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IBC suspension gives breathing spa for firms to bounce back; NCLTs won't get clogged post upliftment: S Sahoo, IBBI

"Defaults which existed earlier continue with proceedings at NCLT. The ones which de due to Covid-19 won't come to the NCLT. The ban is precised and focused; there's unlik be a huge surge when the suspension is lifted," said M S Sahoo to ETBFSI's Amol Deth ETCFO Leadership Summit.

Amol Dethe , • ETBFSI

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Explaining why the suspension of insolvency and bankruptcy code (IB is in the right direction, M S Sahoo, Chairperson, Insolvency and Bankruptcy Board of India (IBBI) said the purpose of the code is to serve the business and economy. The idea is to rescue viable firms and liquidate unviable firms. He also explained that there's no blanket ban and the NCLTs are functioning.

He asserted the ban is for defaults arising during the Covid-19 period only which is for six months starting 26th March. He shared his perspective on the outlook ahead, NCLT capacities, bidders trying to leveraged, and renegotiate their deals. Edited Excerpts:

Dr. M S Sahoo, Chairperson, Insolvency and Bankruptcy Board of India (IBBI)

Q. What are the ramifications you see of the IBC suspension?

There are constraints on demand side and supply side but primarily on non-market factors like Covid-19 and the pandemic induced lockdown many companies are seeing receding top-line and bottom line and some of them may default in their

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debt service obligations.

Many of them who were earlier doing well are reeling under the stress today. Some of them are on the brink of default not because of market pressure but because of force majeure. But the impact of these external variables on the economy is very deep. Similar shocks of comparatively lower intensity in past worldwide we have seen and witnessed a sharp increase in filings for corporate and personal insolvency and many of them have ended in liquidation.

It becomes difficult for rescue where business has been difficult in the past three months. You can save one airline if there's another airline competing and doing well. So the prospective resolution applicants themselves are facing a liquidity crunch they're in distress.

Every firm, every industry and entire world is under distress, and if all these companies are pushed into insolvency many of them may face liquidation and natural death.

Consequently, creditors would get much less to nothing and this comprises the very objective of the code namely rescue the life of the company and maximizing the value of assets. The objective of the insolvency law is to rescue a viable firm and liquidate an unviable firm.

In the present circumstance there are two policy choices if the insolvency framework is not suspended an unviable firm would not be liquidated but if it is not suspended a viable firm will be liquidated. The first choice can be rectified in the following quarter or year but the second choice can never be rectified.

The suspension gives breathing space for companies to bounce back on their own as soon as the normalcy restores or they recalibrate their business and operations to an all new normal they may even explore innovative resolution outside the IBC code.

Though it is being made out that there's a blanket suspension, it is not so. It is very well calibrated, focused sharply on the problem.

Q. On Adopting Innovating plans, how can NCLT work in these circumstances and thoughts of IBBI on the same?

This is an independent issue than the suspension under the code. NCLTs are also working through virtual hearings though on a small scale. If you look at the number of orders, number of admissions and number of approvals are on a similar scale. They'll start at full speed virtually.

Q. What would happen if the suspension of code is revoked, will there be piling up of cases?

The ban for a year is not correct; it is not even a suspension of CIRP for six months. What has been suspended is that there will not be CIRP for defaults arising in this period which we can call it as Covid-19 period. Beginning from 26th March for a period of six months.

Defaults which existed earlier continue with proceedings at NCLT. The ones which defaulted due to Covid-19 won't come to the NCLT.

Today, there are about 3000 ongoing insolvency proceedings, 1000 liquidation proceedings, another 1000 proceedings, and around 10000 applications pending for admissions. There are also proceedings for personal guarantor.

All these continue unabated. The ban is precised and focused; there's unlikely to be a huge surge when the suspension is lifted.

Government is also working on a special resolution framework for MSMEs. There are many other options available for recovery for creditors. The timely ban is for a greater cause.

Q. How to ramp up the infrastructure of NCLT?

The Government looks into setting up of NCLTs. However what we have been seeing is they have been continuously increasing the capacity of NCLT and last what I heard was recent additions have been done and additional 15-20 members were likely to join.

There's sincerity and intention of the Government to scale up NCLT to meet the needs.

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Q. When we specifically speak about the current situation, one emerging trend is bidders who've won the bid in NCLT are trying to look at material adverse change, specifically they're trying to negotiate with creditors. Do you think this is fair?

Ideally in case of insolvency, there should be effort to reduce the time gap between approval by CoC and actual takeover, and effort is towards that direction. If you see Tata taking over Bhushan Steel, they took over within 24 hours approval of the NCLT.

There are enough safeguards in the system starting from personal guarantee, if you go back from your contract there could be criminal proceedings and consequences will follow.

Q. How do you view the entire ecosystem in coming months?

I would only say look into the past and make projections based on past track records. Government has intervened five times to deal with cross-border insolvency & resolution, undesirable persons taking over the company, making home buyers as financial creditors, bringing in section 32A to protect, and the last one of current ordinance.

