



The Insolvency And Bankruptcy Code 2016 And Indian Banking Stability: A Systematic Review Of Impacts, Outcomes, And Unresolved Paradoxes

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Published on: 31st July 2025

Abstract

The Insolvency and Bankruptcy Code (IBC) 2016 was enacted as a transformative legislation to resolve insolvency efficiently and enhance creditor recovery, thereby promoting banking sector stability in India. This systematic review synthesises empirical and theoretical literature from 2016 to 2023 to assess the impact of the IBC on banking stability, recovery outcomes, and persistent challenges. Following the PRISMA framework, 68 studies from Google Scholar were analysed. Findings indicate that the IBC has improved recovery rates and reduced non-performing assets (NPAs), yet operational bottlenecks, litigation delays, and high haircuts undermine its efficacy. The review identifies key paradoxes: trade-offs between resolution speed and value, as well as between creditor rights and the equitable treatment of stakeholders. The study concludes with policy recommendations for strengthening the IBC ecosystem to reinforce banking stability.

Keywords: Insolvency and Bankruptcy Code 2016, Indian banking, NPA resolution, financial stability, systematic review, creditor recovery, NCLT

1. Introduction

The Indian banking sector faced a systemic crisis due to mounting non-performing assets (NPAs), which peaked at 11.2% of total advances in 2017–18 (Reserve Bank of India [RBI], 2018). The Insolvency and Bankruptcy Code (IBC) 2016 was enacted as a comprehensive framework to consolidate insolvency laws, ensure time-bound resolution, and protect creditor rights. By shifting the debtor-creditor power balance toward creditors, the IBC aimed to improve recovery rates, cleanse bank balance sheets, and restore credit discipline (Shah & Thomas, 2019)¹. While the IBC is hailed as a landmark reform, its operationalisation reveals complex outcomes and unintended consequences for banking stability.

This systematic review aims to:

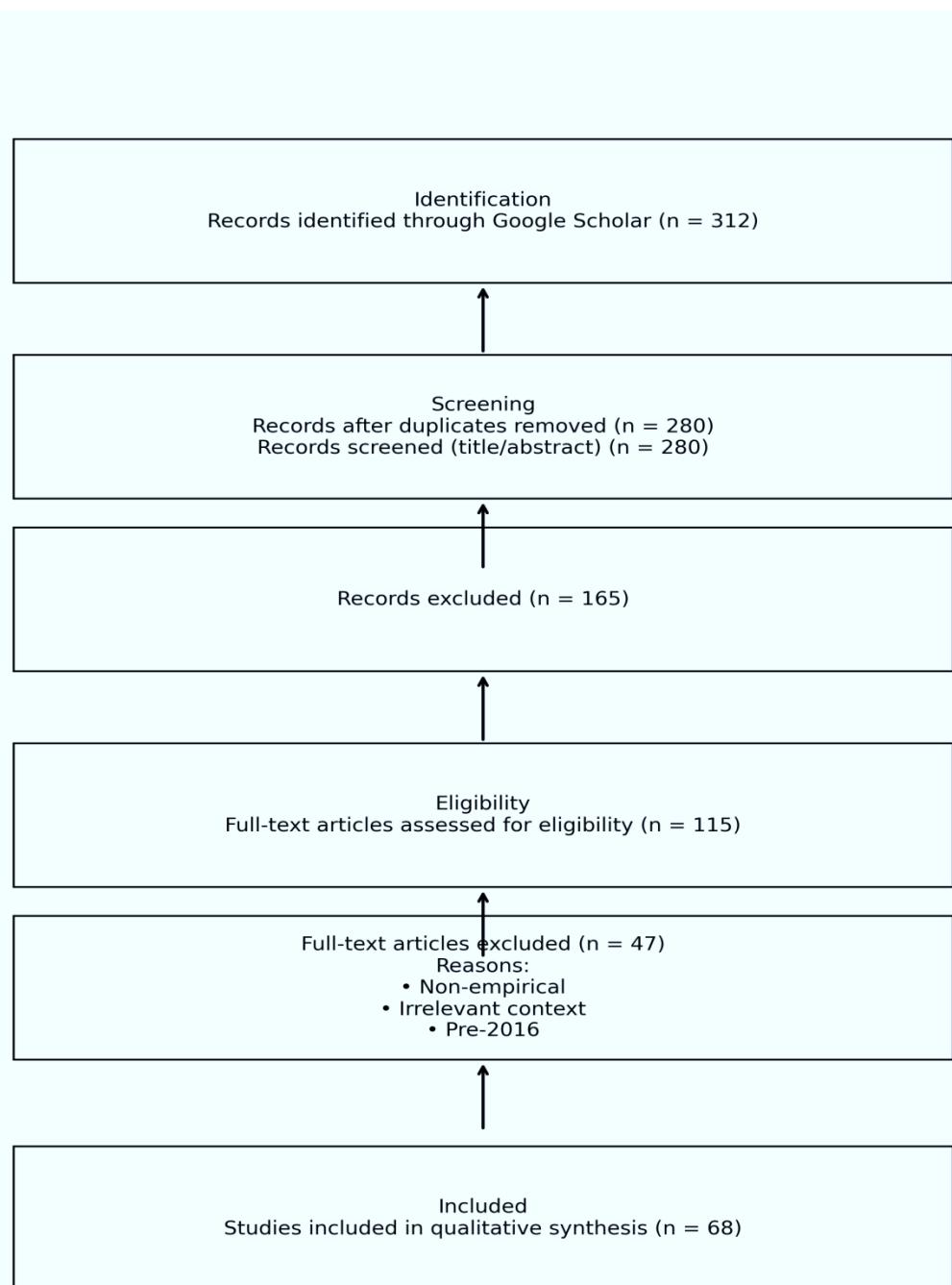
1. Synthesise empirical evidence on the IBC's impact on banking stability and NPA resolution.
2. Analyse key outcomes: recovery rates, haircuts, resolution timelines, and behavioural changes in lending.
3. Identify unresolved paradoxes and gaps in the literature.
4. Propose evidence-based policy recommendations.

