COVID 19 and Indian Banking Sector – An Overview

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ABSTRACT : COVID 19, which is emerged as a black swan event of the century with significant macroeconomic impact both globally and in India. Due to this pandemic, people lost their jobs, and they can't save anything, and they find it is difficult to live a standard life. The ongoing spread of the Covid-19 pandemic is disrupting the way banks operate. Banks are experiencing liquidity crunch, funding challenges, changing operating models and exposure to fraud, misconduct, and noncompliance due to COVID 19. The COVID-19 pandemic could be the most serious challenge to financial institutions. As the economic fallout spreads, banks find themselves juggling some big priorities that requires concrete steps to reposition now while also recalibrating for the future. They're working to keep their distribution channels open, despite social distancing advice and supervisory and compliance functions that were never designed for remote work. Banks are suffering a lot to manage revenue and meet customer expectations and need to keep an eye on strategy and brand issues that will define their future, as market forces and customer behaviors potentially change coming out of this crisis. The credit management system of banks mainly affected with this pandemic. Banks asset quality worsens day by day, NPA are increasing and credit cost also increasing at a higher level. In order to revive from these banks need to promote digital banking services more among its customers rather than physical visit to the banks. So all the banking services can be provided to the customers without any loss. Apart from the above RBI also announced relief package by changing asset classification and provisioning norm and through injecting liquidity in the market.

KEYWORDS : COVID 19, Asset quality, NPA, Liquidity, Digital banking

1 INTRODUCTION

Banks are the backbone of Indian financial system. They accept deposits from the public and lend it to those people who need money. Through this they bridge the gap between savers and lenders. They transfer money from surplus areas to deficit areas and maintain financial stability in the economy. Apart from individuals, banks also cater the needs of small industries, corporate etc. The deposits received from the public are used for credit creation. Banking industry faced a severe crisis in the year 2008 and after that they again back to their strong business, and now the entire world especially the financial system of the country is suffering with the pandemic of COVID 19 which has emerged as the black swan event of the century with significant macroeconomic impact both globally and in India. The exponential spread of COVID-19 has led to a significant fall in major indices, indicating its impact and potential to significantly affect GDP growth. The ongoing spread of the Covid-19 pandemic is disrupting the way banks operate. Banks are experiencing liquidity crunch, funding challenges, changing operating models and exposure to fraud, misconduct, and noncompliance due to the pandemic of COVID 19.

1.1 What is COVID 19??

Corona Virus Disease 2019 (COVID-19) is caused by Severe Acute Respiratory Syndrome Corona virus 2 (SARS-CoV-2). It was first recognized in December 2019 in Wuhan, the capital of China's Hubei territory, and has since spread all around, bringing about the continuous 2019–20 corona virus pandemic. As of 2 May 2020, more than 3.34 million cases have been accounted for across 187 nations and regions, bringing about in excess of 238,000 deaths and more than 1.05 million individuals have recovered. Common symptoms of COVID- 19 include fever, cough, fatigue, shortness of breath, and both loss of smell and taste. The time of showing the symptoms are normally around five days. However may extend from two to fourteen days.

The virus is fundamentally spread between individuals during close contact, frequently by means of little beads created by coughing, sniffling, or talking. The drops as a rule tumble to the ground or onto surfaces as opposed to staying noticeable all around over long distances. People may likewise gets tainted by contacting a polluted surface and afterward contacting their face. On surfaces, the measure of infection decays over the long run until it is deficient to stay irresistible, yet, it might be identified for a considerable length of time or days. It is generally infectious during the initial three days after the beginning of indications, albeit spread might be conceivable before manifestations show up and in later phases of the disease. The standard strategy for analysis is by continuous converse interpretation polymerase chain response (rRT-PCR) from a nasopharyngeal swab.