Nowhere in the world in a matter of three years, 5 times parliament has bothered to intervene in this area only to indicate that when a problem arises let us intervene as insolvency issues are important.

Government came out with structures with IRPs introduction. The government is addressing all the challenges.

IBC is here to serve the economy and business. IBC has to change the course to serve what the business and economy need.

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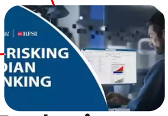

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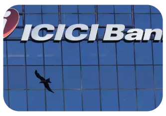

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Leveraging the "zero tolerance" approach from the aerospace indus

to fortify financial institutionsin India

Global regulators, including those in India, are focusing on the operational resilience o to ensure they can withstand and recover from disruptions, whether caused by cyber- natural disasters, or system failures. This includes implementing robust risk managem frameworks, enhancing incident response capabilities, and ensuring business continu

Brand Connect Initiative , • ETBFSI
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(Credits - Producer: Nilanjana Mookherjee & Vishal Oza; Video Editor: Jasmeet Rayat)

India has emerged as the one of the fastest growing economies in the world, propelled by a competitive business environment and technology-led innovation. The country's financial sector is rapidly evolving too. In the aftermath of recent events, there is an urgent need for robust technological infrastructure to be in place.

The financial sector plays a crucial role in the country's economic growth, driven by digital transformation, regulatory reforms, and increasing financial inclusion. The sector is marked by a strong emphasis on technology adoption, with innovations in digital payments, fintech solutions, and cybersecurity becoming increasingly important.

Regulatory pressures and the impact of recent sanctions on a leading institution have made it clear that fortifying IT systems is now a top priority for banks. Global regulators, including those in India, are focusing on the operational resilience of banks to ensure they can withstand and recover from disruptions, whether caused by cyber-attacks, natural disasters, or system failures. This includes implementing robust risk management frameworks, enhancing incident response capabilities, and ensuring business continuity.

Companies such as Dassault Systèmes are supporting global banks to achieve operational resilience. Deepak NG, Managing Director, Dassault Systemes India emphasized on the importance of the financial sector and said: “It’s a key area where new products and portfolios are generated. How we manage and support these is our focus.”

Failure not an option

Dassault Systèmes, drawing from its extensive experience in highly regulated industries such as defense and aerospace, offers a unique approach that can significantly benefit the financial services sector. By applying best practices from these industries—where failure is not an option—Dassault Systèmes enables banks and insurers to model and strengthen their operational infrastructure. This approach effectively addresses the complexities of managing operational and regulatory risks, giving financial institutions a competitive edge while ensuring their operations remain robust and efficient.

With a strong presence in Indian cities like Bangalore, Pune, Mumbai, Delhi, and Chennai, Dassault Systèmes is fostering growth and collaboration, laying the groundwork for future expansion. Deepak explains: "We started with aerospace, but now we support most industries, including manufacturing, life sciences, and infrastructure. We provide a virtual world for customers to simulate, create better products, and continue to innovate."

Addressing BFSI Challenges

India's BFSI sector has undergone significant digital transformation, but challenges like cybersecurity threats, regulatory compliance, and the need for innovation in critical areas persist. The Reserve Bank of India has increased its scrutiny of banks' IT systems due to concerns over technology-related outages. Taherah Kuhl, Vice President of Business Services at Dassault Systèmes, notes that "technology spending by Indian banks is expected to account for around 10% of their operating expenses due to the surge in digital transactions."

Path Forward

Overall, India's BFSI sector is poised for transformative growth, supported by technological innovation, government initiatives, and a focus on financial inclusion and diversity. As the digital payment ecosystem, led by platforms like UPI and IMPS, continues to expand, having the right technological infrastructure is non-negotiable. Dassault

Systèmes, through its suite of solutions and technologies, is helping financial companies enhance their operations and achieve top performance by leveraging advanced analytics, data management, and collaborative tools.

For example, Dassault Systèmes is exploring new areas to drive innovation in its products and solutions, with sustainability being a key driver in the market. The 3DEXPERIENCE platform is helping customers, even in the financial services sector; harness the vast amounts of unstructured data generated by consumers. Proper analysis of this data through advanced analytics is essential for decision-makers to make informed choices. Analytics not only helps in understanding customers better but also plays a crucial role in product design.

Also, the 3DEXPERIENCE platform integrates various aspects of business operations, from customer relationship management to product lifecycle management. This integration fosters collaboration, streamlines processes, and leads to increased efficiency and reduced operational costs.

India's financial sector is a dynamic and rapidly evolving landscape, encompassing a wide range of institutions including banks, insurance companies, non-banking financial companies (NBFCs), and the stock markets. As India progresses towards becoming one of the world's largest economies, the financial sector continues to adapt and innovate to meet the demands of a growing and diverse population.

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