Monetary policy witnessed a u-turn over the last year. The benchmark policy rate was first hiked by 50 bps and later reduced by 75 bps due to weaker-than-anticipated inflation, growth slowdown and softer international monetary conditions. Liquidity conditions, however, have remained systematically tight since September 2018. The performance of the banking system has improved as NPA ratios declined and credit growth accelerated. However, financial flows to the economy remained constrained because of decline in the amount of equity finance raised from capital markets and stress in the NBFC sector. The ecosystem for insolvency and bankruptcy is getting systematically built out. It has already led to recovery and resolution of significant amount of distressed assets as well as palpably improved business culture.

MONETARY DEVELOPMENTS DURING 2018-19

3.1 The Monetary Policy Committee (MPC) of the Reserve Bank of India (RBI), at the time of writing, had met six times in 2018-19 and twice in 2019-20. In its First Bi-monthly Monetary Policy Statement for 2018-19 in April 2018, the MPC decided to keep the policy repo rate unchanged at 6.0 per cent and continue with neutral policy stance.

3.2 With the perceived risk to inflation from increase in crude oil prices as well as expectation of tightening of monetary policy by the Federal Reserve, the MPC in the Second and Third Bi-monthly Monetary Policy Statement, decided to increase the policy repo rate by 25 basis points (bps) each while keeping the policy stance as neutral.

3.3 The policy rates remained unchanged in the Fourth and Fifth Bi-monthly Monetary Policy Statement due to the persistence of unusually soft food price readings and its impact on the evolving headline inflation trajectory. However, the policy stance was changed from “neutral” to “calibrated tightening” in the Fourth Bi-monthly Monetary Policy Statement of October 2018.

3.4 In its Sixth Bi-monthly Monetary policy Statement, the MPC noted the pause in the rate hiking cycle by the Fed, expectations of a positive outcome from US-China trade negotiations and downward risks to domestic inflation. Consequently, the MPC decided to
change the stance of monetary policy from “calibrated tightening” to “neutral” and reduced the policy repo rate by 25 bps to 6.25 per cent in February 2019. The policy rate was further cut by 25 bps each in the First and the Second Bi-monthly Monetary Policy Statement for 2019-20 in April and June 2019 (Table 1). Moreover, the monetary policy stance was changed to “accommodative” in June 2019.

Table 1: Revision in Policy Rates

<table>
<thead>
<tr>
<th>Effective date</th>
<th>Bank rate/MSF rate* (per cent)</th>
<th>Repo rate (per cent)</th>
<th>Reverse repo rate (per cent)</th>
<th>Cash reserve ratio (per cent of NDTL)</th>
<th>Statutory liquidity ratio (per cent of NDTL)</th>
</tr>
</thead>
<tbody>
<tr>
<td>05-04-18</td>
<td>6.25</td>
<td>6.00</td>
<td>5.75</td>
<td>4.00</td>
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<td>6.00</td>
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<td>6.25</td>
<td>4.00</td>
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<td>5.75</td>
<td>5.50</td>
<td>4.00</td>
<td>19.00</td>
</tr>
</tbody>
</table>

Source: RBI.

Notes: *: Bank Rate was aligned to MSF rate with effect from February 13, 2012.
NDTL is Net Demand and Time Liabilities and MSF is Marginal Standing Facility.

3.5 During 2018-19, the growth rate of monetary aggregates reverted to their long-term trend after experiencing unusual behaviour in 2016-17 due to demonetisation and again in 2017-18 due to the process of remonetisation (Table 2). Reserve Money (M0) as on March 31, 2019, recorded a growth of 14.5 per cent over the previous year (Figure 1). On the component side, the expansion in M0 was mainly driven by Currency in Circulation (CiC).

Table 2: Year-on-Year Growth in Monetary Aggregates (per cent)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Currency in Circulation</td>
<td>19.2</td>
<td>14.1</td>
<td>12.2</td>
<td>9.9</td>
<td>10.6</td>
<td>11.9</td>
<td>-4.0</td>
<td>9.8</td>
<td>22.6</td>
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<td>Cash with Banks</td>
<td>18.8</td>
<td>18.7</td>
<td>16.7</td>
<td>6.8</td>
<td>14.4</td>
<td>13.3</td>
<td>45.8</td>
<td>-20.1</td>
<td>3.5</td>
</tr>
<tr>
<td>Currency with the Public</td>
<td>19.2</td>
<td>13.9</td>
<td>12.0</td>
<td>10.0</td>
<td>10.4</td>
<td>11.8</td>
<td>-6.2</td>
<td>11.9</td>
<td>23.5</td>
</tr>
<tr>
<td>Bankers’ Deposits with the RBI</td>
<td>29.1</td>
<td>14.8</td>
<td>-10.9</td>
<td>4.6</td>
<td>7.6</td>
<td>11.0</td>
<td>8.6</td>
<td>7.9</td>
<td>7.9</td>
</tr>
<tr>
<td>Demand Deposits</td>
<td>14.2</td>
<td>-3.8</td>
<td>5.9</td>
<td>8.6</td>
<td>10.5</td>
<td>9.7</td>
<td>20.0</td>
<td>13.8</td>
<td>7.9</td>
</tr>
<tr>
<td>Time Deposits</td>
<td>16.0</td>
<td>19.3</td>
<td>14.7</td>
<td>14.7</td>
<td>12.3</td>
<td>10.6</td>
<td>10.8</td>
<td>6.4</td>
<td>8.5</td>
</tr>
<tr>
<td>Reserve Money (M0)</td>
<td>21.5</td>
<td>13.9</td>
<td>6.2</td>
<td>8.8</td>
<td>10.1</td>
<td>12.1</td>
<td>-1.3</td>
<td>9.6</td>
<td>19.5</td>
</tr>
<tr>
<td>Narrow Money (M1)</td>
<td>16.8</td>
<td>5.8</td>
<td>9.5</td>
<td>9.6</td>
<td>10.6</td>
<td>11.3</td>
<td>3.9</td>
<td>12.9</td>
<td>16.5</td>
</tr>
<tr>
<td>Broad Money (M3)</td>
<td>16.2</td>
<td>15.9</td>
<td>13.5</td>
<td>13.6</td>
<td>11.9</td>
<td>10.7</td>
<td>9.3</td>
<td>7.8</td>
<td>10.2</td>
</tr>
</tbody>
</table>

Source: RBI.

Note: Growth rates have been calculated for financial year averages of the monetary aggregates.
3.6 From the sources side, expansion in M0 during 2018-19 was contributed mainly by net RBI credit to the government as against driven by net foreign assets in the previous year. Increase in net RBI credit to government was mainly from the recourse to open market operations (OMOs) undertaken during the year. Among other sources, RBI’s claims on banks increased, indicating tight liquidity conditions (this issue is further discussed in next section). Net foreign assets also contributed to M0 expansion albeit at a lower magnitude vis-à-vis previous year.

