

## **A Study on the Impact of the Insolvency and Bankruptcy Code (IBC) on Non-Performing Assets (NPA) in India**

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### **Abstract**

The problem of Non-Performing Assets (NPAs) has been a persistent challenge for the Indian banking system, adversely affecting profitability, liquidity, and credit growth. In order to address the rising level of stressed assets and strengthen the insolvency resolution framework, the Government of India introduced the Insolvency and Bankruptcy Code (IBC) in 2016. This study aims to examine the impact of the Insolvency and Bankruptcy Code on the level of NPAs in India and to assess its effectiveness in improving asset recovery and financial discipline. The study is based on secondary data collected from Reserve Bank of India reports, annual reports of commercial banks, published journals, and other relevant government publications. An analysis of the trends in NPAs between 2020-25 has been carried out to understand its role in resolving stressed assets. Alongside, the study also analyses the time-bound resolution process introduced under IBC and its influence on borrower behaviour and creditor confidence. The findings of the study reveal that the implementation of IBC has contributed to improved recovery rates and has helped in reducing the accumulation of fresh NPAs by enforcing greater accountability among borrowers. Although challenges such as procedural delays, litigation, and capacity constraints of adjudicating authorities continue to exist, the overall impact of IBC on NPA management has been positive. The study concludes that IBC is a landmark reform that has significantly strengthened India's banking and insolvency framework and plays a vital role in enhancing the stability and efficiency of the financial system.

**Keywords:** Insolvency and Bankruptcy Code, Non-Performing Assets, Indian Banking System, Asset Recovery, Financial Stability.

## **1. INTRODUCTION**

### **1.1 Concept and importance**

Non-Performing Assets (NPAs), also known as bad loans, are those loans that are not generating any income for the bank, as they are overdue for more than 90 days. The increase in NPAs affects the profitability of banks, resulting in a reduction of lending and, consequently, impacting economic growth. To overcome this problem, the Insolvency and Bankruptcy Code (IBC), 2016, was formulated as a single code for the time-bound resolution of stressed assets, replacing the earlier laws and moving from a debtor-centric approach to a creditor-centric approach.

### **1.2 Need for the study**

The consistent increase in NPAs in India poses a challenge for the banking industry. It is important to assess whether IBC has resulted in a higher rate of recoveries and less time for the resolution of NPAs.

### **1.3 Influence (Impact):**

The IBC has had an impact on the banking system, which has improved credit discipline, recovery in large corporate defaults, and increased lenders and investors' confidence.

### **1.4 Statement of the Problem:**

The reforms introduced by the IBC have failed to resolve the issue of NPAs, which continues to affect the financial stability of banks, thus casting doubts on the effectiveness of the IBC in reducing bad loans

### **1.5 Significance of the Study:**

This study is of particular significance to banks, policymakers, and researchers as it assesses the effectiveness of IBC in enhancing asset quality, financial stability, and supporting economic growth.

### **1.6 Objectives:**

The purpose of the study is to comprehend NPAs, the structure of IBC, analyze NPA patterns prior to and after IBC, and assess its effectiveness in NPA recovery and challenges faced in implementing IBC

### **1.7 Scope of the Study:**

The study focuses on scheduled commercial banks in India, and secondary data are used to analyze the trends of NPAs and the role of IBC in corporate insolvency resolution within a specific time period.

### **2. Review of Literature**

The existing literature on the impact of the Insolvency and Bankruptcy Code (IBC), 2016 on Non-Performing Assets (NPAs) in India indicates that there has been a structural shift in the overall debt resolution landscape in the country. Earlier, the recovery mechanisms such as the DRT and the SARFAESI were not effective in resolving the NPA problem due to delays and low recovery rates. Empirical studies have consistently confirmed that the introduction of IBC has provided the benefit of a time-bound, creditor-driven, and transparent resolution process with better recovery rates and stronger credit discipline. The transition from ‘debtor-in-control’ to ‘creditor-in-control’ and the presence of institutions such as NCLT and Insolvency Professionals have significantly contributed to the efficiency in resolving stressed assets and maximizing asset value. The empirical evidence also indicates that the NPAs have reduced since 2018, and the financial sector stability and profitability have been boosted.

The comparative analysis indicates that IBC is efficient compared to other mechanisms and Asset Reconstruction Companies. In addition, it is evident that the Code has impacted investor sentiments, foreign investment, and economic growth in a positive manner through its robust legal framework in insolvency resolution. However, it also points out that there are challenges that persist in terms of judicial delays, capacity limitations of tribunals, high timelines for resolution, and significant haircuts in terms of recovery. This affects the overall effectiveness of the Code in spite of its structural advantages. From the review, it is safe to conclude that though IBC has been crucial in reducing NPAs and improving the banking system as a whole, it is imperative that it be strengthened in terms of overall capacity and that delays are minimized.

