

Going through a financial crisis? Bankruptcy protection for individuals coming soon

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Are you going through a financial crisis for reasons beyond your control and also being unduly harassed by lenders and their recovery agents? No need to worry. In a bid to help debt-laden and over-stressed individuals start afresh and repay the loan amount in a structured way, the government has started framing rules for individuals to be declared bankrupt. "This process will help them deal with a financial crisis rather than be bogged down by it," a TOI report today.

According to Nishith Desai Associates, last year, the government had notified 'The Insolvency and Bankruptcy Code, 2016 (IBC)', which consolidated all insolvency laws in India into one comprehensive code for both corporate and individual debtors. Suitable amendments and repeals were made to the existing legislations, most notably subsuming the winding up proceedings of the Companies Act, in order to streamline and consolidate the existing framework around insolvency and bankruptcy.

However, till now only the corporate sector has reportedly benefited from this law. Keeping this in view, the government has started framing rules for individuals to get bankruptcy protection and start their lives again.

Financial experts say that the law is surely a right step as it will allow individuals to restructure their life. In current times the recovery process of lenders is aimed at harassing customers and we have witnessed numerous cases where extreme situations have arrived. The Bankruptcy law will ensure that individuals, who are already stressed and going through a difficult phase of life, are able to get easy access to the legal system, thus allowing them to restructure their debt-laden life.

Countries like the US and Canada have very well-designed bankruptcy laws in place for individuals. “In the US, for instance, one can declare one’s bankruptcy and opt for the liquidation of assets or reorganization plan. Contrary to this in Canada, an individual assigns (surrenders) everything he owns to a trustee in exchange for the elimination of his unsecured debts. Here the rules for filing personal bankruptcy may differ in province or states. In some of them, an individual may be allowed to keep certain personal assets like clothing, furniture, appliances, motor vehicles, medical and dental aids, a home, family heirlooms, and some insurance,” says Jitendra P.S. Solanki, CFP & Planner for Special Needs Member Families.

However, these personal bankruptcies have a cost attached to them and in a country like Canada you have other options like consumer proposal or debt consolidation. Overall bankruptcy laws are in place in these countries which allow individuals to restart their life by eliminating most, if not all, of the debt, although their future ability to avail any credit is impacted. “In India now we are seeing the government thinking on the same lines of personal bankruptcy laws. What finally comes out and what options consumers are able to get still remain to be seen. For now, this is a welcome step as it will allow individuals to stay away from any harassment by lenders and restart their life,” says Solanki.