



# **BANKER ATTITUDES AND PERCEPTIONS TOWARDS INSOLVENCY AND BANKRUPTCY CODE 2016 (IBC) IN INDIA: AN EMPIRICAL STUDY ON COMMERCIAL BANKS IN HYDERABAD TELANGANA STATE**

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**Abstract :** Firms grow by successively investing in new viable projects. If the project succeeds, the firm enjoys windfall gains that can be passed on to the owners – the equity holders. The upside enjoyed by the creditors in such cases is limited to the timely servicing of their debt. However, if the project fails, the liability of the equity holders is limited to their respective shareholding. Once the shareholders are wiped out, all further losses are to be borne by the creditors. Thus, equity holders would prefer more financing by debt since generally, it would be cheaper, and it would increase the return on equity by increasing the leverage of the firm. Since the Indian debt market is dominated by banks, unresolved corporate defaults have a major debilitating effect on the health of banking companies. India has been riddling since decades with the problem of insolvency and bankruptcy issues. Several public sector banks, financial institutions and operational creditors were facing severe credit default risk. Various laws and codes have been passed as a corrective measure, but have proved to be inefficient and failed to provide any kind of relief to the creditors. There was thus a need for reform in insolvency and bankruptcy laws. The present paper focuses on bankers' perceptions and attitudes towards Insolvency and Bankruptcy Code 2016 (IBC) in India. The present paper is study based on both theoretical and empirical concepts. A well-structured survey questionnaire is used to conduct online interview and for collecting primary data. This research has been done by interviewing 80 bankers who deployed their effort and job in commercial banks in Telangana State.

**Index Terms - Insolvency, Equity holders, Creditors, Banks, Financing and Debts etc.**

## **INTRODUCTION**

Firms grow by successively investing in new viable projects. If the project succeeds, the firm enjoys windfall gains that can be passed on to the owners – the equity holders. The upside enjoyed by the creditors in such cases is limited to the timely servicing of their debt. However, if the project fails, the liability of the equity holders is limited to their respective shareholding. Once the shareholders are wiped out, all further losses are to be borne by the creditors. Thus, equity holders would prefer more financing by debt since generally, it would be cheaper, and it would increase the return on equity by increasing the leverage of the firm. Since the Indian debt market is dominated by banks, unresolved corporate defaults have a major debilitating effect on the health of banking companies. Unresolved corporate defaults increase the level of expected losses for the banks, leading to higher a provision which eats into the capital of the banks. Lower capital constraints their ability to lend to more productive borrowers thereby affecting the growth prospects of the economy. Unresolved defaults, if these are allowed to permeate through forbearances, such as suboptimal loan restructurings, preserve inefficiencies at the cost of additional fresh investments, which get crowded out. Moreover, since the manifestation of expected losses leads to higher provisions for the banks, there are perverse incentives for the banks to evergreen the bad exposures by diverting more and more fresh credit to these inefficient borrowers, resulting in gross misallocation of resources in the economy. The longer corporate defaults remain unresolved, the more intense such perverse incentives will be. Therefore, a wait and watch approach for resolution of corporate defaults is not the ideal approach for a banking regulator to adopt.

At the same time, even if there is intent to resolve corporate defaults, the absence of a credible mechanism for resolution hampers the scope of resolution. Financial liabilities of a corporate debtor (CD) are a web of contracts accumulated over years with varying degrees of rights to the various creditors. Therefore, effective resolution of corporate distress requires unraveling this complex web of financial contracts and rewriting them in line with the revised expectations of the income generating ability of the borrower in distress. Regulator-led resolution efforts inherently suffer from the limitations of the statutory power conferred upon the respective regulator. In an increasingly complex world of financial intermediation, where debt financing is done not just by banks, also by collective investment vehicles, insurance companies etc., absence of a comprehensive bankruptcy law proves detrimental. Moreover, absence of a comprehensive bankruptcy law and the consequent lack of a credible mechanism to enforce creditor rights increase the risk premium charged by the lenders to borrowers, in a bid to at least partially offset the high loss given default in such situations, through higher interest rates charged. All the above demonstrate how bankruptcy law is a natural complement to effective banking regulation in any country.