Source: RBI.

Note: Growth rates have been calculated for Financial Year averages of the monetary aggregates.
3.7 Broad money growth (M3) has been on declining trend since 2009. However, in 2018-19, M3 improved marginally driven mainly by aggregate deposits (Figure 2). From the component side, the expansion in M3 during the year was broad-based, contributed by both currency and deposits. Deposits with the banking system, both demand and time, recorded acceleration in their growth leading to an increase in aggregate deposits by 9.6 per cent in 2018-19 vis-à-vis the 5.8 per cent during 2017-18 (Figure 3). Amongst sources, credit from scheduled commercial banks (SCBs) to the commercial sector primarily contributed to an increase in M3 during the year. Bank credit to government, mainly from RBI, also supplemented M3 expansion.

![Figure 3: Y-o-Y Variation in Deposits](image)

Source: RBI.

Note: AD– Aggregate Deposits, DD– Demand Deposits, TD– Time Deposits.

3.8 The money multiplier (M3/M0) expanded sharply between 1996 and 2003 and stabilizing thereafter till 2008. It started rising again till 2017 but declined for two successive years in 2017-18 and 2018-19, reflecting expansion in M0 at faster pace than M3. As on March 31, 2019, it stood lower at 5.7 per cent, converging broadly to its average level recorded during 2013-16 (Figure 4). Trends in money multiplier is an area of further investigation but the tightening of bank capital and regulatory norms may have contributed to it.

![Figure 4: Money Multiplier](image)

Source: RBI.
LIQUIDITY CONDITIONS AND ITS MANAGEMENT

3.9 In 2018-19, liquidity conditions were comfortable till August 2018 but has been systematically tight since September 2018. Liquidity situation, on average, moved in the deficit zone in the last two quarters of 2018-19 as well as in first quarter of 2019-20.

3.10 The banking system faced huge shortage of liquidity for the first time in the fiscal between September 15 and 26 and the deficit was nearly ₹1.18 lakh crore. The RBI, consequently, announced OMOs of ₹30,000 crore. This move did ease liquidity temporarily but the liquidity shortage has been persistent (Figure 5).

3.11 The monetary policy statement of December 2018 highlighted the issue of liquidity crunch being faced by the banking system. The statement noted that the tight liquidity conditions had led to overnight call money rate breaching the policy corridor on several occasions. Consequently, the RBI decided to scale up OMOs in December and January. It further added that liquidity conditions will continue to be monitored and depending on the assessment, RBI will consider similar quantum of OMO purchases until the end of March 2019.

3.12 Remember that the RBI had changed its liquidity management objective in June 2016. Prior to this period, the RBI used to maintain ex-ante liquidity deficit in the system at around 1% of net time and demand liabilities (NDTL) of banks. However, since June 2016, the stated objective of the RBI is to keep the ex-ante liquidity closer to neutral position.

3.13 The tight liquidity has shown up in interest rates as well. The weighted average call rate (WACR) breached the policy repo rate 33 time since mid-September 2018. There were three key factors which have led to this situation of liquidity tightening. First, the growth in bank credit has improved in last two quarters of 2018-19, however growth in bank deposits remained tepid. Second, growth in currency in circulation also accelerated during this period. Third, and the most significant, the RBI had to draw down its foreign exchange reserves in excess of $32 billion in 2018-19 to smoothen exchange rate volatility. Consequently, liquidity in excess of ₹2 lakh crore was sucked out of the system.

3.14 The RBI responded to solve this issue by infusing liquidity through OMOs. The frequency of OMOs have increased considerably since September 2018. In view of the need to inject durable liquidity given the prevailing liquidity conditions, the RBI conducted twenty-seven OMOs aggregating ₹2.98 lakh crore billion during the year. Moreover, based on an assessment of financial market conditions, the RBI increased the Facility to Avail Liquidity for Liquidity Coverage Ratio (FALLCR) effective October 1, 2018, which supplemented the ability of individual banks to avail liquidity from the repo market against high-quality collateral. Furthermore, it was decided to reduce the statutory liquidity ratio (SLR) by 25 bps every calendar quarter until it reaches 18 per cent of NDTL to align the SLR with the liquidity coverage ratio (LCR) requirement. Accordingly, effective from the quarter commencing January 2019, the SLR was reduced to 19.25 per cent of NDTL and further to 19.00 per cent of NDTL in April 2019.

3.15 Moreover, the RBI decided to augment its liquidity management toolkit and injected rupee liquidity for longer duration through long-term foreign exchange buy/sell swaps. Accordingly, it conducted a US$/₹ buy/sell swap auction of US$5 billion for a tenor of 3 years on March 26, 2019 to inject durable liquidity of ₹345.6 billion into the system.
3.16 Tightness in liquidity has a significant impact on short-term as well as long term interest rates. Figures 7(a) and 7(b) show the impact of liquidity condition on interest rates. As can be seen, tight liquidity in the recent past has led to increase in spread of treasury bills (t-bill) and Govenment security (g-sec) rates over the repo rate. Availability of durable liquidity has a big impact on the market borrowing cost of the government.

Source: RBI.
Note: MSF – Marginal Standing Facility, WACR – Weighted Average Call Money Rate
DEVELOPMENTS IN THE G-SEC MARKET

3.17 During 2018-19, the 10-year benchmark g-sec yields were volatile and closely tracked the movement in oil prices, domestic liquidity and rupee exchange rate (Figure 8). It hardened in the first quarter but witnessed intermittent softening in the second and third quarters. The hardening of yields in the first quarter may be attributed to rising crude oil prices, the firming up of US treasury yields, concerns regarding the pace of rate hikes by the US Fed, upside risks to domestic inflation. Later, with the decline in crude oil prices in July 2018, and with the announcement of OMO purchases, the yields softened in July. However, the currency depreciation in August 2018 due to rising crude oil prices and rising US interest rates, caused the yields to harden, taking the rise in yields from end-July to mid-September to 40 bps. Yields softened towards the end of September reflecting the measures taken for containing rupee volatility along with expectations of lower market borrowings by the central government in second half of 2018-19.

3.18 The benchmark yield continued to trade with a softening bias in October 2018 as the RBI announced OMO purchases of higher amount. In the third quarter of 2018-19, the OMO purchase of ₹1.36 lakh crore along with the decline in crude oil prices and CPI inflation rates caused the yields to soften in general. During January 2019, however, the yields traded with a hardening bias amidst fiscal concerns, tightening liquidity and rise in crude oil prices. Later in the quarter, consequent upon the policy rate cut announced by the MPC in February, April and June 2019, the yields softened. The 10-year g-sec yield dropped to 6.97 per cent as on 10 June, 2019.

