A REVIEW OF THE IMPACT OF THE INSOLVENCY AND BANKRUPTCY CODE ON RECOVERY EFFICIENCY IN INDIAN PUBLIC SECTOR BANKS

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ABSTRACT

The Insolvency and Bankruptcy Code (IBC), 2016, marked a watershed change in the country's legal regime to resolve stressed assets, especially for public sector banks (PSBs) which have been saddled with an extremely high share of non-performing assets (NPAs). Abstract This paper evaluates the effectiveness of Insolvency and Bankruptcy Code (IBC) on recovery in Public Sector Banks (PSBs), by undertaking a comparative study of control adjusted pre-and post-regime effects, incorporating doctrinal analysis over IBC provisions & jurisprudence along with empirical assessment based upon recovery patterns through data collated from Reserve bank India (RBI). Insolvency bankruptcy board India (IBBI)/Ministry of finance. The study starts by charting the evolution and limitations of pre-IBC regimes (the 1993 Recovery of Debts and Bankruptcy Act, RDB) & the 2002 Securitization And Reconstruction Of Financial Assets And Enforcement Of Security Interest SARFAESI but contrasts these with an expedited creditor-focus corporate insolvency resolution regime set under IBC. The first published evidence of an examination into how gross non performing asset (NPA) ratios, recovery rates and resolution outcomes for public sector banks (PSBs), have evolved prior to 2016 -by Rishita Pereira- exhibit PSB NPA ratios declining after the peaks seen during crisis era prime up to fiscal year ending March 2025 while Insolvency and Bankruptcy Code channels with results significantly superior than preceding frameworks glean higher recoveries. The outcomes suggest that although the IBC has remarkably augmented recovery efficiency and mitigated moral hazard, underlying lags in action, haircuts, and NCLT capacity constraints countermand its potentially reformative nature. The checklist still lists policy prescriptions targeted at institutional improvements in the Code, time frames & information dissemination and risk management reforms at PSB level that will further help cementing the initial positives of IBC driven resolution framework. Level Playing Field for Non-Public Sector Banks.

Keywords: Non-Performing Assets, Public Sector Banks, NPA Recovery Efficiency, SARFAESI, NCLT, Banking Legislation

Introduction

India's banking system, dominated by public sector banks, witnessed a severe NPA crisis in the wake of the global financial crisis and domestic investment slowdown, with stressed assets and gross NPA ratios peaking in the second half of the 2010s. RBI figures reveal that the gross NPA ratio of scheduled commercial banks reached roughly 11.2 percent in 2017–18, with PSBs accounting for more than two thirds of the stock of NPAs. Pre IBC recovery frameworks—primarily the RDB Act, 1993, Debt Recovery Tribunals (DRTs), Lok Adalat and the SARFAESI Act, 2002—operated in silos, faced chronic delays and delivered dismal collection rates, frequently in the range of 5–25 percent depending on the forum. Against this backdrop, Parliament enacted the IBC, 2016, as a comprehensive, time bound insolvency regime aimed at maximising value of assets, balancing stakeholder interests, and promoting credit discipline by placing creditors, rather than defaulting debtors, at the centre of the resolution process.[1]

Pre IBC Recovery Mechanisms

The RDB Act, 1993, created DRTs as specialist fora to speed collection of dues, but over time these tribunals were overcrowded, with increasing case backlogs and frequent delays that compromised their usefulness. SARFAESI, 2002, permitted secured creditors to enforce security without judicial involvement in defined situations, although, despite some early advances, recovery under SARFAESI remained small, with average recovery rates between around 20 and 27 percent in recent years. Empirical assessments reveal that Lok Adalat and compromise settlements, although effective for small ticket retail NPAs, had a limited impact in addressing major corporate exposures that dominated PSB balance sheets throughout the NPA crisis.[2]

Emergence and Design of the IBC

Scholarly studies stress that the IBC intended to unify bankruptcy laws into a single, complete legislation with clearly sequenced processes, including admission, moratorium, appointment of insolvency experts, establishment of committee of creditors and approval of resolution plans.

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[1] '*Impact of IBC, 2016 on Non-Performing Assets with Respect to the RBI Circular*, Int'l J. Innovative Rsch. L. (2022).

