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STATEMENT OF THE PROBLEM
OBJECTIVES
HYPOTHESIS (ES)
RESEARCH METHODOLOGY
RESULTS & DISCUSSION
FINDINGS
RECOMMENDATIONS/SUGGESTIONS
CONCLUSIONS
LIMITATIONS
SCOPE FOR FURTHER RESEARCH
REFERENCES
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IMPACT OF COVID 19 ON THE INDIAN BANKING SECTOR

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ABSTRACT
The outbreak of pandemic is definitely the worst health and economic crisis witnessed across the globe in the last 100 years. It has dented the existing world order, global value chains, capital movements, and the socioeconomic conditions of large section of the world population. Decreased productivity and lockdown have taken a toll on the corporate sector due to the pandemic. Borrowers and businesses face job losses, slowed sales and declining profits as the virus continues to spread around the globe. The RBI has taken historic measures to protect the financial system and support the economy in coping with the crisis. As community spread of the virus multiplies, alternatives to personal banking and physical exchanges are looking more attractive. This will pave way for changes like shift towards digital banking, conduct of webinars to train banking staff, measures introduced by RBI and so on. The Indian Government and the RBI have already taken precautionary measures for the upliftment of the economy through its stimulus package. In this article the author has focused on the various banking areas coming under the impact of pandemic and the measures suggested by the RBI with portrayal on a variety of literatures.

KEYWORDS
Covid-19, banking sector, lockdown, financial package from Government.

JEL CODES
E50, E58, G21.

1. INTRODUCTION
Financial sector is the backbone of the Indian economy. Their strength, agility and depth are the critical feeders for the economic growth of the country. Banking services in India is classified as the essential services sector. Banking and financial institutions were under immense pressure to ensure normal business despite the lockdown and the health crisis. The Covid 19 pandemic has changed the world with an overwhelming impact on the society and the economy. The Indian Government, RBI and other public agencies across the country have responded with novel ideas to alleviate the impact. Banking operations such as cash deposits, withdrawals, clearing cheques, and other traditional services are offered but with maintenance of social distance. Huge NPA (Non Performing Asset) backlog, slowed growth, series of defaults previously created an aftermath to the banking sector. This was backlashed by the corona pandemic. The economic impact of the Covid 19 on the Indian economy is largely disruptive. (Sandeep Kumar. et.al, 2020). The Covid crisis has brought in unprecedented challenges to the Indian economy and has paved way for the major changes in most of the operations including the banks. With economic activity almost coming to a standstill due to the health crisis, total slippages in the banking sector may rise upto Rs.5.5lakh crores in the current fiscal. Banks were already under deep stress from the FY 2016-2020 and had largely provided for the existing corporate stress and were progressing towards a moderate credit cycle. However, the pandemic has added up to the cost of the cycle. The complete lockdown situation has posed a huge threat to banking operations. In India to alleviate the risk, the RBI and the Government have taken measures like reduction in the repo rate, reverse repo rate and the cash reserve ratio. But banks have to brace up for a number of challenges at the micro level and the macro level in the post lockdown period.

The technical and operational challenges for both employees and customers showed the lacuna of our banking system in an emergency situation. This has paved way for digitization and optimizing backend operations. It will eliminate the dependency of manual entries and employee intervention with banks. Banks have temporarily deployed staff to manage customer enquiries. Several banks have made investments in technology and digital transformation in the previous years. Financial firms have implemented video collaboration tools, new chat and messaging software already. Public sector banks have got the opportunity to explore better technology integration and customer adoption. So, there is an expected wave of innovation in the future.

2. OBJECTIVES OF THE STUDY
1. To study the effect of Covid 19 on the Indian banking sector.
2. To study the various reforms introduced by RBI due to Covid 19.