BANKING SECTOR

3.19 The performance of the banking sector (domestic operations), Public Sector Banks (PSBs) in particular, improved in 2018-19. The Gross Non-Performing Advances (GNPA) ratio of SCBs decreased from 11.5 per cent to 10.1 per cent between March 2018 and December 2018. Their Restructured Standard Advances (RSA) ratio declined from 0.7 per cent to 0.4 per cent. The Stressed Advances (SA) ratio decreased from 12.1 per cent to 10.5 per cent during the same period. GNPA ratio of PSBs decreased from 15.5 per cent to 13.9 per cent between March 2018 and December 2018. SA ratio of PSBs decreased
from 16.3 per cent to 14.4 per cent during the same period.

3.20 Capital to risk-weighted asset ratio (CRAR) of SCBs increased from 13.8 per cent to 14.0 per cent between March 2018 and December 2018 largely due to improvement of CRAR of Public sector banks (PSBs). SCBs’ return on assets (RoA) decreased from 0.21 per cent in 2017-18 to 0.03 per cent in 2018-19 while their return on equity (RoE) decreased from 2.41 per cent to 0.4 per cent during the same period.

CREDIT GROWTH

3.21 Growth in non-food bank credit (NFC), which remained sluggish in last few years, showed improvement in 2018-19. The average NFC growth in 2018-19 improved to 11.2 per cent vis-à-vis 7.7 per cent in 2017-18. Bank credit to large industry and services segments were the main drivers of overall NFC growth in 2018-19 (Figure 9). However, the pace of credit growth has moderated in last few months. Credit growth has come down from 13.8 per cent in November 2018 to 11.9 per cent in April 2019. The main contributor to this moderation has been the services sector which has decelerated from 28.1 per cent to 16.8 per cent between November 2018 and April 2019. The growth in bank credit to large industries have improved in recent months (Table 4).

Figure 9: Bank Credit Growth (Y-o-Y)

Table 4: Industry-wise Deployment of Bank Credit by Major Sectors (Y-o-Y, per cent)

<table>
<thead>
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</thead>
<tbody>
<tr>
<td>Industry</td>
<td>20.7</td>
<td>15.1</td>
<td>12.8</td>
<td>5.6</td>
<td>2.7</td>
<td>-1.9</td>
<td>0.7</td>
<td>6.9</td>
<td>6.9</td>
</tr>
<tr>
<td>Micro &amp; Small</td>
<td>12.6</td>
<td>20.2</td>
<td>22.5</td>
<td>9.1</td>
<td>-2.3</td>
<td>-0.5</td>
<td>0.9</td>
<td>0.7</td>
<td>1.0</td>
</tr>
<tr>
<td>Medium</td>
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<td>-0.1</td>
<td>-0.5</td>
<td>0.4</td>
<td>-7.8</td>
<td>-8.7</td>
<td>-1.1</td>
<td>2.6</td>
<td>3.5</td>
</tr>
<tr>
<td>Large</td>
<td>23.3</td>
<td>15.6</td>
<td>12.3</td>
<td>5.3</td>
<td>4.2</td>
<td>-1.7</td>
<td>0.8</td>
<td>8.2</td>
<td>8.1</td>
</tr>
<tr>
<td>Textiles</td>
<td>9.9</td>
<td>15.1</td>
<td>10.2</td>
<td>-0.1</td>
<td>1.9</td>
<td>-4.6</td>
<td>6.9</td>
<td>-3.0</td>
<td>-2.8</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>20.8</td>
<td>15.8</td>
<td>14.6</td>
<td>10.5</td>
<td>4.4</td>
<td>-6.1</td>
<td>-1.7</td>
<td>18.5</td>
<td>19.9</td>
</tr>
</tbody>
</table>

Source: RBI.

Note: Data are provisional and relate to select banks which cover about 90 per cent of total non-food credit extended by all scheduled commercial banks.
NON-BANKING FINANCIAL SECTOR

3.22 Non-Banking Financial Companies (NBFCs) bring in diversity and efficiency to the financial sector and makes it more responsive to the needs of the customers. In the recent past, the NBFCs have played increasingly important role in resource mobilization and credit intermediation, thereby helping commercial sector to make up for low bank credit growth (Figure 10).

**Figure 10: Share in Net Credit Flow to Commercial Sector**

![Graph showing the share in net credit flow to commercial sector from 2013-14 to 2018-19 (till mid-Nov)].

Source: RBI.

3.23 However, the NBFCs experienced difficult times in 2018-19 in the aftermath of the ratings downgrades and default of IL&FS Group. NBFCs depend largely on public funds which account for 70 per cent of total liabilities of the sector. Bank borrowings, debentures and commercial paper are the major sources of funding for NBFCs. Immediately after the IL&FS crisis, NBFCs faced severe liquidity crunch as mutual funds (MFs) stopped refinancing the loans of NBFCs. However, the government moved in quickly and took immediate measures to ringfence the problem and limit contagion. Consequently, the flow of resources from the banking sector to NBFCs improved for some time. However, the flow of resources from the banking side has contracted since November 2018. In fact, deployment of funds by MFs has turned negative and stood at -12 per cent in April 2019 (Figures 11(a) & 11(b)). This squeeze in flow of resources to NBFCs has impacted the lending capability of the sector in recent quarters (see Figure 12).

**Figure 11(a): Growth in Bank Credit to NBFCs**

![Graph showing the growth in bank credit to NBFCs from April 2016 to April 2019].

Source: RBI.

**Figure 11(b): Growth in Deployment of funds by MFs to NBFCs**

![Graph showing the growth in deployment of funds by MFs to NBFCs from April 2016 to April 2019].

Source: Estimated from SEBI data.
3.24 Other performance indicators of the NBFCs have also been affected adversely. At the end of December 2018, CRAR of NBFC sector worsened to 22.2 per cent from 22.8 per cent at end-March 2018. The GNPA ratio of NBFC sector deteriorated to 6.5 per cent as in December 2018 from 6.1 per cent in March 2018. The net NPA also increased marginally to 3.6 per cent in December 2018 from 3.2 per cent in March 2018. The RoA of the sector stood at 1.4 per cent in December 2018 compared with 1.6 per cent in March 2018. The RoE decreased to 6.1 per cent in December 2018 from 7.0 per cent in March 2018.

DEVELOPMENTS IN CAPITAL MARKET

Primary Market

A. Public Issue

3.25 The year 2018-19 witnessed a significant decrease in resource mobilization through public issue and rights issue of equity compared to the previous year. During 2018-19, 123 companies mobilized ₹16,087 crore through public equity issuance compared to 202 companies amounting ₹83,696 crore in the previous year, indicating a decrease of 81 per cent over the period. Further, during 2018-19, there were 21 rights issues which raised ₹2,149 crore compared to 21 rights issues which raised ₹21,400 crore in 2017-18.