2 STATEMENT OF THE PROBLEM

The COVID-19 pandemic is the most serious challenge to financial institutions in nearly a century. As the economic fallout spreads, banks find themselves juggling some big priorities that requires concrete steps to reposition now while also recalibrating for the future. Banks are working to keep their distribution channels open, despite social distancing advice and supervisory and compliance functions that were never designed for remote work. This is the time, where banks are facing difficulties to manage revenue and customer expectations. And, they need to keep an eye on strategy and brand issues that will define their future, as market forces and customer behaviors potentially change as a result of this crisis.

All the banks in India now are functioning with less than 70 percent of staffs, and also the working hours are reduced to a great extent. In areas which were highly affected with COVID 19 were not in a position to open branches. This means that the services offered by banks are very limited as result of this pandemic. Most of the time customers face difficulties to undertake online banking transaction during these times. The RBI announced three months moratorium for most of the loans to be repaid by the customers as the part of COVID 19. This also creates severe impacts on the banking system of our country. So through this paper an attempt is made to study the changes that happened in the Indian banking sector due to COVID 19. This paper highlight the changes take place in the banking sector due to COVID 19 and measures taken by banks and Reserve Bank of India.

3 OBJECTIVES OF THE STUDY

- To study the major changes that take place in the India banking sector due to COVID 19
- To explore the measures taken by banks and higher authorities to revive from the situationIndia to revive from this pandemic.

4 METHODOLOGY OF THE STUDY

The study is mainly descriptive in nature. The study mainly based on the pandemic recently happened in the world from December 2019. But the severe effect of the pandemic started in India in the month of March 2020. So the study period is normally belongs to the month of March as well as April.

5. RESULTS AND DISCUSSION

Banks are suffering a lot due to the Novel corona virus outbreak (COVID-19). Borrowers and businesses faces many problems; such as loss of job, slowed sales, and declining profits as the virus continues to spread around the globe. Banking customers are likely to start seeking financial relief, and banking regulators encouraging banks to help them. In addition to manage the direct economic impact of the corona virus, banks need to have a plan in place to protect employees and customers from its spread.

4.1 Impact of COVID 19

McKibbin et al.(2020) reported that the corona outbreak created lots of loss to the economy and financial sector. Social distancing between people, and lockdown keep the people stay away from all the areas. Fernandez et al. (2020) points out that the COVID 19 negatively affected the service- oriented economies, and also created job risks. This affect GDP, supply chains, etc. and Veronica et al. (2020) also added that COVID 19 created demand supply gaps in the economy. This also creates liquidity problems, and incomplete market activities. Maria et al. (2020) added that "Corona outbreak sparked fears of an impending economic crisis and recession. Social distancing, self-isolation and travel restrictions forced a decrease in the workforce across all economic sectors and caused many jobs to be lost." These are the major impact of corona outbreak in the economy. This outbreak also affected the financial system of our country especially the banks. Mounting NPA, worsening of asset quality, decease in profits are some of them. The following session explain the impact of COVID 19 on India banking sector.

4.2 Credit Management

Credit Management is one of the important functions of banks. The outbreak of COVID 19 effected the credit management of banks to a great extent. The cash flow of many consumers and businesses were collapsed as lack of demand flows through into lower business revenues and employee layoffs. These successively will cause a rise in both commercial and retail non-performing loans, as borrowers struggle to pay the scheduled interest and principal payments.

Reports stated that "Banks within the country are likely to witness a spike in their Non-Performing Assets ratio by 1.9 percent and credit cost ratios by 130 basis point in 2020, following the economic slowdown on account of COVID-19 crisis" (Business standard, April 17,2020). The report also noted that there will be an additional USD 300 billion spike in lenders' credit costs and a USD 600 billion increase in NPA will occur in 2020, due to the adverse impact of corona virus pandemic.