## Review of Literature

**Prof. G. V. Bhavani Prasad; D. Veena (2011):** The result of the study concluded that Write-offs and write-back of excess provisions were more than the fresh provisions made by SCBs during the year across all bank groups, except for old private sector and new private sector banks. The setting up of the Asset Reconstruction Corporation of India (ARCIL) has provided a major boost to banks efforts to recover their NPAs. The SARFAESI Act has, thus, been the most important means of recovery of NPAs. Foreign banks are facing competition from New Private Sector Banks in India. The credit appraisal process of the bank is helpful in the reduction of the level of the NPAs.

**Rathore (2016):** In India banks are going up against colossal issue of Non-Performing Assets. NPA management needs inclusion and comprehension on some portion of staff on non-stop premise so that there is centered consideration around recovery. Further the bank employees for NPA management ought to be experienced, very much qualified and prepared with the goal that they can comprehend the issues of recuperation and manage them successfully.

**Goyal and Piyush (2017):** The authors focus on study to analyze the Gross Non-Performing Assets and Net Non-Performing Assets of 8 banks in India and see the connection between them. The paper manages in understanding the idea of NPAs, its size and real foundations for asset getting to be non-performing and techniques for overseeing NPAs in Indian Banks.

## METHOD AND MATERIALS OF THE STUDY

The present paper focuses on bankers' perceptions and attitudes towards Insolvency and Bankruptcy Code 2016 (IBC) in India. The present paper is study based on both theoretical and empirical concepts. A well-structured survey questionnaire is used to conduct online interview and for collecting primary data. This research has been done by interviewing 125 bankers who deployed their effort and job in commercial banks in Telangana State.

### Insolvency and Bankruptcy Board of India (IBBI)

India has been riddling since decades with the problem of insolvency and bankruptcy issues. Several public sector banks, financial institutions and operational creditors were facing severe credit default risk. Various laws and codes have been passed as a corrective measure, but have proved to be inefficient and failed to provide any kind of relief to the creditors. There was thus a need for reform in insolvency and bankruptcy laws. The Insolvency and Bankruptcy code 2016 (IBC) has been instrumental in creating a shift in the way the bankruptcy process of defaulting firms has been dealt with. The IBC 2016 promises to bring about transparency, method and infrastructure in the entire system of liquidation. Changing up core aspects of the insolvency process, it gives companies a well-deserved chance at revival. Despite the recent amendments to the code and regulation changes by the Insolvency and Bankruptcy Board of India, there are still few grey areas in the code.

Insolvency and Bankruptcy Board of India (IBBI) was set up on 1st October 2016 under the Insolvency and Bankruptcy Code, 2016 (IBC). The IBBI is an institutional arrangement for the new Insolvency and Bankruptcy regime and performs multiple tasks under it. It has a regulatory oversight over the Insolvency Professionals, Insolvency Professional Agencies and Information Utilities. The IBBI plays an important role in enforcing the rules for corporate insolvency resolution, corporate liquidation, individual insolvency resolution and individual

bankruptcy under the Code. It is a key pillar of the entire system responsible for implementation of the Code that consolidates and amends the laws relating to reorganization and insolvency resolution of corporate persons, partnership firms and individuals in a time bound manner for maximization of the value of assets of such persons, to promote entrepreneurship, availability of credit and balance the interests of all the stakeholders.

