Insolvency & Bankruptcy Code is success story of India’s economic reforms: Vice President

It played a critical role in reshaping behaviour of borrowers;

Insolvency law vital for stability in financial systems;

Inaugurates Insolvency Research Foundation

The Vice President of India, Shri M. Venkaiah Naidu has said the enactment of Insolvency and Bankruptcy Code was one of the success stories of Indian economic reforms and that it played a critical role in reshaping the behaviour of borrowers.

Speaking after inaugurating the Insolvency Research Foundation (IRF), here today, the Vice President said that Insolvency and Bankruptcy Code (IBC) has helped set the stage for superior renegotiation between the lenders and borrowers.

Quoting a report by Insolvency and Bankruptcy Board of India (IBBI), the Vice President said that “Since 1 December 2016, nearly 1500 Corporate Debts have been brought before CIRP and 142 have already been closed, while 63 have been withdrawn. As many as 302 cases have ended in liquidation, while the resolution plans have been approved in 72 cases.

Asserting that an efficient insolvency law was vital to stability in financial systems and fundamental to economic growth and wealth creation, the Vice President said that a sound insolvency and bankruptcy process would enable rapid resolutions for problems or risks posed by entrepreneurship.

“Without a bankruptcy law, if an organization defaults on a loan, each claimant races to grab its share of the organization's assets. This battle among the claimants can push the organization into liquidation regardless of whether it has a generally stable business model,” he said.

Saying that the essence of the insolvency process was to aid against such challenges and encourage entrepreneurship, business, and more risk-taking, the Vice President said that it was, therefore, crucial to continue to invest in the development of the law by studying its impact, and investigate its strengths and weaknesses on a regular basis.
Shri Naidu said that academics play a very important role in supporting policy development, industry research and finding innovative solutions in advanced countries and called for a similar and a more robust collaboration between academia and industry in improving the culture of research in India, especially in matters relating to insolvency and bankruptcy.

The Vice President appreciated the government for initiating a series of economic reforms to improve the investment climate in diverse areas and make India an attractive destination. The reforms have added a new dimension to the development story of India.

The Minister of State for Finance & Corporate Affairs, Shri Anurag Thakur, the former Judge, Supreme Court of India and Chairperson, National Company Law Appellate Tribunal, Shri S.J. Mukhopadyay, the Secretary, Ministry of Corporate Affairs, Shri Injeti Srinivas, the Chairperson, IBBI, Dr. M.S. Sahoo, the DG CEO, IICA, Dr. Sameer Sharma and other dignitaries were present on the occasion.

Following is the text of Vice President’s address:

“I am delighted to inaugurate the Insolvency Research Foundation (IRF). I would like to thank the Indian Institute of Corporate Affairs (IICA) and Society for Insolvency Practitioners of India (SIPI) for having invited me.

Before sharing my thoughts on the need for such a foundation in India’s insolvency chapter, I would also like to compliment Dr. Sameer Sharma for building a culture of research at IICA.

As you all are aware, an efficient insolvency law is vital to stability in financial systems and fundamental to economic growth and wealth creation. Entrepreneurship, by nature, involves risk taking. Some business ideas will inevitably turn out badly. This may be due to several reasons. A sound insolvency and bankruptcy process enable rapid resolutions of such problems.

Without a bankruptcy law, if an organization defaults on a loan, each claimant races to grab its share of the organization's assets. This battle among the claimants can push the organization into liquidation regardless of whether it has a generally stable business model.

The essence of the insolvency process is to aid against such challenges and encourage entrepreneurship, business and more risk-taking. It is, therefore, crucial to continue to invest in the development of the law by studying its impact, and investigate its strengths and weaknesses on a regular basis.

In advanced countries, academics play a very important role in supporting policy development, industry research and finding innovative solutions. I would like to see a similar and a more robust collaboration between academia and industry in improving the culture of research in India, especially in matters relating to insolvency and bankruptcy

Dear Sisters and Brothers, the government has initiated a series of economic reforms to improve the investment climate in diverse areas and make India an attractive destination. As you all are aware, India has jumped by several ranks in the ease of doing business and stands at 77th position.