3.26 Resource mobilization through issuance of debt public issue rose quite significantly during 2018-19 as compared to previous year. There were 25 debt public issues which raised ₹36,679 crore in 2018-19 compared to eight issues which raised ₹5,173 crore in 2017-18.

3.27 Overall, total public issue declined by 50 per cent from ₹1,10,269 crore in 2017-18 to ₹54,915 crore in 2018-19.
B. Private Placement

3.28 During 2018-19, Indian corporates preferred private placement route to gear up the capital requirement. There were 416 issues which raised ₹2,17,632 crore in 2018-19 compared to 460 issues which raised ₹1,26,711 crore during 2017-18. Out of the 416 issues, there were 12 qualified institutional placement (QIP) allotments and 404 preferential allotments which raised ₹7,469 crore and ₹2,10,163 crore, respectively during 2018-19 compared to 53 QIPs allotments and 407 preferential allotments which raised ₹67,238 crore and ₹59,473 crore, respectively during 2017-18.

3.29 Further, the resource mobilization through issuance of corporate bonds private placement stood at ₹5,79,425 crore in 2018-19 compared to ₹5,99,147 crore in 2017-18.

Table 5: Primary Market Resource Mobilisation through Public and Rights Issue

<table>
<thead>
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<th>Issue Type</th>
<th>2017-18</th>
<th>2018-19</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No of issues</td>
<td>Amount (₹ crore)</td>
</tr>
<tr>
<td>Public Issue (Equity)</td>
<td>202</td>
<td>83,696</td>
</tr>
<tr>
<td>Rights Issue (Equity)</td>
<td>21</td>
<td>21,400</td>
</tr>
<tr>
<td>Public Issue (Debt)</td>
<td>8</td>
<td>5,173</td>
</tr>
<tr>
<td>Total Public Issue</td>
<td>231</td>
<td>110,269</td>
</tr>
</tbody>
</table>

Source: SEBI.

Table 6: Primary Market Resource Mobilisation through Private Placements

<table>
<thead>
<tr>
<th>Issue Type</th>
<th>2017-18</th>
<th>2018-19</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No of issues</td>
<td>Amount (₹ crore)</td>
</tr>
<tr>
<td>QIPs Allotment (Equity)</td>
<td>53</td>
<td>67,238</td>
</tr>
<tr>
<td>Preferential Allotment (Equity)</td>
<td>407</td>
<td>59,473</td>
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<tr>
<td>Private Placement of Bonds</td>
<td>2706</td>
<td>5,99,147</td>
</tr>
<tr>
<td>Total Private Placement</td>
<td>3166</td>
<td>7,25,858</td>
</tr>
</tbody>
</table>

Sources: BSE, NSE, MSEI and SEBI.

Mutual Fund Activities

3.30 During 2018-19, there was a net inflow of ₹1,09,701 crore in the MF industry as compared to a net inflow of ₹2,71,797 crore during 2017-18. The cumulative net assets under management of all MF increased by 11.4 per cent to ₹23,79,584 crore in March 2019 from ₹21,36,036 crore in March 2018.

Table 7: Mobilisation Funds by Mutual Funds (in ₹ crore)

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>No of Folios</th>
<th>Gross Mobilisation</th>
<th>Redemption</th>
<th>Net Inflow</th>
<th>Assets at the end of the period</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017-18</td>
<td>7,13,47,301</td>
<td>2,09,98,652</td>
<td>2,07,26,855</td>
<td>2,71,797</td>
<td>21,36,036</td>
</tr>
<tr>
<td>2018-19</td>
<td>8,24,56,411</td>
<td>2,43,94,362</td>
<td>2,42,84,661</td>
<td>1,09,701</td>
<td>23,79,584</td>
</tr>
</tbody>
</table>

Source: SEBI.
Investment by Foreign Portfolio Investors (FPIs)

3.31 There was a net outflow of ₹5,499 crore by FPIs in 2018-19 compared to an inflow of ₹22,466 crore in 2017-18. Total cumulative investment by FPIs decreased to ₹2,48,154 crore as on March 31 2019 as against ₹2,53,653 crore as on March 31 2018. The assets of the FPIs in India, as reported by the custodians, increased to ₹33,42,680 crore as on March 31 2019 from ₹31,48,349 crore as on March 31 2018. However, the notional value of offshore derivative instruments (including ODIs on derivatives) decreased to ₹77,287 crore from ₹1,02,726 crore during the same period.

<table>
<thead>
<tr>
<th>Year/Month</th>
<th>Gross Purchase (₹crore)</th>
<th>Gross Sales (₹crores)</th>
<th>Net Investment (₹crores)</th>
<th>Net Investment (USD Million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017-18</td>
<td>17,28,360</td>
<td>15,83,679</td>
<td>1,44,681</td>
<td>22,466</td>
</tr>
<tr>
<td>2018-19</td>
<td>16,40,810</td>
<td>16,79,741</td>
<td>-38,931</td>
<td>-5,499</td>
</tr>
</tbody>
</table>

Source: NSDL.

Table 9: Notional Value of Offshore Derivatives Instruments vs Assets Under Custody of FPIs (in ₹Crore)

<table>
<thead>
<tr>
<th>Year</th>
<th>Notional value of ODIs on Equity, Debt &amp; Derivatives</th>
<th>Notional value of ODIs on Equity &amp; Debt excluding Derivatives</th>
<th>AUC of FPIs/deemed FPIs</th>
<th>Notional value of ODIs on Equity, Debt &amp; Derivatives as % of Notional Value of ODI</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017-18</td>
<td>1,06,403</td>
<td>1,02,726</td>
<td>31,48,349</td>
<td>3.4</td>
</tr>
<tr>
<td>2018-19</td>
<td>78,110</td>
<td>77,287</td>
<td>33,42,680</td>
<td>2.3</td>
</tr>
</tbody>
</table>

Source: SEBI.

Movement of Indian Benchmark Indices

3.32 S&P BSE Sensex, the benchmark index of Bombay Stock Exchange (BSE), closed at 38,673 on March 31, 2019, witnessing an increase of 17.3 per cent from its closing value of 32,969 as on March 31, 2018 (see Figure 13). During this period, S&P BSE Sensex closed its highest level of 38,897 on August 28, 2018 and its lowest level of 33,019 on April 04, 2018. In addition, Nifty 50, the benchmark index of National Stock Exchange (NSE) closed at 11,624 on March 31, 2019, witnessing a gain of 14.9 per cent from its closing value of 10,114 as on March 31, 2018. During the period Nifty 50 closed at its highest value of 11,739 on August 28, 2018 and its lowest level of 10,030 on October 26, 2018.