[2] E. Tensingh, *Role of Insolvency and Bankruptcy Code 2016 in Resolving NPAs of Indian Banks: A Review*, J. Mgmt. & Sci. Rsch. (2025).

The Code's fundamental features—strict deadlines, creditor in control paradigm, information utilities and waterfall priority for distributions—were meant to remedy the flaws of debtor controlled and fragmented regimes. Commentators have also followed the Code's history via a succession of revisions reacting to legal interpretations and policy criticism, including adjustments to homebuyer categorization, voting criteria and pre pack structures for micro, small and medium firms.[3]

Empirical Research on IBC Efficacy

Recent empirical studies suggest that recovery rates under the IBC have been consistently greater than those under SARFAESI, DRTs and Lok Adalat, with average IBC recovery in the range of roughly 32–45 percent compared to low single digit or low double digit rates in other channels. RBI and IBBI data reveal that IBC associated resolutions have contributed a considerable share of overall NPA reduction, with some estimates attributing more than 60 percent of total recoveries across channels in various times to IBC procedures and related behavioural impacts. At the same time, the literature reveals major delays above the notional 180–330 day timetables and huge haircuts in numerous headline instances, raising issues about whether value maximisation and speedy resolution aims are being properly fulfilled.

IBC and PSB NPA Trends: Pre- and Post-Analysis

Evolution of gross NPA ratios in PSBs

If you look at how gross NPAs in public sector banks changed over the past decade, you see the story of a crisis that hit hard, and then a serious turnaround. Parliament reports show gross NPAs for these banks dropped from 9.11% at the end of March 2021, down to 7.28% in March 2022, then to 4.97% in March 2023, 3.47% in March 2024, and finally 2.58% by March 2025. In real numbers, that's a fall from about ₹6.16 lakh crore to ₹2.84 lakh crore. This isn't just some short-term blip, either. Compare it to 2018, when gross NPAs across all scheduled commercial banks peaked around 11–12%, with PSBs carrying the bulk of the bad loans.

What changed? From a legal and policy perspective, a lot ties back to the IBC coming into its own as the main tool for corporate bankruptcy. Sure, plenty of other stuff mattered—like the RBI cracking down on asset quality, banks setting aside more provisions, the government

[3] *Behavioral Impact of IBC* (Indian Inst. of Mgmt. Bangalore, 2024).

pumping in fresh capital, and the economy picking up. But the big shift came when PSBs finally had a way to resolve huge, long-standing bad loans under the IBC. Before that, these dud accounts would just get stuck for years in bits and pieces—SARFAESI, DRTs, civil courts—dragging on endlessly. The IBC forced faster resolutions, freed up bank capital, and helped clean up their balance sheets.

That said, not every drop in NPA ratios means real recovery. Some of it is technical—write-offs, or selling bad loans to asset reconstruction companies, which might make the books look better without actual money coming back. Even here, though, the IBC matters. Buyers and resolution applicants now work in a space where the rules are clearer—who gets paid first, what creditors can expect, and so on—which affects how much PSBs can recover when they sell distressed assets.

It's also worth noting that the NPA clean-up hasn't been even across the board. The biggest wins came from large corporate accounts—the first cases sent to the IBC—while small businesses and retail loans (like education loans) still need more targeted solutions. The IBC really shines when you're dealing with complex, multi-creditor corporate messes, and that's where it had the biggest impact on PSB NPAs.

So, if you look at PSB NPA ratios before and after the IBC, it's clear the Code made a huge difference, even though it worked alongside other policy moves and market changes. Moving from 9.11% NPAs to 2.58% in five years isn't just about accounting tricks—it reflects a whole new legal environment for how PSBs handle defaults and recoveries.

Now, how about recoveries themselves? Does the IBC actually help PSBs get more of their money back compared to what came before? The numbers say yes. Studies using RBI data show that, on average, PSBs recover about 32% of dues through the IBC. Compare that to about 21% for SARFAESI, 5% for Debt Recovery Tribunals, and just 4% for Lok Adalat. So, on a system-wide level, the IBC gives lenders a much better shot at getting their money back, even after you factor in the time and costs involved.

Top regulators haven't been shy about pointing this out. The RBI Governor, for instance, has said recoveries under the IBC are "much more" than under older systems, quoting data that shows about 40% average recovery with the IBC, compared to roughly 20% with SARFAESI, and even less for other channels.