3. REVIEW OF LITERATURE
- Asif Perwej (2020) in their article "The Impact of Pandemic Covid-19 on the Indian Banking System" has observed that the banks are crucial for the stability of the financial system. Covid -19 has direct impact on the economic costs of the banks. The banks may face employee shortages, inadequate digital maturity and pressure on the existing infrastructure as they provide funds for corporates and individuals. So, banks need to plan their strategies properly to protect both employees and customers as they affect their spread. The pandemic will also impact the balance sheet clean up task of the banks.
- Samudyata Kadur Shivaram (2020) "Four Impact Areas of Covid 19 on Digitization of banks in India" in this article has discussed that majority of the banking services are under pressure to conduct business as usual despite the pandemic. The operational and technical challenges faced by both customers and employees showed the lacunae of our banking system in the pandemic situation. Further with more mergers in the banking system there is a scope for digitalization and implementation of neo- technologies in the banks. With more usage of technology there is a need to improvise the security system of the digital channels in banks.
- Mahendra Dev.S and Rajeswari Sengupta (2020) in the working paper titled "Covid-19: Impact on the India economy" has compared the pre Covid period of India and the aftermaths of the pandemic on the Indian economy. The informal sector, the banking and corporate sector has been studied in depth. The impact on agriculture, MSME sector, financial markets and institutions have been analysed. The companies struggle to repay the loans and number of NPA cases increases in the banking industry. Even the NBFC (nonbanking financial companies) lending to MSME (Micro, Small and Medium Enterprises) are expected to face such financial stress. Various policies introduced by the RBI to revive credit growth, fiscal policy and monetary policy has been discussed.
- John.W.Goodwell (2020) "Covid 19 and finance: Agendas for Future research" has tried to bring out the possible impact of the pandemic on the financial markets and institutions by studying variety of literature. Pandemics increases the burden on the economic costs of the country. The rough estimate of pandemic economic losses is around 500 billion US dollars. On examining the banking sector, the author has observed the run on the banks may increase in the future. The masses who are prone to the pandemic may start withdrawal of large number of deposits. Bank lending, rural financial institutions are subject to immense pressure. Some of the other impending factors that influences the countries growth are increased cost of capital, tightened financial flexibility, negative global demand, change in consumer demand and so on.

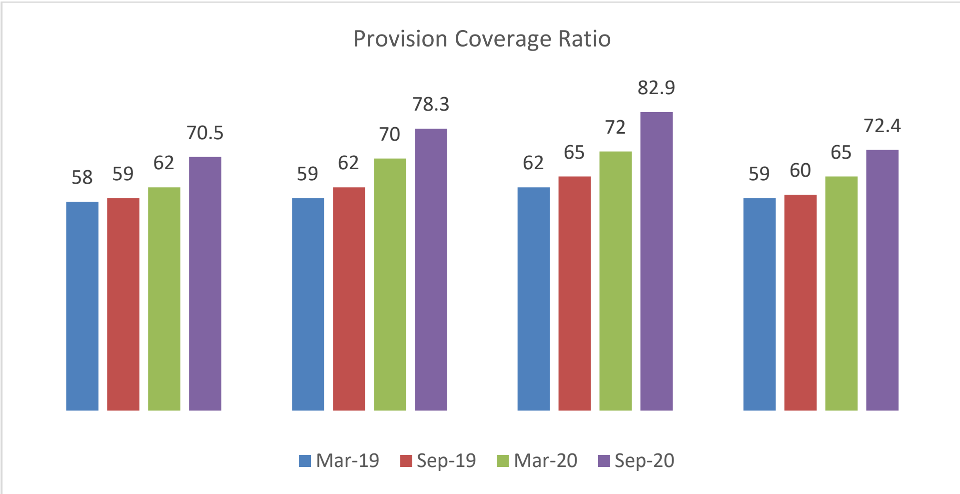
4. RESEARCH METHODOLOGY

The study is based on secondary data and is a commentary paper. Data has been collected from RBI website, RBI reports, reports, books, other websites, newspapers and magazines.