Of course, we need to further improve the ranking and make India one of the prime global destinations for investors.
Since the establishment of a robust insolvency framework with the enactment of Insolvency and Bankruptcy Code in 2016, we have made rapid strides in a short time. Undoubtedly, it is one of the success stories of the recent Indian economic reforms.

It has been more than two years since the provisions relating to Corporate Insolvency Resolution Process (CIRP) came into force on 1 December, 2016. According to Insolvency and Bankruptcy Board of India (IBBI) report, nearly 1500 Corporate Debts have been brought before CIRP as of December, 2018. Of these, 142 have been closed, while 63 have been withdrawn. As many as 302 cases have ended in liquidation, while the resolution plans have been approved in 72 cases.

The Insolvency and Bankruptcy Code is also playing a critical role in reshaping the incentives and behaviour of borrowers. The IBC has helped set the stage for superior renegotiation between the lenders and the borrowers.

Firms that are undergoing financial distress are not likely to increase labour or capital. The exit of such firms will rather free labour and capital. In other words, the bankruptcy procedures will ultimately aid in recycling resources for healthy firms and a healthier economy.

The Insolvency and Bankruptcy Code is providing invaluable gains which are not visible to the public eye. Therefore, the gains for India that are attributable to reforms are understated. An example of this is the idea of subordinate legislation.

An efficient procedure of utilizing information to improve the working of the insolvency and bankruptcy regime is essential. A research driven regulation making process requires a statistical framework and I believe IRF can be the building block for a more robust regime.

I am told that so far 1,322 cases have been admitted by the National Company Law Tribunal and 4,452 cases have been disposed at the pre-admission stage, while 66 have been resolved after adjudication and another 260 cases have been ordered for liquidation.

I have also been informed that the realization by creditors has been around Rs. 80,000 crores from 66 resolution cases. In regard to 4,452 cases disposed at the pre-admission stage, the amount settled was close to Rs 2.02 lakh crores. I am also aware that some big cases are in advanced stages of resolution and the realization from these is expected to be around Rs 70,000 crores.

Also the decline in new accounts coming under NPA category shows a definite improvement in the lending and borrowing behaviour. This is a clear evidence of the positive impact of IBC on the financial market. I am glad to note that through the commitment of the current government, a vast industry of Insolvency Professionals has developed in India.

Dear sisters and brothers, Insolvency is a dynamic law and needs constant evolution. Rapid changes are required in the law to keep pace with market developments.

I am happy to note that the Insolvency Research Foundation (IRF) has been established by the Indian Institute of Corporate Affairs (IICA) in partnership with SIPI, an insolvency think tank, as an independent research center to serve the public good and help in robust policy-making.

I am sure that its activities will lead to the emergence of a cadre of scholars and a robust network of academics, scholars, and jurists in the area of insolvency.
I am aware that the Indian Institute of Corporate Affairs (IICA) has supported the initiatives of the Ministry of Corporate Affairs in key matters relating to Corporate Affairs and governance. It is promoting research, building capacities and advocating policies in the area of Corporate Governance, Competition Law, Investor education, Insolvency & Bankruptcy and Corporate Social Responsibility, among others.

It is a delight to learn that it is the sole Institution in the country authorized by Insolvency and Bankruptcy Board of India (IBBI) to run its flagship Graduate Insolvency Programme (GIP). IICA has gathered the best minds in India and from abroad to deliver this programme.

Society of Insolvency Practitioners of India, in short SIPI is the first independent think tank dedicated to the cause of insolvency and development of soft infrastructure of insolvency industry.

The efforts of the government in bringing the much-needed legal reforms is re-defining India’s growth story. Thus, to conclude, the insolvency and bankruptcy reforms have yielded valuable gains in the conduct of borrowers, both towards operational and financial creditors. The way forward lies in building data sets and high-quality policy teams, which will carry this work program forward on various fronts.

I would like IRF to provide support by emulating global best practices and adapting them to make relevant in the Indian context. I also call upon the industry to support research as part of their corporate social responsibility.

My best wishes to IRF. I hope to see it emerge as India’s flagship research center and make a mark as a centre of global excellence.

I once again take this opportunity to congratulate IRF, IICA and SIPI and convey my best wishes for their future endeavours.

Thank you.

Jai Hind!

***

RR/BK/MS/RK

(Release ID: 1581185) Visitor Counter : 151

Read this release in: Urdu , Hindi