Insolvency and Bankruptcy Board of India

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Press Release

Research study on *'Behavioural impact of Insolvency and Bankruptcy Code'* conducted by IIM Bangalore

The Indian Institute of Management, Bangalore conducted a research study on '*Behavioural impact of the Insolvency and Bankruptcy Code (IBC)'*. The study is based on comprehensive dataset on corporate insolvency resolution proceedings (CIRPs) sourced from the Insolvency and Bankruptcy Board of India (IBBI) for the period 2017–2023, firm-level financial data from CMIE Prowess for the period 2010–2024 and Reserve Bank of India (RBI) data on non-performing assets (NPAs) of Banks for the period 2010–2024.

2. This study has highlighted the role of Insolvency and Bankruptcy Code (IBC) in fundamentally transforming India's corporate credit environment. As per this study, the legislation has, inter alia, significantly enhanced the debt servicing efficiency, instilled stronger financial discipline among borrowers, and elevated standards of corporate governance across various sectors. These outcomes reflect the IBC's far-reaching impact in promoting a more transparent, accountable, and efficient credit system, ultimately contributing to the stability and robustness of the broader financial ecosystem.

3. The key findings of the research study are summarised below:

a. **Behavioural Change and Credit Discipline:** As per the study, loan account transitions across four categories—Normal, Overdue, Default, and Suit Filed. The study finds that the IBC has encouraged borrowers to adhere to stipulated loan repayment schedules. During the review period, the study observed a substantial decline in the number and volume of loan accounts categorized as 'Overdue.' Further, the study observed a marked improvement in credit behaviour following the implementation of the IBC. In particular, the proportion of loan accounts transitioning from the 'Overdue' to the

'Normal' category has steadily increased between 2018 and 2024, reflecting improved borrower discipline. Notably, the average duration that loan accounts remained in the 'Overdue' category before transitioning to 'Normal' was reduced from 248–344 days to 30–87 days. Furthermore, the relative stability of transitions into Default suggests sustained creditor vigilance and responsiveness under the IBC framework. This highlights the proactive efforts of both debtors and creditors to resolve delinquencies expeditiously.

b. **Impact on Cost of Debt:** Regarding the cost of debt, the study highlights a 3% reduction in borrowing costs for distressed firms post-IBC, relative to non-distressed firms, suggesting an improved credit environment for financially stressed entities.

c. **Strengthening Governance:** The study underscores the positive impact of the IBC in enhancing corporate governance standards by promoting stronger oversight and accountability mechanisms. One notable finding of the study is the increased proportion of independent directors on the boards of companies that have undergone resolution under the IBC framework. The study reflects that following the implementation of the IBC, the average proportion of independent directors increased by 2.84%, with highly distressed firms registering a 2.52% rise.

d. **Increase in Innovation**: The study finds that after the implementation of the IBC, R&D intensity increased marginally by 0.04% across the overall sample, signalling a gradual shift toward long-term value creation in the post-restructuring phase.

4. This study reaffirms that the Insolvency and Bankruptcy Code (IBC) has not only strengthened the legal framework for debt resolution in India but also catalysed meaningful behavioural changes among both borrowers and lenders, thereby fostering a more resilient, responsive, and accountable financial ecosystem.

5. The full report is available on the website of the Insolvency and Bankruptcy Board of India at https://ibbi.gov.in/uploads/resources/4ec8b72b703bb9d8532642a0bf07c6d8.pdf.

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