IBC is masterstroke in curbing bad loans; now iron out these wrinkles

By: Eram Tafsir | Updated: March 18, 2019 2:49 PM

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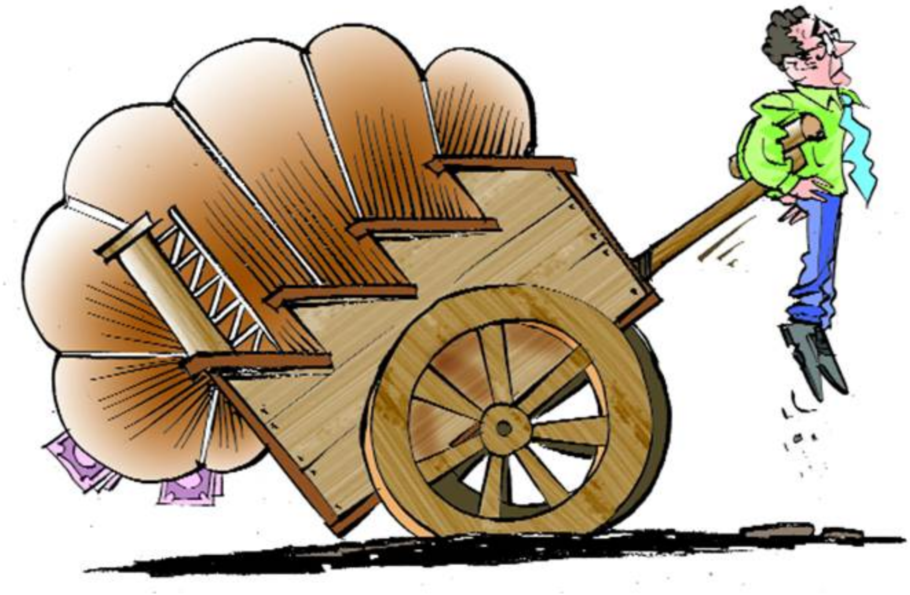

The banking sector has been reeling under stress for some time now, with non-performing assets (NPAs) steadily climbing, hurting the asset quality of banks. Even as the government's recent measures to tackle the crisis have finally started to bear results, some concerns remain.

The two laws, Insolvency and Bankruptcy Code (IBC) and the RBI's Revised Framework for Resolution of Stressed Assets (RFRSA), however, have helped to fix the problem to some extent in terms of improvement in recognition, deterrence, resolution and speed, wrote Manish Sabharwal, Chairman of Teamlease Services in The Indian Express.

The laws has resulted in improving the asset quality of banks, giving push to its credit and deposit activities. This is a great news which may increase financial inclusion of the small, honest, and non-politically connected, wrote Manish Sabharwal.

The Insolvency and Bankruptcy Code, which came into effect in 2016, seeks to consolidate the existing framework by creating a single and time bound law for insolvency and bankruptcy in India. The RFRSA has fixed the defects of RBI's past policy interventions such as strategic debt restructuring (SDR), 5/25 refinancing, and Scheme for Sustainable Structuring of Stressed Assets (S4A) etc. by requiring weekly reporting by banks on all accounts in default anytime during the week with exposure greater than Rs 50 million.

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India's bad loans surged from 2.4 per cent in 2007 to 11.6 per cent in 2018. However, with help of the two policies- IBC plus RFRSA – it might have been now reduced to 10.2 per cent, wrote Sabharwal in the article. Further, the impact RFRSA, which improved the identification of such bad loans can also be assessed by the decline in the number of bad loans reported for recent quarters, he added.

"Of the 82 accounts resolved by the IBC, the average realisation by financial creditors was 48 per cent and average time taken for resolution was 310 days (versus World Bank estimates of 27 per cent and 1,580 days)," said Mahesh Sabharwal.

Sabharwal also lauds the recent Supreme Court judgement of upholding the constitutional validity of the IBC, identifying the relative position of secured and unsecured creditors, and holding the line on Section 29A.

However, he has also raised some points of concern which are holding these policies back. Litigation hinders the resolution process with only 3 cases of the RBI's first IBC list of 12, resolved so far. Moreover, only 63 of the total 1,484 cases admitted under the IBC are likely to be withdrawn under Section 12A, recovery rates still remain lower than global averages, and 31 per cent of the 898 ongoing insolvency cases at the end of 2018 have breached the 270-day deadline, wrote Sabharwal.

Nevertheless, if taken care of these concerns, these reforms holds the potential to improve India's productivity, wages and prosperity, Manish Sabharwal noted.