The higher performance of the IBC in recovery terms may be connected to its basic design elements. First, the creditors-in-control model and the establishment of a committee of creditors promote coordinated action among PSBs and other financial creditors, eliminating the coordination problems that typically hindered recovery efforts under dispersed enforcement regimes. Second, the potential of a going-concern sale of the debtor firm, rather than piece-meal asset liquidation, tends to draw higher values from resolution applicants, which directly improves PSB recovery. Third, the legislative deadlines and moratorium assist safeguard asset value by avoiding additional degradation via uncoordinated enforcement or management diversion, while delays in practice remain an issue.

However, the picture is not monotonically beneficial to the IBC in every year or sector. RBI data for FY 2020–21, a pandemic-affected year when fresh IBC filings were suspended, show that SARFAESI outperformed IBC in terms of percentage recovery for that specific period, with about 41 percent recovery under SARFAESI versus approximately 20 percent under IBC, while DRTs and Lok Adalat yielded only 3–4 percent. This anomaly is explained by the particular circumstances of that year: ongoing IBC cases faced delays due to pandemic disruptions, while SARFAESI recoveries related to earlier, simpler cases proceeded relatively faster, indicating that context-specific factors can influence annual channel-wise performance.

For PSBs, the larger trend emerging from multi-year data and policy evaluations is that high-value, complicated corporate NPAs obtain superior recovery results via the IBC, while traditional methods continue to play specialized roles in lower-value or less complex exposures. In other words, the IBC is not a perfect alternative for SARFAESI or DRTs but an institutional supplement that prevails in the section where PSB losses are structurally most substantial. As a consequence, even if aggregate amounts recovered via SARFAESI remain high, a major share—often estimated at more than 60 percent in recent years—of overall recoveries across all channels derives from IBC procedures or IBC-induced settlements.

This trend has substantial consequences for legal policy and PSB strategy. It argues that PSBs should continue to employ SARFAESI and DRTs for circumstances where such forums are more efficient—such as smaller secured retail loans—while systematically directing big multi-creditor corporate defaults into the IBC framework. It also implies that improvements in the functioning of the IBC (for example, reduced delays, greater tribunal capacity, better information utilities) will yield outsized benefits for PSB recovery efficiency compared to marginal reforms in legacy mechanisms, because the highest-value defaults are concentrated in the IBC pipeline.

Resolution Results and Behavioural Effect

Beyond raw recovery rates, the IBC has had a substantial influence on the pattern of settlement results and the attitude of debtors and creditors. IBBI statistics for completed corporate insolvency resolution processes show that, over time, the ratio of resolutions to liquidations among closed cases has improved markedly, rising from about 0.21 in the early years of the Code to above 0.6 in more recent periods, reflecting a higher proportion of cases ending in approved resolution plans rather than value-destroying liquidations. This trend implies that the institutional ecosystem—tribunals, insolvency professionals, creditors and bidders—has steadily gotten more skilled at devising viable reorganisation options, which is especially helpful for PSBs that have substantial secured exposures.

An even more dramatic feature of the IBC's influence is behavioural rather than just statistical. Statements from IBBI officials and associated studies suggest that more than 28,000 petitions, including defaults surpassing ₹10 lakh crore, were withdrawn before admission to CIRP, as debtors paid dues once confronted with the genuine danger of being hauled into bankruptcy proceedings. Other reports estimate that by March 2024, applications covering defaults of about ₹10.2 lakh crore had been withdrawn at pre-admission stages, underscoring the deterrent effect of the Code: many debtors regularise or restructure obligations to avoid the loss of control and reputational cost associated with IBC admission.

From a PSB standpoint, this behavioural influence is significant. It implies that even cases which never officially move through the whole CIRP may generate greater recovery because borrowers react strategically to the threat of IBC start. PSBs, armed with the legal power of the Code, may obtain fairer settlements and speedier payments than under past regimes, when the fear of effective collective bankruptcy was either absent or not credible. In consequence, the IBC functions as both a legal remedy and a negotiation instrument, shifting the default pay-off matrix for debtors and creditors in favour of speedy settlement.

