Indian Economy · GS - III

Examine how the Insolvency and Bankruptcy Code has transformed India's corporate debt resolution framework. Discuss the implications of insolvency resolution for institutional investors such as EPFO.

EXAM YEAR	PAPER	SUBJECT
DAILY PRACTICE 19/11/2026	GS - III	Indian Economy

MARKS	WORD LIMIT
15	~250 words

Answer Hint

IBC 2016, time-bound resolution, creditor hierarchy, Committee of Creditors, NCLT, resolution plans, haircut and recovery, institutional investment, retirement savings, fiduciary responsibility, due diligence, financial regulation.

Model Answer

Introduction

The Insolvency and Bankruptcy Code (IBC), 2016 introduced a consolidated framework for resolving corporate insolvency through time-bound proceedings. It shifted the focus from debtor control towards creditor-led resolution.

Transformation of Corporate Debt Resolution

- **Time-bound framework:** The IBC establishes statutory timelines to reduce delays in insolvency resolution.
- **Creditor empowerment:** The Committee of Creditors, primarily comprising financial creditors, plays a central role in evaluating resolution plans.
- **Institutional mechanism:** The NCLT acts as the adjudicating authority for corporate insolvency proceedings.

- **Improved credit discipline:** The possibility of losing control of a distressed company encourages borrowers to meet financial obligations.

Implications for Institutional Investors

Institutions such as the Employees' Provident Fund Organisation (EPFO) invest workers' retirement savings in financial instruments. Corporate insolvency can expose such investments to significant losses.

The Reliance Capital case illustrates how an approved resolution plan may result in partial recovery, while residual claims may cease to be recoverable under the applicable insolvency framework.

Way Forward

- Strengthen credit appraisal and risk assessment before institutional investments.
- Improve transparency and accountability in investment decisions.
- Diversify portfolios to limit concentration risks.
- Strengthen coordination between insolvency authorities and financial regulators.
- Protect beneficiaries through prudent investment and governance standards.

Conclusion

The IBC has strengthened India's insolvency architecture, but resolution does not guarantee full recovery. Institutional investors managing public or retirement-linked funds must combine regulatory compliance with rigorous risk management.

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