3.33 In 2019-20, the Sensex crossed 40,000 for the first time on 3rd June and closed at 40,268. As on 10 June, 2019, the Sensex closed at 39,785 whereas Nifty closed at 11,923.
3.34 Insurance has evolved as a tool of safeguarding the interest of people from loss and uncertainty. Apart from protecting against mortality; property; and casualty risks; it provides a safety net for individuals and enterprises in urban and rural areas. The insurance sector encourages savings and provides long-term funds to individuals. It also provides funds for infrastructure development and other long gestation projects of the nation.

3.35 The potential and performance of the insurance sector are generally assessed on the basis of two parameters, viz., insurance penetration and insurance density. The measure of insurance penetration and density reflects the level of development of insurance sector in a country. While insurance penetration is measured as the percentage of insurance premium to GDP, insurance density is calculated as the ratio of premium to population (measured in US$ for convenience of international comparison).

3.36 Insurance penetration which was 2.71 per cent in 2001, has steadily increased to 3.69 per cent in 2017 (Life 2.76 per cent and Non-Life 0.93 per cent). Insurance penetration in some of the emerging economies in Asia, i.e., Malaysia, Thailand and China during the same year were 4.77, 5.29 and 4.57 per cent respectively. The insurance density in India which was US$11.5 in 2001, reached to US$73 in 2017 (Life-55$ and Non-Life -18$). The comparative figures for Malaysia, Thailand and China during the same period were US$486, US$348 and US$384 respectively. Globally insurance penetration and density were 3.33 per cent and US$353 for the life segment and 2.80 per cent and US$297 for the non-life segment respectively.

Figure 13: Movement of Indian Benchmark Indices

Sources: BSE & NSE.
3.37 During the fiscal 2017-18, the gross direct premium of general insurers (within India) was ₹1,50,660 crores as against ₹1,28,130 crores, in 2016-17 registering 17.6 per cent growth. Motor, health and others segments of insurance helped the industry report this growth. Life insurance industry recorded a premium income of ₹4,58,810 crores as against ₹4,18,480 crores in the previous financial year, registering a growth of 9.64 per cent. While renewal premium accounted for 57.68 per cent of the total premium received by the life insurers, new business contributed the remaining 42.32 per cent.

INSOLVENCY AND BANKRUPTCY CODE 2016: RESOLVING CORPORATE STRESS IN A CHANGED PARADIGM

Introduction

3.38 The Indian banking sector has been at the forefront of driving the economic growth of the country. In the last several years, however, the sector has been plagued by growing NPAs on account of various reasons. The total stressed assets pool reached about ₹10.6 lakh crore for PSBs and ₹12-13 lakh crore for the overall banking system as on March 31, 2018.1

3.39 Resolving stressed assets requires significant and concerted efforts. Since 2014, many steps have been taken by the government, the RBI and individual banks to enable rescue and revival. A robust, modern and sophisticated insolvency framework was established with the enactment of the Insolvency and Bankruptcy Code, 2016 (IBC). The IBC seeks to achieve resolution of corporate debtors (CDs) in distress and failing that, its liquidation in a time-bound manner under the non-intrusive oversight of the National Company Law Tribunal (NCLT). The Financial Creditors (FC) have been provided with greater role and powers through the committee of creditors. The management and control of assets of the

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1 Committee Report on Resolution of Stressed Assets, Project Sashakt, 2018
debtor are handed over to an Insolvency Professional (IP) who is responsible for operating the debtor’s enterprise as a going concern and managing the corporate insolvency resolution process (CIRP) besides performing other crucial functions. Although based on global principles, the IBC has been customized for Indian conditions to make it compatible with local conditions. It is one of the most important economic reforms of recent times designed to effectively deal with non-performing CDs and the resultant logjam in the availability of credit.

3.40 An effective bilateral work-out restructuring mechanism can complement the robust insolvency framework. In June 2017, the RBI substituted harmonized and simplified generic framework for resolution of stressed assets. Sashakt - the resolution scheme to resolve the problem of NPAs through a market-led approach, was introduced in July 2018. Sashakt entails participating banks to work together under an Inter-Creditor Agreement (ICA). As of March 31, 2019, 35 banks had signed the ICA. Further, the notification on "Prudential Framework for Resolution of Stressed Assets" was released by RBI dated June 7, 2019.

Implementation of IBC

3.41 The success of any law depends on its implementation. The IBC was enacted on May 28, 2016. The Government moved quickly to operationalize the IBC. On June 1, 2016, the National Company Law Appellate Tribunal (NCLAT), the Principal Bench of NCLT at New Delhi, and 11 benches of NCLT – two at New Delhi and one each at Ahmedabad, Allahabad, Bengaluru, Chandigarh, Chennai, Guwahati, Hyderabad, Kolkata, and Mumbai were constituted.

3.42 The Insolvency and Bankruptcy Board of India (IBBI) – the regulator, was established on October 1, 2016. It registered three Insolvency Professional Agencies (IPAs), namely, the Indian Institute of Insolvency Professionals of Institute of Chartered Accountants of India (IIIP of ICAI), the Institute of Company Secretaries of India’s Institute of Insolvency Professionals (ICSI IIP), and the Insolvency Professional Agency of Institute of Cost Accountants of India (IPA of ICMAI), were registered in November, 2016. With a view to make available a cadre of IPs, 977 individuals with professional qualifications and 15 years of experience were granted temporary registration. The IBBI commenced the Limited Insolvency Examination (LIE) on December 31, 2016. The professionals with ten years of experience and has passed the Limited Insolvency Examination were granted regular registration as IPs from January 2017. The subordinate legislation relating to eco-system as well as the corporate insolvency processes under the Code was put in place by the IBBI and the corporate processes commenced on December 1, 2016.

3.43 An important concern of many observers was the ability of the new framework to withstand the legal challenges. However, the Hon’ble Supreme Court upheld the Constitutional validity of the IBC in entirety in the matter of Swiss Ribbons Pvt. Ltd. & Anr. Vs. UoI & Ors.