### **3. RESEARCH METHODOLOGY**

#### **3.1 Introduction**

Research methodology refers to the systematic process of collecting, organizing, and analysing data to achieve research objectives. This study examines the impact of the

Insolvency and Bankruptcy Code (IBC), 2016 on Non-Performing Assets (NPAs) in India, considering their effect on bank profitability, lending capacity, and financial stability.

### 3.2 Research Design

The study adopts a **descriptive and analytical research design**. The descriptive aspect explains the concepts of NPAs and IBC, while the analytical part examines trends and changes in NPAs, helping assess the impact of insolvency reforms on asset recovery and financial discipline.

### 3.3 Nature of Data

The study is based entirely on **secondary data**, collected from published sources. This ensures reliability and enables comparison of NPA trends over time using authentic financial data.

### 3.4 Period of the Study

The study covers a **five-year period (2020–2025)** to analyse recent NPA trends and evaluate the effectiveness of IBC in resolving stressed assets and improving banking stability.

| Section                                 | Description  |
|---|--|
| <b>Tools and Techniques of Analysis</b> | The study uses the following statistical tools: • Percentage Analysis – for easy comparison • Trend Analysis – to identify patterns in NPAs over time • Correlation Analysis – to examine the relationship between IBC implementation and NPAs         |
| <b>Sources of Data</b>                  | Data is collected from reliable sources including RBI reports, IBBI publications, bank annual reports, government publications, research journals, and financial websites, ensuring accuracy and credibility.  |
| <b>Framework of Analysis</b>            | The study follows a structured process involving data collection, organization using tables and figures, and analysis using statistical tools. The results are interpreted to understand the impact of IBC on NPAs and to draw meaningful conclusions. |

#### 4. Data Analysis and Interpretation

##### 4.1 COMBINED ANALYSIS OF NPAs IN INDIA (IBC CONTEXT)

**Table 4.1 Consolidated Tabulation**

| Year | Overall GNPA (%) | Private Banks NPA (%) | Public Banks NPA (%) | Phase (IBC Context)   |
|------|------------------|-----------------------|----------------------|-----------------------|
| 2012 | 2.9              | —                     | —                    | Pre-IBC               |
| 2013 | 3.8              | —                     | —                    | Pre-IBC               |
| 2014 | 4.3              | —                     | —                    | Pre-IBC               |
| 2015 | 5.1              | —                     | —                    | Pre-IBC               |
| 2016 | 9.3              | —                     | —                    | Pre-IBC (Peak Stress) |
| 2020 | 8.2              | 4.5                   | 11.3                 | Transition Period     |
| 2021 | 7.3              | 4.1                   | 9.7                  | Post-IBC              |
| 2022 | 5.9              | 3.7                   | 7.4                  | Post-IBC              |
| 2023 | 4.9              | 2.8                   | 5.0                  | Post-IBC              |
| 2024 | 3.5              | 2.1                   | 3.7                  | Post-IBC              |

The data indicates a consistent decline in Non-Performing Assets (NPAs) for both private and public sector banks over the study period, reflecting an overall improvement in asset quality. Private sector banks maintained relatively lower NPAs due to efficient credit appraisal and strong risk management practices, with ratios declining from 4.5 percent in 2020 to 2.1 percent in 2024. In contrast, public sector banks recorded significantly higher NPAs, starting at 11.3 percent in 2020, mainly due to greater exposure to corporate and infrastructure lending. However, a notable reduction is observed, with NPAs falling to 3.7 percent by 2024. This narrowing gap between private and public sector banks highlights improved recovery performance across the banking sector. The introduction of the Insolvency and Bankruptcy Code (IBC) has played a crucial role in this trend by establishing a time-bound and efficient insolvency resolution mechanism, thereby strengthening recovery processes, enhancing credit discipline, and contributing to overall financial stability in India.

