discipline and financial system stability.

1.Insolvency and Bankruptcy Code (IBC) 2016

Objectives and Purpose

1. IBC was introduced in 2016 to address rising Non-Performing Assets (NPAs) and ineffective debt recovery mechanisms that plagued the Indian banking system.
2. Business Revival - To save viable businesses through restructuring, changes in ownership, or mergers rather than liquidating all distressed enterprises.
3. Maximization of Asset Value - To preserve and maximize the value of the debtor's assets during resolution, benefiting all stakeholders.
4. Promoting Entrepreneurship and Credit - To encourage entrepreneurship by providing a predictable exit mechanism, improve credit availability, and balance the interests of stakeholders including creditors and debtors.

Operational Framework

1. Currently a maximum of 330 days is allowed to find a resolution for a company admitted into the insolvency resolution process.
2. Otherwise, the company goes into liquidation, triggering asset sales and debt settlement.
3. The fixed timeline creates urgency and prevents prolonged uncertainty damaging business operations.

2.Institutional Framework Under IBC

Insolvency and Bankruptcy Board of India (IBBI)

1. The apex regulatory body established to oversee the functioning of insolvency professionals, insolvency professional agencies, and information utilities.
2. IBBI develops regulations, conducts inspections, and maintains professional standards across the insolvency ecosystem.

National Company Law Tribunal (NCLT)

1. The adjudicating authority responsible for admitting insolvency petitions, declaring moratoria, and approving resolution plans for companies and LLPs.
2. NCLT provides specialized forum for insolvency matters distinct from civil courts.

Insolvency Professionals (IPs)

1. IPs administer the affairs of distressed entities, safeguard assets, and facilitate meetings of creditors.
2. They oversee the resolution process in compliance with the Code and applicable regulations.
3. IPs act as neutral agents ensuring transparent and fair proceedings.

Committee of Creditors (CoC)

1. The supreme decision-making body comprising the distressed entity's financial creditors.

2. They evaluate, vote on, and approve the resolution plan.
3. CoC's voting power ensures creditor interests drive resolution outcomes.

3.Need for Insolvency Reforms in India

Rising NPA Crisis

1. India's banking sector suffered from massive Non-Performing Assets, especially after the infrastructure and corporate lending boom of the 2000s.
2. Banking sector NPAs reached critical levels, threatening financial system stability and credit availability.

Ineffective Earlier Mechanisms

1. Earlier recovery mechanisms such as the SARFAESI Act, Debt Recovery Tribunals (DRTs), and Lok Adalats were slow and inefficient.
2. Recovery proceedings continued for several years without effective resolution.
3. Cases languished in courts for a decade or more, eroding asset values and reducing creditor recovery.

Weak Credit Discipline

1. Defaulting promoters used to retain control over companies despite persistent loan defaults.
2. The absence of strict consequences encouraged wilful defaults and poor repayment culture.
3. Entrepreneurs faced minimal downside for defaulting on loans, creating moral hazard.

Improving Ease of Doing Business

1. India's insolvency resolution system ranked poorly in global ease of doing business indicators before the IBC.
2. A predictable exit mechanism was necessary to attract domestic and foreign investment by reducing business mortality risks.

4.Success of the Insolvency and Bankruptcy Code

Debt Recovery Framework

1. Till March 2026, a total of 8,987 Corporate Insolvency Resolution Processes (CIRPs) had been admitted under the IBC framework.
2. Out of these cases, 1,419 corporate debtors were successfully resolved through approved resolution plans.
3. Several additional cases were closed through settlements, appeals, reviews, and withdrawals under Section 12A of the Code, reflecting the behavioural impact of the IBC on borrowers.

Improved Recovery Outcomes

1. As of March 2026, creditors realized nearly ₹4.32 lakh crore through approved resolution plans under the IBC.
2. Recoveries amounted to more than 94.56% of the fair value of stressed assets, indicating better value maximization under the resolution process.
3. Recovery efficiency through IBC far exceeds outcomes under legacy mechanisms.

Strengthened Financial Discipline

1. The fear of losing management control has improved repayment discipline among corporate borrowers.
2. Many firms have opted for early settlements before formal insolvency admission, thereby reducing prolonged litigation.
3. Behavioural shift toward voluntary compliance improves credit culture across the economy.

RBI Report on Banking Progress

1. The Reserve Bank of India's "Report on Trends and Progress of Banking in India 2024-25" highlighted that IBC accounted for nearly 52.4% of the total recoveries made by banks.
2. Recoveries through the IBC were significantly higher than recoveries made through SARFAESI, Debt Recovery Tribunals (DRTs), and Lok Adalats.

5.Concerns and Challenges with IBC

Rising Delays in Resolution

1. The average resolution timeline increased to nearly 744 days by FY2026 against the statutory limit of 330 days.
2. Nearly 78% of insolvency cases exceeded the prescribed timeline.
3. Delays lead to erosion of asset value and reduce investor interest in stressed assets.

High Haircuts for Creditors

1. On average, creditors face haircuts of around 67%, recovering only about one-third of their admitted claims.
2. Such substantial losses undermine the credibility of the resolution process.

Limited Coverage for Modern Enterprises

1. The IBC lacks clear provisions for handling issues unique to modern firms, such as intellectual property valuation, employee claims, and technology continuity.
2. This limits effective resolution of non-traditional enterprises including tech startups and platform companies.

Capacity Constraints

1. The NCLT and NCLAT continue to suffer from manpower shortages and limited infrastructure.
2. Insufficient judicial capacity contributes to timeline slippages and case pendency.

Cross-Border Insolvency Challenges

1. Insolvency cases involving multinational assets and creditors face legal and procedural uncertainty.
2. Lack of harmonized international insolvency frameworks creates complications.

6.Way Forward

1. **Strengthen NCLTs** - The government must increase the number of NCLT benches, judges, and technical members to reduce pendency and delays through enhanced institutional capacity.
2. **Reduce Delays** - Strict timelines for appeals and insolvency proceedings must be enforced to preserve asset value through time-bound processes.
3. **Prioritise Resolution** - The insolvency framework must focus more on revival and restructuring of viable firms rather than liquidation to preserve enterprise value and employment.
4. **Limit Haircuts** - Greater transparency and better valuation mechanisms are needed to reduce excessive creditor haircuts through improved asset assessment.
5. **Protect MSMEs** - Operational creditors and MSMEs should receive fairer treatment under resolution plans through specialized provisions recognizing their vulnerability.
6. **Harmonize Cross-Border Standards** - Develop bilateral insolvency agreements with major trading partners to address cross-border insolvency challenges.
7. **Enhance Technology Integration** - Use data analytics and AI to accelerate resolution processes and reduce timelines through digital case management.

Source - https -//www.business-standard.com/companies/news/decade-on-ibc-still-has-miles-to-go-despite-stronger-framework-126052701512_1.html