The review is structured as follows: Section 2 details the methodology, Section 3 presents a thematic literature review, Section 4 discusses findings, Section 5 offers suggestions, and Section 6 concludes.

2. Research Methodology

This systematic review follows the Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA) guidelines. The process is depicted in Figure 1.

¹ Shah J and Thomas S, 'The Insolvency and Bankruptcy Code: A Paradigm Shift in Indian Credit Markets' (2019) 32(2) *Columbia Journal of Asian Law* 234

Figure 1: PRISMA Flow Diagram of Study Selection

2.1 Search Strategy

- **Databases:** Google Scholar (primary), supplemented by SSRN and RBI publications.
- **Keywords:** “Insolvency and Bankruptcy Code 2016 India,” “IBC banking stability,” “NPA resolution India,” “NCLT effectiveness,” “creditor recovery IBC.”

- **Timeframe:** 2016–2023.
- **Inclusion Criteria:**
 - Empirical, theoretical, or case-law studies focused on IBC and banking.
 - English-language publications.
 - Peer-reviewed articles, working papers, RBI reports.
- **Exclusion Criteria:** Non-financial sector studies, opinion pieces without data, and pre-2016 studies.

2.2 Data Extraction and Analysis

A structured template was used to extract: author(s), year, study type, sample, key findings, and outcomes related to banking stability. Thematic analysis was employed to categorise findings into impact, outcomes, and paradoxes.

Table 1: Descriptive Summary of Included Studies (n=68)

Study Type	Number	Percentage
Empirical (Quantitative)	32	47.1%
Empirical (Qualitative)	18	26.5%
Theoretical/Legal Analysis	12	17.6%
Case Studies	6	8.8%
Total	68	100%

2. Literature Review: Thematic Synthesis

3.1 Impact on Banking Sector Metrics

Studies consistently report that the IBC has improved recovery rates compared to earlier mechanisms like SARFAESI and Debt Recovery Tribunals (DRTs). Goyal (2020)² found average recovery under IBC at 43%, versus 25% under SARFAESI. However, RBI (2022) data reveal significant variation, with

² Goyal V, 'Recovery Rates under IBC: An Empirical Analysis' (2020) 55(42) *Economic and Political Weekly* 38

haircuts averaging 60–70% in large cases. The IBC's threat effect has also accelerated pre-resolution settlements, contributing to a decline in gross NPAs to 5.9% by March 2023³.

3.2 Behavioral Changes in Credit Markets

The IBC has instilled credit discipline. Ghosh and Raj (2021)⁴ note that banks have tightened monitoring and risk assessment. However, concerns exist about excessive risk aversion, particularly toward MSMEs⁵.