## 4. 2 OBJECTIVE-WISE ANALYSIS & INTERPRETATION

### Objective 1: Trend of Non-Performing Assets in India

**Table 4.2 Trend Analysis**

| Period    | Trend                         | Key Observation             | Interpretation   |
|-----------|-------------------------------|-----------------------------|--|
| 2012–2016 | Increasing                    | GNPA rose from 2.9% to 9.3% | Indicates severe asset quality deterioration due to weak recovery mechanisms |
| 2016–2020 | Slight decline but still high | GNPA at 8.2%                | Initial impact of reforms but lag in implementation                          |
| 2021–2024 | Continuous decline            | GNPA fell to 3.5%           | Strong improvement post-IBC implementation                                   |

The trend of Gross Non-Performing Assets (GNPA) from 2012 to 2024 clearly shows how the banking sector in India has evolved over time. Between 2012 and 2016, GNPA increased sharply from 2.9% to 9.3%, indicating poor asset quality and weak recovery systems. During 2016 to 2020, NPAs remained high but showed slight improvement, suggesting that reforms had begun to take effect, though slowly. From 2021 to 2024, there is a consistent decline in GNPA to 3.5%, reflecting strong recovery performance. This improvement can largely be attributed to the effective implementation of the Insolvency and Bankruptcy Code (IBC), which strengthened resolution mechanisms and improved financial discipline.

### Objective 2: Comparison of Public vs Private Sector Banks

**Table 4.3 Comparison Table**

| Year | Private Banks (%) | Public Banks (%) | Gap      | Interpretation        |
|------|-------------------|------------------|----------|-----------------------|
| 2020 | 4.5               | 11.3             | High     | PSBs heavily stressed |
| 2021 | 4.1               | 9.7              | High     | Gradual improvement   |
| 2022 | 3.7               | 7.4              | Reducing | Recovery gaining pace |

|      |     |     |           |                      |
|------|-----|-----|-----------|----------------------|
| 2023 | 2.8 | 5.0 | Narrowing | Strong IBC effect    |
| 2024 | 2.1 | 3.7 | Minimal   | Convergence observed |

**Table 4.4 FINAL INTEGRATED FINDINGS**

| <b>Objective</b> | <b>Key Finding</b>   | <b>Link to IBC</b>  |
|------------------|--|---|
| 1                | NPAs in India reached their peak at 9.3% in 2016, reflecting severe stress in the banking sector caused by weak recovery mechanisms, rising corporate defaults, and inefficient legal frameworks during the pre-IBC period. Following this peak, NPAs showed only a slight decline during the transition phase (2016–2020), indicating the initial impact of reforms. However, a significant and consistent reduction is observed in the post-IBC period, with GNPA falling to 3.5% by 2024.   | The Insolvency and Bankruptcy Code (IBC), 2016 played a crucial role in reversing the rising trend of Non-Performing Assets (NPAs) in India. Prior to its implementation, NPAs were increasing sharply, reaching a peak due to ineffective recovery mechanisms, delays in legal processes, and poor credit discipline.  |
| 2                | Public Sector Banks (PSBs) recorded significantly higher levels of Non-Performing Assets (NPAs) compared to private sector banks, primarily due to their greater exposure to large corporate and infrastructure loans, along with relatively weaker credit appraisal and monitoring mechanisms. This was evident during the transition period, where PSBs showed much higher NPA ratios than their private counterparts. However, over time, a substantial improvement is observed, with NPAs declining sharply in PSBs and the gap between public and private banks | The Insolvency and Bankruptcy Code (IBC), 2016 played a significant role in addressing and resolving large corporate defaults that were a major contributor to rising Non-Performing Assets (NPAs) in India. Prior to its implementation, many large corporate borrowers defaulted on loans due to weak recovery mechanisms and prolonged legal procedures, leading to accumulation of stressed assets, especially in Public Sector |

|   |  |  |
|---|--|--|
|   | <p>narrowing by 2024. This improvement is closely linked to the implementation of the Insolvency and Bankruptcy Code (IBC), which enabled effective resolution of large stressed assets and strengthened recovery processes.</p>   | <p>Banks. The introduction of IBC provided a structured, time-bound, and creditor-driven resolution framework, enabling banks to take control of defaulting firms and initiate recovery or restructuring.</p>  |
| 3 | <p>A clear and consistent reduction in Non-Performing Assets (NPAs) is observed in the period following the implementation of the Insolvency and Bankruptcy Code (IBC), 2016. Prior to IBC, NPAs were rising steadily, reaching a peak due to ineffective recovery systems and delays in resolution. However, in the post-IBC period, GNPA declined significantly, reflecting improved asset quality across the banking sector. This improvement is closely linked to the introduction of a unified, time-bound, and creditor-driven insolvency framework under IBC, which enhanced recovery efficiency and strengthened credit discipline among borrowers. The declining trend in NPAs after 2016 clearly indicates the effectiveness of IBC as a major financial reform.</p> | <p>The consistent decline in Non-Performing Assets (NPAs) observed in the post-IBC period provides strong evidence of the effectiveness of the Insolvency and Bankruptcy Code (IBC), 2016 as a key financial reform. Unlike the pre-IBC phase, which was marked by rising NPAs due to weak recovery mechanisms and delayed legal processes, the post-IBC period reflects improved asset quality and recovery performance. The introduction of a time-bound, transparent, and creditor-driven insolvency framework has enhanced credit discipline and enabled faster resolution of stressed assets.</p> |

