Moving ahead with bank resolution

What is the issue?

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- The Insolvency and Bankruptcy Code (IBC) and the Indhradhanush scheme are rolled out by the government.
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- However, the slow pace of its progress in resolving stressed banks is getting to be a cause of concern.
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What are the government initiatives in this regard?

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- The **IBC, 2016** is the bankruptcy law of India which seeks to consolidate the existing framework by creating a single law for insolvency and bankruptcy.
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- This is to deal with insolvency resolution processes for individuals, companies and partnership firms.
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- **Indradhanush plan** is a seven pronged plan to revamp the functioning of public sector banks.
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- The seven elements include appointments, board of bureau, capitalisation, de-stressing, empowerment, framework of accountability and governance reforms.
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- The recent **Alternative Mechanism** is a framework to speed up the mergers of public sector banks.
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What issues are to be addressed?

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- **Insolvency applications** - Banks should come forward and file insolvency applications under the IBC, on their own without waiting for regulatory directions from the RBI.
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- This “pre-default” stage out-of-court restructuring, with very first signs of initial stress can make resolution process faster and simpler.
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- **Higher Provisions** - Banks should also comply with RBI directions to make higher provisions for accounts to be referred under the IBC.
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- A provision is an amount that is put aside in an account to cover a future liability.
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- Higher provisions could ensure that banks are fully protected against likely losses in the resolution process.
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- **Balance sheets -** There is a need for a more concrete plan for public sector bank balance sheets.
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- This is essential to ensure that banks withstand the losses during resolution.
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- And also to have enough capital buffers to intermediate well the huge proportion of economy’s savings that they receive as deposits.
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- **Capital infusion** There is a considerable need for substantial additional capital infusion into public sector banks by the government.
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- This is essential given the scale of NPAs and lower internal capital augmentation of public sector banks.
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What lies ahead?

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- The government has come up with various options for resolving issues like stressed assets, inefficient banks, balance sheet problem, etc.
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- However, the developments hint at a need for all these to work together to make a substantial progress in the resolution process.
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- Government should address the massive recapitalisation need of banks and

soon publicly announce a feasible plan in this regard.
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- This is crucial to provide clarity to investors and restore confidence in the markets about the banking system.
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Source: Business Standard

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