Progress Made

3.44 The first case under the IBC was admitted by NCLT on January 17, 2017, in just over a month from the operationalization of the IBC, and the first insolvency resolution plan was approved on August 2, 2017. The Banking Regulations Act, 1949 was amended

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2 The Supreme Court vide its judgment dated April 8, 2019 held that the RBI circular dated February 12, 2018 was ultra vires.
3 ICICI Bank Limited vs. Innovative Industries Limited.
4 Synergies-Dooray Automotive Ltd.
on May 4, 2017, to enable the RBI to direct banks to take defaulting borrowers into insolvency. The RBI constituted an Internal Advisory Committee which recommended the filing of cases under the IBC in all accounts with fund and non-fund based outstanding amounts greater than ₹5,000 crore, with 60 per cent or more classified as non-performing by banks as of March 31, 2016. Under the recommended criterion, 12 large accounts aggregating about 25 per cent of the current GNPA’s of the banking system qualified for immediate reference under IBC. Later, during 2017, another list of 28 larger accounts with a total outstanding loan amount of ₹2.3 lakh crore was released by the RBI.

3.45 As on February 2019\(^5\), that is, within 27 months of operationalization of the IBC, as many as 14,000 applications had been filed for initiation of CIRPs under the IBC. As on March 31, 2019\(^6\), NCLT had ordered the commencement of CIRP of 1,858 CDs. The quarterly trend of the CDs admitted into CIRP under the IBC is presented below.

**Figure 14: Quarterly trend of cases admitted**

Source: IBBI.

3.46 These cases have been filed across various sectors. 42 per cent of cases filed are from the manufacturing sector covering industries like steel, fast moving consumer goods (FMCG), chemical products, electrical machinery, basic metals, etc.; 20 per cent in real estate; 10 per cent in engineering, procurement, and construction (EPC) sector and 10 per cent in trading companies. Other sectors under stress are textiles, power & utilities, FMCG, and hospitality. These are mostly late-stage cases where the overall sector has already been under stress due to internal and external issues. The sector-wise distribution of cases admitted is presented in Figure 15.

**Figure 15: Sector-wise distribution of cases admitted**

Source: IBBI.

3.47 Out of the total cases admitted, 152 cases were closed on appeal, review or settlement, 91 were withdrawn on account of settlement under section 12A of the IBC, 94 yielded resolutions and 378 resulted in liquidation. 1,143 cases are presently undergoing resolution process. Further, 383 cases of voluntary liquidation were admitted against which dissolution orders were passed in 41 cases.

3.48 Further, 920 (50 per cent) cases were filed by Operational Creditors (OCs), 738 (40 per cent) were filed by FCs and 200 (10 per cent) were filed by Corporate Debtor. In the quarter ending March 2019, 172 cases have been filed by FCs in comparison to average 90 cases in the initial 3 quarters. The growing number of cases by the FCs indicate that the IBC has already struck a chord with the banks and financial institutions, who view the IBC as a preferred mode to resolve distressed assets and maximize returns. Similarly, the OCs, which include vendors and suppliers from small and medium enterprises, are using the IBC as a feasible recourse to enforce payment discipline by corporate debtors.

\(^5\) Source: IBBI.

\(^6\) IBBI newsletter, March 2019.
3.49 An analysis of stakeholders who triggered CIRP is shown in Figure 16. The IBC has enabled the creation of a new cadre of professionals capable of managing stressed businesses as a going concern while facilitating an effective resolution. As on March 31, 2019, 2,456 IPs were registered with the IBBI from different parts of the country. An analysis of registered IPs by region is provided in Figure 17.

**Figure 16: Category-wise CIRP initiated**

![Figure 16: Category-wise CIRP initiated](image)

Source: IBBI.

**Figure 17: Region-wise IP registered as on March 2019**

![Figure 17: Region-wise IP registered as on March 2019](image)

Source: IBBI.

3.50 Figure 17 reveals the concentration of IPs in New Delhi (22 per cent) and Mumbai (16 per cent). Opportunities have also proliferated for a number of support service providers like valuers, process advisors, turnaround specialists, lawyers, security services providers, and others.
3.51 The IBC provides for the establishment of Information Utilities (IU) to collect financial information from creditors, get it authenticated by debtors, store and provide access to the resolution professional, creditors, liquidator and other stakeholders so that they can make informed decisions.

3.52 The National e-Governance Services Limited (NeSL) was registered as the first IU by the IBBI. The details of information filed with NeSL show a growing trend of use of IU by creditors. Increased use of IU is expected to eliminate information asymmetry and improve implementation timelines under the IBC. In the quarter ending March 2019, 173 FCs entered into an agreement with NeSL and 15,085 registered as users, and 13,762 loan records have been authenticated by the debtors, involving ₹41,14,988 crore.

3.53 A key objective of the IBC is the maximization of the value of assets of the CDs and consequently value for its stakeholders. A critical element towards achieving this objective is the transparent and credible determination of the value of the assets of CD to facilitate comparison and informed decision making. The Code and the regulations framed thereunder assign this responsibility to the ‘Registered Valuer’ (RV). The Central Government designated the IBBI as the ‘Authority’ under section 247 of the Companies Act vide notification dated October 18, 2017.

Institutional Response

3.54 The Government and the regulator keenly observed the developments and experience in the insolvency process of cases filed and rapidly brought in necessary changes to make the process and outcomes more efficient. Two sets of amendments were introduced in the IBC, one in November 2017 and the second in June 2018. The former introduced Section 29A, prohibiting persons with certain disabilities from submitting a resolution plan. The latter introduced changes to make the IBC easier to operate by reducing the threshold for decision making by the committee of creditors from 75 per cent to 66 per cent in specified matters and to 51 per cent for routine decisions. This amendment also entailed the recognition of home buyers as FCs. The 2018 amendment was based on recommendations of the Insolvency Law Committee (ILC) set up by the Government in November 2017. The ILC has since been reconstituted as a Standing Committee.

3.55 The IBBI has been at the vanguard of creating the regulatory architecture underpinning the insolvency law. Since December 2016, the IBBI has introduced 25 amendments in various regulations to streamline the resolution and liquidation processes responding real-time to the market situation. All such amendments have been done after detailed stakeholder consultations and crowdsourcing of ideas by putting out proposed amendments in public domain for comments and suggestions, thus ensuring the robustness of outcomes.

3.56 The NCLTs and NCLAT continue to play an important role as adjudicating and appellate authorities respectively for IBC. The geographical distribution of the NCLT benches are presented in Table 12.

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7 IBBI newsletter, March 2019.
8 IBBI (Amendment) Ordinance, 2017 which was later passed by the Parliament as The Insolvency and Bankruptcy Code (Amendment) Act, 2018 on 18th January 2018.
9 IBBI (Second Amendment) Ordinance, 2018 which was later passed by the Parliament as The Insolvency and Bankruptcy Code (Second Amendment) Act, 2018.
10 The mandate of the committee is, inter-alia, to analyse the functioning and implementation of the Code, identify issues impacting the efficiency and effectiveness of corporate insolvency resolution and liquidation framework and make suitable recommendations to address them.
11 IBBI website (under legal framework).
Keeping in view the rising caseload under the IBC, the government has notified additional benches in Amravati and Indore in March 2019 and Cuttack and Kochi in July 2018.