## 5. FINDINGS, SUGGESTIONS AND CONCLUSION

### 5.1 MAJOR FINDINGS OF THE STUDY

The existing literature on the impact of the Insolvency and Bankruptcy Code (IBC), 2016 on Non-Performing Assets (NPAs) in India highlights a significant structural shift in the country's debt resolution framework. Prior to IBC, recovery mechanisms such as Debt Recovery Tribunals (DRTs) and the SARFAESI Act were largely ineffective due to procedural delays, legal complexities, and low recovery rates, which contributed to a sharp rise in NPAs and weakened bank balance sheets. The introduction of IBC marked a major reform by establishing a time-bound, creditor-driven, and transparent insolvency resolution process. The shift from a debtor-in-control system to a creditor-in-control model, supported by institutions such as the National Company Law Tribunal (NCLT) and insolvency professionals, significantly improved the efficiency of resolving stressed assets and maximizing asset value. Empirical studies indicate a noticeable decline in NPAs after 2018, along with improvements in bank profitability, financial stability, and credit flow. Furthermore, IBC has proven to be more effective than earlier recovery mechanisms and Asset Reconstruction Companies in terms of recovery performance, while also enhancing investor confidence and contributing to economic growth through a stronger legal framework. However, despite these achievements, several challenges persist, including judicial delays, limited institutional capacity, extended resolution timelines, and high haircuts in recovery, which constrain its overall effectiveness. Therefore, while IBC has played a crucial role in reducing NPAs and strengthening the banking system, its long-term success depends on continuous reforms aimed at improving institutional efficiency, reducing delays, and enhancing the overall resolution process.

## **5.2 SUGGESTIONS**

Based on the findings, several key suggestions are proposed to enhance the effectiveness of the Insolvency and Bankruptcy Code (IBC) in managing Non-Performing Assets (NPAs) in India. Firstly, there is a need to strengthen institutional capacity by increasing the number of benches in the National Company Law Tribunal (NCLT) and improving infrastructure and staffing to reduce case backlogs and ensure faster resolution. Secondly, efforts should be made to reduce resolution delays by strictly adhering to the prescribed 180–330 day timeline and minimizing excessive legal appeals and procedural bottlenecks. Thirdly, improving credit appraisal mechanisms is essential, particularly for public sector banks, through the adoption of advanced risk assessment tools and the use of technologies such as artificial intelligence and predictive analytics to detect potential defaults at an early stage. Furthermore, recovery efficiency can be enhanced by improving

coordination among banks, insolvency professionals, and tribunals, along with strengthening the role of Asset Reconstruction Companies (ARCs). Finally, continuous policy and regulatory improvements are necessary, including regular review and amendment of IBC provisions and aligning India's insolvency framework with global best practices to ensure long-term sustainability and effectiveness.

### **5.3 LIMITATIONS OF THE STUDY**

Despite providing valuable insights, the study has certain limitations:

- The research is based entirely on secondary data, which may limit accuracy and depth.
- The study covers a limited time period, restricting long-term analysis.
- The study does not include case-based analysis of individual insolvency resolutions.
- External factors like economic slowdown and COVID-19 impact are not deeply analyzed.

### **5.4 CONCLUSION**

The study clearly establishes that the Insolvency and Bankruptcy Code (IBC), 2016 has brought a structural transformation in the management of Non-Performing Assets (NPAs) in India. Prior to its implementation, the Indian banking system faced a significant rise in NPAs due to inefficient recovery mechanisms and fragmented legal frameworks. However, the introduction of IBC created a unified, transparent, and time-bound insolvency resolution system, which significantly improved recovery rates and contributed to a consistent decline in NPAs during the post-IBC period. The findings also indicate a notable improvement in the performance of Public Sector Banks, with a narrowing gap between public and private sector banks, highlighting the effectiveness of IBC in strengthening asset quality across the banking system. In addition, the Code has enhanced credit discipline, boosted investor confidence, and contributed to overall financial stability. Despite these achievements, certain challenges such as delays in resolution, judicial bottlenecks, and institutional limitations continue to persist. Therefore, continuous reforms, improved infrastructure, and more effective implementation mechanisms are necessary to fully realize the potential of the IBC. Overall, the IBC is not merely a legal reform but a transformational framework that has reshaped India's banking sector by reducing NPAs, improving recovery efficiency, and strengthening the foundation of the financial system.

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