5. ANALYSIS OF IMPACT OF COVID 19 ON THE INDIAN BANKING SECTOR

a) **Asset Classification and Provisioning:** Amid the pandemic induced disorder, NPA are anticipated to upsurge with a potential impact on the capital base of the banks. With large scale disruptions, non performing asset poses a systemic threat hence sustained policy interventions have become the need of the hour. The prudential framework for resolution of stressed assets was laid down in June 2019. It aims at establishing early recognition and reporting as time bound resolution of stressed assets. Strong, robust disincentives are also provided for delays in the implementation of the resolution plan in the form of additional provisioning. The resolution framework window for Covid-19 related stress is applicable only to those borrowers who are in financial distress but were performing satisfactorily prior to the pandemic. Borrowers who were classified as standard only and had not been in default until March 1, 2020 are eligible for the resolution process. These borrowers will be continued to be classified as standard till the date of invocation of the resolution framework. Large borrowers have also commenced availing restructuring benefits extended for stressed borrowers. The Provision Coverage ratio of all scheduled commercial banks has been increased from 66.2 % in March 2020 to 72.4 % in September 2020.

CHART 1



Source: Financial Stability Report, January 2021

b) **Rise in the service charges of banks:** The operating profits of the banks have been reducing to a greater extent in India. With the continuous lockdown, businesses being severely impacted, interest income is bound to take a huge hit. Limited increase in other areas is forcing the banks to think of increasing the locker rents, service request charges, digital transaction charges and penal charges. Many more customers are expected to revisit their bank accounts that were largely dormant as government grants and financial support are disbursed through this channel.

c) **New banks:** New forms of banking such as payment banks and small finance banks are just in a toddler stage in the financial sector. With limited offers and a lean revenue stream, these banks are already burning their hands. The onset of Covid 19 for such type of banks is bearing the brunt of the lockdown as their client base are mainly from the below poverty line. This will affect their asset quality as well as recovery.

d) **Impetus to digital banking**: RBI Governor Shakthikantha Das urged the people to use digital mode of transactions from the announcement of lockdown. This will ease the completion of the transactions while maintaining social distancing norms. Digital banking is in great demand and the number of online transactions is expected to increase in the post covid period due to the convenience it offers to both customers and the banks. Digital transactions has increased by 67% in SBI(Times News, March 19, 2020).RTGS has been made available round the clock from December 14,2020. The existing system of Quick Response (QR) Codes in India, measures were taken to reinforce the acceptance infrastructure and provide better user convenience through interoperability and enhanced system efficiency. On August 6, 2020 the RBI directed all Payment system operators and payment system operators to introduce a transparent and customer friendly Online Dispute Resolution (ODR) to solve all disputes and grievances related to failed transactions on all payment systems from 1st January 2021.

TABLE 5.1: TABLE SHOWING THE DIGITAL PAYMENTS

Item	Volume (lakh)			Value (Rs. In Crore)		
	2017-18	2018-19	2019-20	2017-18	2018-19	2019-20
1. Large Value Credit Transfers-RTGS	1,244	1,366	1,507	11,67,12,478	13,56,88,187	13,11,56,475
2. Credit Transfers	58,793	1,18,750	2,06,661	1,88,14,287	2,60,97,655	2,85,72,100
2.1AePA (Fund Transfers)	6	11	10	300	501	469
2.2 APBS	12,980	15,032	16,805	55,949	86,734	99,448
2.3 ECS Cr	61	54	18	11,864	13,235	5,145
2.4 IMPS	10,098	17,529	25,792	8,92,498	15,90,257	23,37,541
2.5 NACH Cr	7,031	9,021	11,406	5,20,992	7,36,349	10,52,187
2.6 NEFT	19,464	23,189	27,445	1,72,22,852	2,27,93,608	2,29,45,580
2.7 UPI	9,152	53,915	1,25,186	1,09,832	8,76,971	21,31,730
3. Debit Transfers and Direct Debits	3,788	6,382	8,957	3,99,300	6,56,232	8,26,036
3.1 Bhim AAadhaar Pay	20	68	91	78	815	1,303
3.2 ECS DR	15	9	1	972	1,260	39
3.3 NACH Dr	3,738	6,299	8,768	3,98,211	6,54,138	8,24,491
3.4 NETC	15	6	97	39	20	203
4. Card Payments	47,486	61,769	73,012	9,19,035	11,96,888	15,35,765
4.1 Credit Cards	14,052	17,626	21,773	4,58,965	6,03,413	7,30,895
4.2 Debit Cards	33,434	44,143	51,239	4,60,070	5,93,475	8,04,870
5.Prepaid Payment Instruments	34,591	46,072	53,318	1,41,634	2,13,323	2,15,558
Total Digital Payments (1+2+3+4+5)	1,45,902	2,34,339	3,43,456	13,69,86,734	16,38,52,286	16,23,05,934