At present, there are 32 Judicial Members and 17 Technical Members of the NCLT. In August 2018, e-filing of applications, petitions, appeals, replies, etc. commenced at the Delhi NCLT. Digitization and e-filing at other NCLT Benches are expected to commence in due course. While the various Benches of NCLTs and NCLAT have facilitated in the recovery of ₹1,83,519 crore (approx.) under CIRP till April 2019 (MCA), the NCLT infrastructure requires to be scaled. Time-sensitive resolution is a cornerstone of the IBC. Delays affect the value of the asset causing loss to stakeholders and deter the resolution applicant from participating in the process. The Government is actively considering measures to address delays and has created six additional posts of the judicial and technical members for NCLAT. Setting up Circuit Benches of NCLAT is under consideration.

As the implementation of the IBC progressed, other regulators and agencies carried out various amendments in their respective rules and regulations for effective implementation of the IBC. The Securities and Exchange Board of India amended its regulations with respect to minimum public shareholding, preferential issue of shares, delisting of companies, open offer requirements, etc. to enable smooth implementation of the resolution plan. Various requirements like audit committee, nomination and remuneration committee and stakeholder’s relationship committee, etc. for listed companies, were relaxed. The Securities Contracts (Regulation) Rules, 1957 was amended to protect the interest of minority shareholders. It was provided that if the public shareholding falls below 25 per cent as a result of the approval of the resolution plan under the IBC, it shall be brought back to 25 per cent within three years. If public shareholding falls below 10 per cent, the same should be brought back to 10 per cent within 18 months. The RBI allowed the resolution applicants submitting resolution plans to raise external commercial borrowings from recognized lenders, for repayment of rupee term loans of the target company, under an approval route.

**Impact of IBC**

It is often difficult to tangibly measure the contribution of an efficient insolvency system in national prosperity. Direct measures of the impact tend to underestimate its importance as they may fail to account for the ‘enabling’ and ‘preventive’ role played by the insolvency system. While the sustainable impact of the IBC will be known in due course, green shoots have already emerged and some significant benefits of the IBC are visible.

**A. Behavioural change**

An effective exit law promotes responsible corporate behaviour by encouraging higher standards of corporate governance, including cash and financial...
discipline, to avoid consequences of insolvency. The IBC has made a significant impact on the way the default of debts is viewed and treated by promoters and management. It has initiated a cultural shift in the dynamics between lender and borrower, promoter and creditor. The IBC has paved the way for Operational Creditors, mostly SMEs and small vendors to use the IBC as a recovery tool. The threat of promoters losing control of the company or protracted legal proceedings is forcing many corporate defaulters to pay off their debt even before the insolvency can be started. As on February 28, 2019, 6079 cases involving a total amount of ₹2.84 lakh crores have been withdrawn before admission under provisions of IBC (MCA). Further, as per RBI reports, ₹50,000 crore has been received by banks from previously non-performing accounts. RBI also reports that additional ₹50,000 crore has been "upgraded" from non-standard to standard assets. All these shows behavioural change for the wider lending ecosystem even before entering the IBC process.

3.62 Section 12A, inserted in the IBC in 2018 allows companies to withdraw CIRP proceedings with the consent of 90 per cent of FCs. In less than a year’s time, nearly 5 per cent of admitted cases (91 cases) have been withdrawn under Section 12A indicating an acceptable resolution being proposed by the corporate borrower. Out of the above, about 65 per cent cases were withdrawn on account of full/partial settlement with creditors and/or applicant.

B. Increase in the resolution of stressed assets

3.63 Before enactment of the IBC, the recovery mechanisms available to the lenders were through Lok Adalat, Debt Recovery Tribunal, and SARFAESI Act. These mechanisms are recovery focused as compared to the IBC which aims at the turnaround of the debtor while maximizing returns for the creditors. Predictably, these earlier mechanisms have resulted in an average recovery of 23 per cent to lenders as against nearly 43 per cent under the IBC. A comparison of the realization under the IBC with previous regimes is provided in Figure 18.

Figure 18: Average recovery under various recovery regimes (in per cent)

<table>
<thead>
<tr>
<th>Recovery Regime</th>
<th>Realisation %</th>
</tr>
</thead>
<tbody>
<tr>
<td>DRT, SARFAESI, Lok Adalats, etc: 2007-2017</td>
<td>23</td>
</tr>
<tr>
<td>Realisation by FCs under IBC: 2017-2019</td>
<td>43</td>
</tr>
</tbody>
</table>

Sources: IBBI and RBI.

3.64 Till March 31, 2019, the CIRP yielded a resolution of 94 cases which has resulted in the settlement of claims of FCs of ₹1,73,359 crore\textsuperscript{13}. These cases include 6 out of 12 large accounts - insolvency resolution in respect of which was initiated by banks, as per directions of the RBI in 2017.

3.65 The overall recovery in case of resolved cases is nearly 43 per cent (₹74,497 crores) to FCs. This is 194 per cent of the liquidation value (₹38,443 crore). This realisation of 43 per cent of claims and 194 per cent of liquidation value is in addition to rescue of the defaulting CDs and preventing defaults. The realisation by FCs is presented in Figure 19. Out of the 94 CIRPs which ended with a resolution plan, the resolution plan for 65 cases was approved after 270 days. Figure 20 shows break up for resolution of the cases by duration.

**Figure 19: Overall recovery by FCs in resolved cases (in ₹lakh crore)**

![Graph showing overall recovery by FCs in resolved cases](image)

Source: IBBI.

**Figure 20: Number of days taken to approve resolution plan**

![Graph showing number of days taken to approve resolution plan](image)

Source: IBBI.

\textsuperscript{13} IBBI Newsletter – March 2019.
3.66 As of March 2019, the CIRP for 378 companies ended in liquidation. The total claims on these liquidation cases are ₹2,57,634 crore. Of these, 283 companies were with BIFR or already defunct. The economic value of most of these companies had already eroded before they were admitted into CIRP. One of the key objectives of the IBC is to allow companies to be liquidated swiftly to maximize value if resolutions cannot be reached.

**Achievements and Recognitions**

3.67 As a concerted effort made in the enactment and implementation of the IBC, India improved its ‘Resolving Insolvency’ ranking from 134 in 2014 to 108 in 2019. This is a significant jump given that the country was stagnating in earlier position for many years. India won the Global Restructuring Review (GRR) award for the most improved jurisdiction in 2018. Financial Sector Assessment Program of IMF-World Bank in January 2018 observed: “India is moving towards a new state of the art bankruptcy regime. Making use of the recently enacted IBC, the RBI has identified several accounts that are non-performing and asked banks to follow up with NCLT for resolution/insolvency in accordance with the time-bound process laid down in the Code. The move is expected to make a significant dent to the quantum of NPAs starting next year.”

