TEACHING CASE LETS AND CASE-STUDY

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Case Title	**:**	**Government's Suspension of Insolvency Process Amid COVID-19**
Case Subject	**:**	**Banking**
Accession Number	**:**	**42**

Case Let Study: Government's Suspension of Insolvency Process Amid COVID-19

In response to the economic distress caused by the COVID-19 pandemic, the Indian government, through Finance Minister Nirmala Sitharaman, announced a major relief to cash-starved firms. On May 17, 2020, the government proposed suspending the insolvency process for six months, with the possibility of extending it up to a year. This decision, approved by the Union Cabinet on June 3, aimed to provide temporary relief to businesses struggling during the pandemic. The suspension meant that firms would be shielded from insolvency proceedings, particularly affecting financial and operational creditors.

Additionally, the government raised the threshold for initiating insolvency proceedings from ₹1 lakh to ₹1 crore, and exempted “all COVID-related debt” from default under the Insolvency and Bankruptcy Code (IBC). The Reserve Bank of India (RBI) also intervened by excluding the moratorium period from the classification of non-performing assets (NPAs), providing further relief to companies unable to pay their loans.

While industry experts viewed these measures positively, fearing potential long-term consequences, they also raised questions about how creditors could resolve debt issues without the IBC and what framework would work for MSMEs.

Questions (Bloom's Taxonomy-Based)

1. **Evaluate** whether you are in favor of the government suspending the insolvency process for a year. Discuss your reasoning.
2. **Describe** the process of the Insolvency and Bankruptcy Code (IBC) in detail.
3. **Analyze** what the possible resolution plan for banks could be if NPAs increase due to the COVID-19 crisis.
4. **Identify** the potential issues arising from the increased minimum default threshold to ₹1 crore and its impact on businesses and creditors.