## Results and discussions

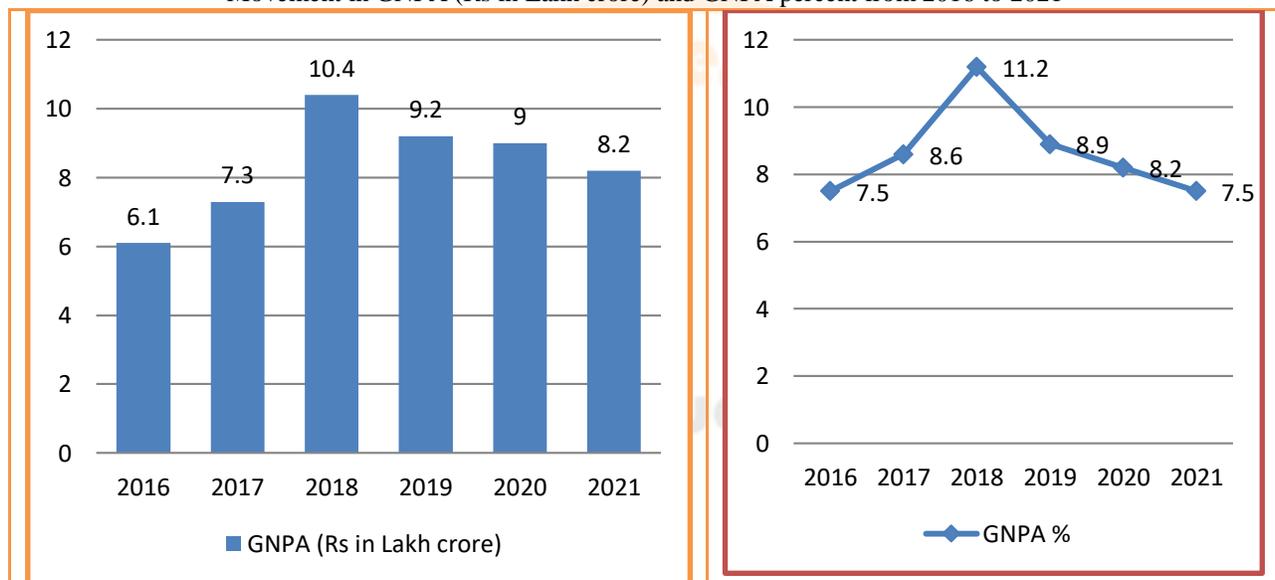
In the traditional banking business of lending financed by deposits from customers, Commercial Banks (CBs) are faced with the risk of default by the borrower in the payment of either principal or interest. This risk in banking parlance is termed as Credit Risk and accounts where payment of interest and/or repayment of principal are not forthcoming are treated as Non-Performing Assets (NPAs). The non-performing resources (NPA) circumstance of the Indian financial framework as addressed by 23 banks - nine public area banks (PSBs) and 14 private area banks (PvBs) - that have pronounced outcomes up until this point demonstrates a slow improvement in the NPA proportion in September 2021, as indicated by an appraisal via CARE Ratings. Indian banks, especially Public Sector Banks (PSBs), have in the past few years been burdened with a huge pile of non-performing assets (NPAs), which eroded their profitability and capitalization. As on March 31, 2021, gross NPAs were at 7.5% of gross advances.

Table 1.1  
Movement in GNPA from 2016 to 2021

Year	GNPA (Rs in Lakh crore)	GNPA %
2016	6.1	7.5
2017	7.3	8.6
2018	10.4	11.2
2019	9.2	8.9
2020	9	8.2
2021	8.2	7.5

Source: Care Ratings, July, 2021

Figure 1.1  
Movement in GNPA (Rs in Lakh crore) and GNPA percent from 2016 to 2021