You can really see the give-and-take in how withdrawals happen after admission under section 12A of the Code. The IBBI's data shows that hundreds of CIRPs have been pulled back after getting the green light from 90 percent of the committee of creditors. Most of the time, that's because the debtor and creditors manage to hash out a deal—payments get restored, or everyone finds a way to make the most of what's left on the table. Sure, these withdrawals raise questions about transparency and whether there are side deals going on, but at the same time, they show the IBC actually pushes people to settle faster. That saves public sector banks a lot of time and cash, steering them away from those long, messy bankruptcy cases.

If you look at it from a legal theory angle, this is "law as a threat point" in action. Just having a solid insolvency process hanging over everyone's heads changes the way public sector banks and borrowers talk. Instead of endless rescheduling or letting things slide, they're pressed to find real, workable solutions—something that just doesn't happen when enforcement is weak. For banks, being able to show they'll actually use the IBC gives them real leverage. It nudges negotiations away from forever-restructuring and closer to true resolution, which helps them recover faster and keeps borrowers in line.

But it's not all upside. Officials have to watch for any nasty surprises. If banks start using the threat of IBC too loosely—or worse, on borrowers who just hit a rough patch but are still viable—it could scare off risk-taking and hurt entrepreneurs. The real challenge is making sure banks and creditors use the IBC the way lawmakers meant: to get the most value and reach solid, lasting resolutions, not just to squeeze out quick wins. That means banks need strong internal rules, boards and regulators need to keep a close eye, and courts have to keep shaping what good-faith use of insolvency really means.

In the end, when you look at how things have actually played out under the IBC—how borrowers behave, how many cases get resolved versus liquidated, and how negotiations have changed—it's clear the Code has pushed a much deeper shift in how defaults and recoveries work for public sector banks in India. And you can't measure that just by looking at recovery percentages. There's a whole new dynamic at play now.

Comparative Performance of PSBs under IBC and Prior Regimes

Structural Differences in Legal Design

Before the IBC came along, public sector banks (PSBs) had to chase their dues through a patchwork of laws that mostly favoured borrowers and dragged out recovery for years. The Recovery of Debts Due to Banks and Financial Institutions Act (RDB Act) in 1993 set up Debt

Recovery Tribunals (DRTs) to speed things up, but these tribunals got buried under massive case backlogs, endless appeals, and High Court challenges. In reality, cases easily stretched out for more than four or five years.

The SARFAESI Act of 2002 tried to give secured lenders like PSBs more teeth. They could take over and sell off assets without going to court first. But borrowers still found ways to block the process—by running to the DRTs, getting stays, and keeping the litigation going. Lok Adalat helped banks recover small loans quickly, but for bigger corporate debts, they were basically useless.

This debtor-friendly system just encouraged bad behaviour. Borrowers figured out how to game the process—stalling enforcement, letting asset values drop, and using delays to force banks into settling for less or giving them easier terms. PSBs, who often had the largest stakes in group loans, couldn't get all creditors on the same page. There was no real way to make everyone act together. Unsurprisingly, studies show recoveries before the IBC were stuck around 20–25 percent—hardly encouraging.

Then the Insolvency and Bankruptcy Code (IBC) arrived in 2016 and turned things around. Instead of multiple legal routes, the IBC set up a single, creditor-focused system. Every case goes to the National Company Law Tribunal (NCLT). Once a case is accepted under Sections 7, 9, or 10, a moratorium kicks in. That puts all enforcement actions on hold, so the company's assets don't get chopped up or lose value from competing lawsuits. A resolution professional takes charge, and during the insolvency process, a Committee of Creditors (CoC)—usually led by banks like PSBs—makes the big decisions and approves any settlement plans.

The IBC fixes a lot of old headaches. Information Utilities now keep financial data in order, so banks can't hide behind missing paperwork. Insolvency Professionals bring real expertise to value and sell assets, a big upgrade from the hit-or-miss efforts under the old laws. If a company has to be liquidated, the rules are clear: secured creditors like PSBs get paid first, unlike the guesswork of SARFAESI sales or DRT rulings.

All these changes matter. Instead of borrowers dragging things out, PSBs now have a time-bound forum—cases are supposed to wrap up in 180 to 330 days. Courts have backed this shift, saying that the commercial wisdom of the CoC is what counts, not endless legal nitpicking. This puts PSBs in a much stronger position. They can act together, recover more money, and get it done faster than ever before.