4.3 Revenue Compression

In the first few weeks of the pandemic the banking industry market value fell to a lower level than during the 2008/09 crisis. This is because the market has factored in short-term revenue compression from multiple sources including:

- Lower net interest margins
- A drop in payments revenue
- A decline in trade finance and cross-border payments

4.4 Customer Service and Advice Provision

A short-term impact of this pandemic will be rapid changes in customer servicing preferences. While many bank branches will stay open as a vital service, customers are increasingly looking to run their financial life through apps and online banking. The banks have to advice customers in this behalf. They have

- Educate and train customers
- Minimize physical infection risks
- Personalize advice to consumers
- Support virtual SME relationship managers
- Accelerate digital sales and service

4.5 Operating Model Adjustments, Cost Control and Innovation

The cumulative impact COVID 19 will lead to a misalignment of short-term revenue and expenses in the banking sector. Banks expect a range of impact from a 50 – 100 percent drop in Profit Before Tax. As the demands of the next four to six months will be different from what was envisaged in the past, banks should respond with as much flexibility as possible. They need to

- Carefully consider the tasks of the 'war room'
- Review project expenditures
- Be flexible with vendors and suppliers
- Invest in things that will outlive the virus
- Short-term disruption is likely to lead to accessibility concerns and scaling-down of SME/corporate customers.
- A more prolonged crisis is likely to increase customer preference towards digital channels and products such as insurance, in addition to defaults by SMEs/corporate.
- A full-blown pandemic is likely to lead to a significant reduction in demand from SMEs/ corporate, structural shifts in customer behaviour, and transformation of employee roles and overall operating model.

4.6 Asset quality of banks

Another important area created impact in the banking sector is asset quality. According to ICRA "The banking sector which is already reeling under a multi decade low credit growth will be hit by fresh asset quality woes as loan collections will be hit as both large and small companies come to terms with the lockdown to prevent the spread of the COVID19. As per the Moody's analysis Indian banks are going to a negative growth from its stable position because of deterioration in its asset quality due to the disruption in economic activity from corona outbreak. They also said that deterioration in asset quality leads to pressure on banks profitability and capital. "The decline in economic activity and rise in unemployment will lead to deterioration of household and corporate finances, which in turn result in increases in delinquencies. This will increase risks to banks' asset quality because banks have large exposures to these sectors" (The Hindu)

4.7 Operational Efficiency.

Due to the corona outbreak many banks are not in a position to operate in the normal working hours. Some branches are fully closed due to they are comes under hotspot areas and some may reduced its working hours from 8 hours to 4 hours. Even though the banks are open, they have to run their activities with limited staffs. This will reduce the functional capacity and operational efficiency of the banks to a great extent

5 MEASURES TO REVIVE FROM THE SITUATION

Most banks have addressed the immediate challenges they have to face due to by the COVID-19 crisis – protecting staff, moving to remote working, and providing much-needed services to customers.

1. Encouragement of digital banking: Customers, who are increasingly wary of spending time in crowded public spaces, will need to have a way to conduct banking without physical interaction. By implementing completely digitized and remote customer transactions, banks can ensure that both everyday and exceptional processes will be carried out with limited disruption.
2. COVID19 regulatory package by RBI. These packages include changes in the asset classification and provisioning norms, liquidity injections etc. The RBI Governor announced a repo rate cut of 75 bps, or 0.75% from 5.15% to 4.40% as part of a series of measures taken to reduce the impact of COVID-19. The reverse repo rate was also cut by 90 bps, or 0.90%. The RBI also announced various measures aimed at injecting liquidity into the system; including conducting Long Term Repo Rate (LTRO) auctions of Rs. 1 lakh crore.

5 CONCLUSION

The COVID 19 outbreak affected the banking system to a great extent. Banks can't function properly with full core staffs as this disease spread through physical contact. As per government instructions banks are compelled to take social distancing with limited number of staffs. They also request customers not to visit bank branches unless there is an emergency. The RBI also announced three months moratorium for banks loans this affected banks asset quality, NPA level and profitability. The credit management is the most affected banking function due to COVID 19. As a revival measures banks are encouraging customers to undertake digital banking transactions which will boost banking services. The state as well as RBI introduces various regulatory packages which also helps the banks to strengthen their banking operations. Banks reported that, soon after the recovery from COVID 19 outbreak they can move to their previous position by offering quality banking services with greater customer satisfaction

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