Indian Economy · GS - III

The effectiveness of the Insolvency and Bankruptcy Code depends not merely on speedy resolution but also on maximising value for creditors. Discuss in the context of concerns over large haircuts in insolvency proceedings.

EXAM YEAR	PAPER	SUBJECT
DAILY PRACTICE 16/11/2026	GS - III	Indian Economy

MARKS	WORD LIMIT
10	~150 words

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Answer Hint

IBC 2016, creditor recovery, haircuts, Committee of Creditors, NCLT, NCLAT, value maximisation, resolution plans, corporate governance, transparency, ease of doing business.

Model Answer

Introduction

The Insolvency and Bankruptcy Code, 2016 was introduced to establish a time-bound framework for resolving corporate insolvency, improving credit discipline and maximising asset value.

Concerns Associated with Large Haircuts

- **Creditor losses:** Excessively high haircuts reduce financial recovery for banks and other lenders.
- **Public finances:** Losses in public sector banks can indirectly affect taxpayers and financial stability.
- **Moral hazard:** Poor recovery outcomes may weaken repayment discipline among borrowers.
- **Valuation concerns:** Distress sales and inadequate competition may result in undervaluation of corporate assets.
- **Credit availability:** Low recovery expectations can increase lending risks and borrowing costs.

Measures Required

Strengthening insolvency professionals, improving asset valuation, ensuring transparent bidding and increasing competition among resolution applicants are essential. Adjudicating authorities must ensure compliance with the IBC while avoiding unnecessary delays. Better information-sharing and early identification of stressed assets can also improve outcomes.

Conclusion

The success of the IBC should be assessed through timely resolution, sustainable revival of viable businesses and fair value realisation for creditors. A transparent and accountable insolvency framework is essential for strengthening India's financial system.

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