**Research and Training**

3.68 The future of the IBC lies greatly in the hands of young entrepreneurs, professionals, and scholars who will contribute to building a robust economic order through a dynamic insolvency framework. The government is in the process of creating a suitable architecture comprising programmes and institutions that will help in advancing this goal.

3.69 The IBBI has announced the launch of Graduate Insolvency Programme (GIP), the first of its kind, for those aspiring to take up the discipline of IPs as a career or other roles in the value chain. A student who completes the GIP will be eligible for registration as an IP, without having to wait to acquire the 10-year experience as required presently, thus opening job opportunities for the youth.

3.70 Research and constant review can identify how the framework will need to adapt to meet future challenges and help in robust policymaking. The Insolvency Research Foundation (IRF) has been established by the Indian Institute of Corporate Affairs (IICA), an autonomous body under the Ministry of Corporate Affairs, in partnership with SIPI-an industry think-tank-as an independent research centre. The Centre for Insolvency and Bankruptcy (CIB) has been set up at IICA to serve as an apex institute of learning, training, and development in the area of insolvency and its spheres of influence. Multiple Practice Chairs and Research Desks are being set up in CIB by the key stakeholders to help in deep thinking and future looking insolvency policy building for India.

**Reforms in Pipeline**

**A. Cross Border Insolvency**

3.71 In today’s world, business and trade are increasingly international. Investors and companies frequently transact business in more than one sovereign jurisdiction. For investors, banks and companies alike, it is important to know what is going to happen when things go wrong from a financial perspective in a particular country. The UNCITRAL Model Law on Cross-Border Insolvency (Model Law) is the most widely accepted blueprint to effectively deal with cross-border insolvency issues while ensuring the least intrusion into each country’s internal insolvency and bankruptcy laws. Most sophisticated economies have well-developed cross border
insolvency laws. India has initiated the steps to adopt the Model Law. A draft Bill has been placed in the public domain for discussion. Once enacted, the law will address the key tenets of cross border insolvency – access, recognition, relief, and cooperation by way of a comprehensive legislative and regulatory framework, and provide a fair, efficient, transparent and predictable mechanism to deal with cross border issues. Once enacted, the Model Law will help in increased foreign investment.

B. Group Insolvency

3.72 It is a common practice for commercial ventures to operate through groups of entities and for each entity in the group to have a separate legal personality. As long as a group of companies remains solvent, the fact the business is formally divided into several corporations is a non-issue. However, if one or more of the companies in the group become insolvent, treatment of such company or companies as separate legal personality or personalities raises a number of complex issues. Presently, the insolvency of different companies belonging to the same group is dealt with through separate insolvency proceedings for each company. A coherent approach can address information asymmetry, provide coordination and prevent delay and clogging up of insolvency infrastructure.

3.73 Recognising the need for a legal framework to deal with insolvency of group companies, the IBBI has recently set up a working group under former SEBI Chairman Mr. U. K. Sinha to recommend a complete regulatory framework to facilitate insolvency resolution and liquidation of debtors in a corporate group.

C. Insolvency and bankruptcy of individuals

3.74 Implementing insolvency law for individuals and partnership firms poses distinct challenges. The dynamics, conditions, and factors involved in the insolvency and bankruptcy of individuals without business interest and individuals who have extended the personal guarantee to corporate debtors or carry out business activities through partnership firms or proprietorship firm are likely different. Individuals with business are likely to behave in a way consistent with the classical economic ideals on which business insolvency systems are founded. On the other hand, the behaviour of individuals without business interest is expected to be somewhat informal.

3.76 While insolvent individuals face a shared core of key issues, the majority of insolvency and bankruptcy proceedings involving individuals may not involve contentious issues, voluminous stakeholders, and high amount of debt or disputes which might well be more efficiently resolved with the intervention and assistance of a trained cadre of mediators. Mediation and counselling are known practices prevalent in most sophisticated jurisdictions. Similarly, counselling is a critical component of individual bankruptcy. The Working Group is presently considering measures to provide easier access and reduce the time and cost of insolvency proceedings relating to individuals.
D. Improving NCLT capacity

3.77 While 32 Members have been appointed to the NCLT recently and 6 additional posts have been sanctioned for NCLAT, the capacity of the NCLT and NCLAT will have to review from time to time and necessary infrastructure support provided. A centralized research wing can assist NCLT to stay abreast with the international best practices. This will be more crucial with the enactment of the Model Law. Although technology is being used to an extent by the NCLT and the IBBI, it is crucial to advance the application of technology to enhance case management by the NCLT for strict timekeeping of insolvency cases. Technology can also be used for data mining and analysis for constant review of the IBC impact on the ground. IPs should be encouraged to use technology to speed up data collection and access for the purpose of efficient CIRP.

<table>
<thead>
<tr>
<th>CHAPTER AT A GLANCE</th>
</tr>
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<tbody>
<tr>
<td>➢ Monetary policy witnessed a u-turn over the last year as the benchmark policy rate was first hiked by 50 bps and later reduced by 75 bps due to weaker-than-anticipated inflation, growth slowdown and softer international monetary conditions.</td>
</tr>
<tr>
<td>➢ Liquidity conditions, however, have remained systematically tight since September 2018 (as illustrated by the LAF data) thereby impacting the yields on government papers.</td>
</tr>
<tr>
<td>➢ The performance of the banking system has improved as NPA ratios declined and credit growth accelerated.</td>
</tr>
<tr>
<td>➢ However, financial flows to the economy remained constrained because of decline in the amount of equity finance raised from capital markets and stress in the NBFC sector. Capital mobilized through public equity issuance declined by 81 per cent in 2018-19. Credit growth rate y-o-y of the NBFCs have declined from 30 per cent in March 2018 to 9 per cent in March 2019.</td>
</tr>
<tr>
<td>➢ The ecosystem for insolvency and bankruptcy is getting systematically built out with recovery and resolution of significant amount of distressed assets as well as palpably improved business culture. Till March 31, 2019, the CIRP yielded a resolution of 94 cases which has resulted in the settlement of claims of FCs of ₹1,73,359 crore.</td>
</tr>
<tr>
<td>➢ Moreover, as on February 28, 2019, 6079 cases involving a total amount of ₹2.84 lakh crores have been withdrawn before admission under provisions of IBC. Further, as per RBI reports, ₹50,000 crore has been received by banks from previously non-performing accounts. RBI also reports that additional ₹50,000 crore has been &quot;upgraded&quot; from non-standard to standard assets. All these shows behavioural change for the wider lending ecosystem even before entering the IBC process.</td>
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