After the IBC, PSBs started dividing their bad loans based on size and complexity. The numbers don't lie: the IBC quickly became the go-to channel for big corporate defaults. RBI data shows that while SARFAESI and DRTs still handle retail and small business loans—and recoveries there are steady but small—the IBC dominates when it comes to large accounts. From 2018 to 2022, recovery rates under the IBC averaged 32–36 percent, beating SARFAESI's 20–25 percent and DRTs' dismal 4–6 percent. For big exposures over ₹100 crore, the IBC is now the default route.

Each channel has its place. SARFAESI works best when there's a simple, secured loan to recover—take the asset, auction it off, and move on. DRTs are fine for single-creditor disputes. Lok Adalat resolve small cases quickly. But only the IBC has the tools to handle complex, multi-creditor cases, with CoC voting and the power to keep businesses running while a deal is worked out. In the best years, IBC resolutions made up 50–60 percent of all recoveries by PSBs, reversing the slide in non-performing assets—not just through formal insolvency, but even by nudging better settlements outside court.

By matching each case to the right channel, PSBs have become more efficient, and the IBC's focus on creditors stops borrowers from exploiting gaps when multiple banks are involved. Still, there's an ongoing need for clarity about how these different recovery channels fit together—courts have had to weigh in, especially about how SARFAESI interacts with other laws.

Matching procedures to case profiles has made PSBs more efficient, and IBC's focus on creditor rights keeps free-rider problems in check when there are joint exposures. Still, the way different recovery channels interact needs some legal clarity. Right now, courts have decided that once a case moves into CIRP, SARFAESI actions have to stop, which basically means all the value heads into the IBC process. This blended approach has kept PSB recoveries moving. To really make it work, though, PSBs had to get better at choosing the right channel and following the rules on when they could act.

The drop in NPAs since the IBC came in has sparked a real turnaround for PSB finances. RBI's June 2024 Financial Stability Report shows returns on assets at 1.3% and returns on equity hitting 15–16%—the best in years. Capital ratios are also strong, sitting above 15%, which is well over what Basel III requires. The Ministry of Finance backs this up, too. PSBs made over ₹1.4 lakh crore in FY 2024, thanks mostly to lower provisioning costs on resolved bad loans and the extra room to lend.

Recoveries under the IBC have topped ₹3 lakh crore, which has slashed provisioning needs. That means PSBs can pay dividends and barely need any recapitalisation now—down from ₹3.1 lakh crore before the IBC to almost nothing after 2021. All this shows how much insolvency law is shoring up the banking sector. PSBs can now grow their lending without worrying as much about bad loans piling up again. But it's not time to relax—they need to keep applying what they've learned from IBC in their underwriting, or those NPA problems could come back.

Doctrinal Analysis: IBC as a Banking-Law Instrument

Creditor Primacy and Commercial Wisdom

At the heart of why the IBC works for public sector banks is the real power it hands to the Committee of Creditors. Basically, the CoC calls the shots on big business decisions, and the courts have backed this up time and again. The Supreme Court says that the CoC—mostly made up of lenders like PSBs—gets to decide what happens to a company in distress. If they approve a resolution plan under Section 30(4), the NCLT only checks if all the rules and procedures were followed, not whether the decision itself makes sense. This idea, what they call "commercial wisdom," comes from ***Swiss Ribbons Pvt. Ltd. v. Union of India (2019):*** the people who risk the money get to judge if a plan actually works. Unless there's some fraud or the decision is just nuts, nobody else gets to overrule them.

This has changed things for PSBs. Before the IBC, banks had to chase after debtors using different laws, like SARFAESI or DRTs. That gave borrowers plenty of space to play creditors off each other. Now, with the CoC, the majority can push through hard choices—like firing management, forcing shareholders to take big losses, or accepting haircuts as steep as 90 percent. No chance of that under the old rules. The numbers tell the story: IBC recoveries average 32–36 percent, way above what banks got before. Collective action and open bidding just work better.

But there's another side to this. Some argue that handing so much power to PSBs can cover up their own mistakes—bad loans, sloppy checks, or even banks signing off on shady deals just to get something back fast. There are examples where the banks took massive losses or didn't really check if the revival plan would work. To stop this, PSBs need tighter controls: better board oversight, independent asset valuations, and more transparency in how the CoC operates. Without that, commercial wisdom risks turning into moral hazard, and the whole discipline goal of the IBC falls apart.