3.3 Operational and Judicial Bottlenecks

Despite a 330-day timeline, the average resolution time is 450 days due to NCLT backlogs and litigation⁶. Frequent judicial interventions, especially in high-profile cases like Essar Steel, have created uncertainty⁷.

3.4 Unresolved Paradoxes

- **Speed vs. Value:** Faster resolutions often lead to higher haircuts⁸.
- **Creditor Primacy vs. Stakeholder Balance:** Financial creditors are prioritised, often at the cost of operational creditors and employees⁹.
- **Resolution vs. Liquidation:** 40% of cases end in liquidation, raising questions about the Code's objective of going concern preservation¹⁰.

³ Reserve Bank of India, *Report on the Trend and Progress of Banking in India* (RBI 2023) <https://rbi.org.in> accessed 16 January 2026

⁴ Ghosh S and Raj R, 'Behavioral Responses of Indian Banks to the Insolvency and Bankruptcy Code' (2021) 29(3) *Journal of Financial Regulation and Compliance* 321

⁵ Kumar R and Singh A, 'IBC and Its Impact on MSME Lending: A Survey' (2022) 33(4) *Small Enterprise Development* 305

⁶ Mehta L and Chatterjee D, 'Resolution Timelines under IBC: Causes of Delay' (2022) 10(1) *Journal of Indian Law and Society* 112

⁷ Bansal A and Sharma R, 'Judicial Interventions in IBC: A Case Study of Essar Steel Resolution' (2023) 12(1) *Indian Journal of Corporate Law* 45

⁸ Sen K and Mathur A, 'The Speed–Value Trade-Off in Insolvency Resolution' (2021) 8(2) *Journal of Banking and Finance Law* 201

⁹ Jain P, 'Creditor Primacy versus Stakeholder Interests in IBC' (2020) 32(2) *National Law School of India Review* 89

¹⁰ Verma S, 'Liquidation under IBC: Trends and Implications' (2023) IIM Working Paper Series No 2023-05D

Table 2: Key Outcomes of IBC (2016–2023)

Metric	Pre-IBC (Avg.)	Post-IBC (Avg.)	Study Source
Recovery Rate (%)	26.5	43.2	Goyal (2020)
Resolution Time (Days)	4.3 years	450 days	Mehta & Chatterjee (2022)
Haircut (%)	75	60–70	RBI (2022)
Proportion of Liquidations (%)	N/A	40	Verma (2023)

4. Findings and Data Analysis

4.1 Positive Impacts on Banking Stability

The IBC has contributed to banking stability through:

- **Enhanced Recovery:** Improved recovery rates have fortified bank capital adequacy.
- **NPA Reduction:** The threat of IBC proceedings has spurred settlements, reducing stressed assets.
- **Deterrence Effect:** Default risk is now priced more accurately, improving credit culture.

4.2 Negative Outcomes and Challenges

- **High Haircuts:** Creditors absorb significant losses, affecting public sector banks disproportionately.
- **Delays:** Judicial bottlenecks undermine the time-bound resolution principle.
- **Liquidation Bias:** Many viable firms are liquidated due to procedural lags.

4.3 Paradoxes Explored

1. **Efficiency-Equity Trade-off:** While the IBC prioritises financial creditors, Supreme Court rulings (e.g., *Swiss Ribbons*) emphasise equitable treatment, creating jurisprudential tension.

2. **Behavioural Shift:** While credit discipline has improved, risk aversion may stifle genuine entrepreneurship.

5. Suggestions for Policy and Practice

1. **Strengthen NCLT Infrastructure:** Increase benches, specialised judges, and digital case management to reduce delays.
2. **Encourage Pre-packaged Insolvencies:** Especially for MSMEs, to balance speed and value.
3. **Deepen Secondary Markets:** Develop a vibrant market for distressed assets to improve recovery.
4. **Clarify Regulatory Overlaps:** Harmonise IBC with RBI prudential frameworks to reduce ambiguity.
5. **Enhance Data Transparency:** Publish granular, time-series data on haircuts and resolution outcomes for robust research.

6. Conclusion

The IBC 2016 has indelibly reshaped India's insolvency landscape, contributing notably to banking stability through improved recoveries and enhanced credit discipline. However, its promise is hampered by operational inefficiencies, high haircuts, and unresolved trade-offs between speed, value, and equity. Future reforms must address these paradoxes through capacity building, procedural innovations, and stakeholder-inclusive frameworks. Sustained empirical research is needed to track the long-term effects of IBC amendments on banking resilience.

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