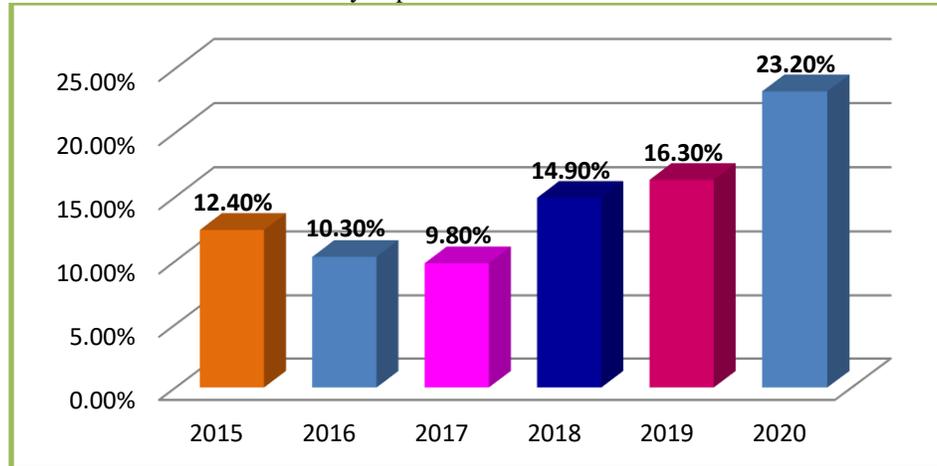
Source: Care Ratings, July, 2021

It is obvious from the above that the banks have succeeded in reducing their NPA rates from 11.2 percent to 7.5 percent continuously year after year up to the end of 2021 which is commendable. From 2016 onwards, it is either constant or increasing on a continuous basis (from 2016 to 2018) which is a matter of concern i.e., from 7.5 percent to 11.2 percent of GNPA's as of Gross Advances. However, what is further worrying is that the

gross NPAs of state-run banks are increase from 6.1 lakh crore to 10.4 lakh crore during the period from 2016 to 2018. But after 2019 onwards GNPA's was slowly come down from 9.2 to 8.2 lakh crore.

Figure 1.2

Movement of total recovery in percent of amount involved from 2015 to 2020



Source: RBI; Care Ratings Calculations

It is evidence from the above table shown that the IBC has been the most significant reform concerning NPA resolution. After IBC introduced drastically improved total recovery rate from 9.8 percent to 23.2 percent from 2017 to 2020. It is also observed total recovery in percent of amount involved during the study period from 2015 to 2020 had significantly increased from 12.4 percent to 23.2 percent.

Table 1.2  
Perception of Bank employees regarding increasing NPAs

Opinion Regarding below statement	N	Minimum	Maximum	Mean	Std. Deviation
Banks do not pay adequate attention to borrower customer as they do in case of deposit customer	125	2	5	3.7	0.863
High rate of interest is a reason for NPA	125	3	5	3.91	0.582
Willful default by customer is a reason for NPA	125	1	3	2.07	0.425
Lack of supervision and follow up is a reason for NPA	125	2	5	3.58	0.686
Lack of proper legal system is a reason for NPA	125	2	4	3.14	0.855
Relaxed lending norms is a reason for NPA	125	1	4	2.83	0.877
Compromise settlements in suit/filled accounts	125	2	4	2.17	0.453
Early alert system is a tool for resolution of NPA	125	1	3	1.8	0.458
Close monitoring and follow up is a tool for resolution of NPA	125	1	3	1.78	0.501
Availability of staff to manage loan portfolio is generally inadequate	125	1	5	2.54	1.066
Tightening Corporate Debt Restructuring really helps in reducing NPAs level	125	1	3	1.98	0.475

Source: Field survey

Bank employees disagrees with the statement “High rate of interest charged by banks”, bank employees do not charge high rate of interest as the RBI have the supervision over all the commercial banks. According to bank employees, it is the willfulness of customer that they do not repay the loan which is one of the main reasons of high NPA. According to bank employees lack of supervision and follow up, lack of proper legal support/system is not a reason of increasing NPA, as banks do follow up on the regular basis themselves to minimize the NPA

as the NPA itself a loss for banks. Banks feels that relaxed lending norms by the government can be reason of increasing NPA.

## Conclusion

It is concluded that the gross NPAs of state-run banks are increase from 6.1 lakh crore to 10.4 lakh crore during the period from 2016 to 2018. But after 2019 onwards GNPA's was slowly come down from 9.2 to 8.2 lakh crore. The results of the study total recovery in percent of amount involved during the study period from 2015 to 2020 had significantly increased from 12.4 percent to 23.2 percent. After IBC introduced drastically improved total recovery rate from 9.8 percent to 23.2 percent from 2017 to 2020.

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