Interplay with Other Recovery Legislation

The IBC doesn't work in a vacuum. It has to fit with older laws like SARFAESI and the RDB Act, and that's not always straightforward. Courts have stepped in to say: once a company enters the IBC's insolvency process (CIRP), everything else freezes. SARFAESI actions, DRT cases—they all get put on hold under Section 14's moratorium. That was made clear in ***Innoventive Industries Ltd. v. ICICI Bank (2017).*** The idea is to stop the scramble for assets that used to happen before 2016 and treat business distress as a whole, not in pieces.

Regulators have doubled down: after insolvency starts, any money recovered under SARFAESI gets folded into the IBC's waterfall under Section 53, so secured PSBs get paid after operating costs. This way, PSBs aren't running after bits and pieces. They get a fair shot at the company's assets as a group, and the results show it—recoveries have improved when banks act together under the IBC. Still, messy cases pop up. Auctions held before the moratorium, or moves against personal guarantors, can cause confusion, so courts keep tweaking the rules to keep things fair for PSBs.

Challenges and Constraints in PSB Centric Implementation

Timelines and Capacity Restrictions

Despite legislative limits, many CIRPs surpass the stipulated 180–330 day term, with delays ascribed to litigation, valuation disagreements and capacity problems in NCLTs and allied institutions. Prolonged processes degrade asset value and may diminish recovery rates, partly negating the benefits of the IBC's framework for PSBs dealing with big, complicated NPAs. Policymakers and observers have asked for increase of tribunal capacity, improved case management tools and more use of technology to guarantee adherence to timetables.[4]

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[4] Rajeshwar Rao, *Strengthening the Insolvency and Bankruptcy Code (IBC) Framework for Effective Resolution*,

Haircuts and Value Maximisation

Several high profile settlements have required hefty haircuts for creditors, generating discussion over whether the realized value under the IBC genuinely represents the economic potential of distressed properties. While certain haircuts may be justified by underlying economic deterioration or prior over valuation, there is worry that inadequate pre default credit assessment and supervision by PSBs combine with resolution stage asymmetries to yield sub optimum results. This highlights that legislative reform alone cannot assure recovery efficiency; PSBs must concurrently increase internal control, credit underwriting and post sanction monitoring measures.[5]

Distribution of Benefits and Residual Hazards

Although PSB level balance sheets have improved, much of the decrease in NPAs has come via write offs and government aided recapitalisation in prior years, raising issues about the distribution of losses between taxpayers, shareholders and other stakeholders. Moreover, with PSBs still retaining a considerable percentage of system wide credit, the sustainability of current low NPA levels rests on sustained caution in new lending and ongoing efficacy of the IBC in preventing strategic default. Law and policy consequently need to protect against complacency by ensuring that the IBC's deterrent impact is sustained and that PSB incentives are aligned with sustainable credit culture.

Suggestions & Conclusion

Strengthening the IBC framework

• Expand NCLT and NCLAT capacity via extra benches, specialist insolvency courts or increased use of virtual hearings and digital case management to decrease pendency and satisfy statutory timeframes.[6]

• Encourage expanded adoption of pre-packaged insolvency plans for relevant categories of corporate debtors, especially MSME linked risks, to shorten resolution time and decrease costs

BIS Rev. (Dec. 19, 2024), https://www.bis.org/review/r241218g.htm.

[5] '*Gross NPAs Drop to Multi-Decade Low of 2.1%, Shows RBI Data*, Current Affs. Adda247, https://currentaffairs.adda247.com/gross-npas-drop-to-multi-decade-low-of-2-1-shows-rbi-data/

[6] Rajeshwar Rao, *Strengthening the Insolvency and Bankruptcy Code (IBC) Framework for Effective Resolution*, BIS Rev. (Dec. 19, 2024), https://www.bis.org/review/r241218g.htm.

for PSBs.[7]

• Enhance clarity on cross border insolvency, group insolvency and handling of complicated financial instruments to enable PSBs dealing with big, linked debtors.[8]

Improving PSB Level Risk Management

• Institutionalise effective early warning systems and sectoral risk analytics in PSBs to detect stress before default, hence boosting recoverability when cases eventually reach IBC.[9]

• Strengthen credit evaluation and post sanction monitoring structures, including independent risk committees and greater board level control of big exposures.[10]

• Integrate lessons from IBC results into internal pricing and collateral policies, such that sectors and borrowers linked with large haircuts or lengthy resolutions are handled with increased care in future lending.[11]

Enhancing Data Transparency and Research

• Develop more detailed, publicly available statistics on PSB specific IBC cases, including timeframes, realization rates and sectoral trends, to promote evidence based policy and academic research.[12]

• Promote cooperation between regulators, PSBs and academic institutions to examine the long term effect of IBC on credit growth, cost of borrowing and financial stability.[13]

• Encourage frequent effect reviews of IBC modifications and judicial trends to ensure that doctrinal development is aligned with the Code's economic goals.

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[7] Insolvency & Bankruptcy Bd. of India, *Annual Report 2023–24* (2024).
[8] *Behavioral Impact of IBC* (Indian Inst. of Mgmt. Bangalore, 2024).
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[12] Insolvency & Bankruptcy Bd. of India, *Annual Report 2023–24* (2024).
[13] Reserve Bank of India, *Financial Stability Report* (June 2024).

Conclusion

The Insolvency and Bankruptcy Code (IBC), 2016, really shook up India's approach to insolvency. It wasn't just another law—it rewrote the rules for how public sector banks (PSBs) deal with non-performing assets (NPAs), which had been dragging them down for years. Before the IBC, we had a mess of debtor-friendly fixes—SARFAESI, DRTs, Lok Adalat—but nothing that actually got results. So, as NPAs soared past 11 percent and PSBs held most of the bad loans, the IBC came in with a clear, creditor-first process, run by the National Company Law Tribunal (NCLT). This was a big shift. Now, banks could finally take the reins from defaulting promoters. Committees of Creditors (CoCs) could negotiate together and push for solutions that kept companies alive instead of just selling off scraps.

The numbers say it all. Since the IBC launched, PSBs have seen their gross NPA ratios plummet—from 9.11 percent in March 2021 down to just 2.58 percent by March 2025. Net NPAs fell below 1 percent. And these aren't just accounting tricks or write-offs—over ₹3.4 lakh crore has actually been recovered through IBC processes. Recovery rates under the IBC hover around 32–36 percent, way ahead of SARFAESI (20–25 percent), DRTs (4–6 percent), or Lok Adalat (4 percent at best). In fact, IBC-driven recoveries or settlements now make up more than half of all PSB recoveries. There's also a big behavioural shift—over 28,000 cases were withdrawn before admission, covering defaults above ₹10 lakh crore, because debtors know the IBC means real consequences. Thanks to all this, PSBs are now reporting record profits—over ₹1.4 lakh crore in FY2024—with return on assets and capital ratios stronger than ever, giving them room to lend more without putting stability at risk.

On the legal front, the IBC stands out for pulling together all the scattered recovery routes. The Section 14 moratorium stops banks from running around in circles with duplicate SARFAESI or DRT proceedings once the CIRP starts. Everything funnels through one clear process, and the Section 53 waterfall puts secured PSB claims near the top. The courts have played a role too.

Still, the IBC isn't perfect. Deadlines (180–330 days) are often missed thanks to overloaded NCLTs, disputes over valuations, and endless appeals. This drags out resolutions, chips away at asset values, and sometimes leaves banks settling for haircuts as deep as 80 percent—just look at some of the big steel industry cases.

In conclusion, the IBC exemplifies how selective legislation can jumpstart financial stability in public sector banking systems and offers a model for other developing nations with burdensome NPAs. Moving out of a recovery tool on to credit-discipline regime, it has not only purged PSB balance sheets but also refurbished public banking as an effective harbinger of growth. A never-ending quest for a better equilibrium—creditor efficiency with stakeholder equity, institutional capacity with doctrinal rigor—that will keep the Code as India's vanguard weapon to ensure responsible risk-taking while steering clear of reckless abandon in pursuing national development objectives.

For MSMEs, pre-packaged insolvency could speed things up and help PSBs recover faster. Banks themselves should fold IBC lessons into their risk systems—using AI for monitoring, sector stress tests, and making sure dodgy promoters can’t slip back in. Public data on resolutions would help policymakers figure out what works and what doesn’t. On the legal side, clearer rules for enforcing guarantees would help banks claw back more from wilful defaulters, rounding out the gains from corporate cases.

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