Source: Report on Trend and Progress of Banking in India 2019-2020

e) **Security, privacy and customer trust:** A steep increase in digital banking transactions brings its own problems of cyber security issues. Probable cyber risks include financial frauds, money laundering, data loss, identity thefts and privacy breaches. There is an immediate necessity for the banks to identify internal and external system to vulnerabilities. The system should be strengthened by severe Know your customer (KYC), strong customer authentication, financial grade API (Application Programming Interface), firewalls for strong and seamless transactions. Such robust initiatives can safeguard from cyberattack. Customers may seek help for short term cash management, banks need to prioritize live with video collaboration tools. RBI has intensified the multi lingual awareness campaign on safe digital banking to educate customers on safe and secure use of digital payments.

TABLE 5.2: TABLE SHOWING FRAUDS IN VARIOUS BANKING OPERATIONS BASED ON THE DATE OF REPORTING (Rs. in Crores)

	2017-18		2018-19		2019-20		2019-20 (April-September)		2020-21 (April-September)	
Areas of Operation	Number of frauds	Amount involved	Number of frauds	Amount involved	Number of frauds	Amount involved	Number of frauds	Amount involved	Number of frauds	Amount involved
Advances	2525	22558	3604	64548	4611	182117	2441	110639	1664	63950
Off-balance sheet	20	16288	33	5538	34	2445	22	2059	14	439
Forex Transactions	9	1426	13	695	8	54	3	52	1	0
Card/Internet	2059	110	1866	71	2677	129	1234	53	1244	49
deposits	691	457	593	148	530	616	274	484	245	148
Interbranch Accounts	6	1	3	0	2	0	2	0	2	0
Cash	218	40	274	56	371	63	208	24	132	21
Cheques/DDs.etc	207	34	189	34	202	39	98	13	76	48
Clearing Accounts.etc	37	6	24	209	22	7	15	6	4	1
Others	144	247	200	244	250	174	113	44	106	25
Total	5916	41167	6799	71543	8707	185644	4410	113374	3488	64681

Source: Report on Trend and Progress of Banking in India 2019-2020

f) **Training of bank employees**: There are more than 10 lakh bank employees in the country who require financial support in the form of revised wages. In the present situation such a support cannot be given to the employees. Our legal system is hardly able to cope up in the recovery of NPAs. Governmental agencies are using this as a time to run their welfare schemes like MUDRA (Micro Units Development and Refinance Agency Limited) financing. This has to be addressed immediately. In testing times like this, there is a need for professional training to improve the person's behavioural and technical skills to keep pace with the changing requirements of the banking sector. Such training has helped both the people and financial institutions. With majority of the work being carried on online, employees can explore new roles and avenues to pursue in their current or new sectors. So, the training program must provide more practical inputs to provide the banking fraternity to tide over the current storm.

g) **Industrial Credit:** Continuous lockdowns has prompted in disruption in supply chains, most businesses will witness a longer working capital cycle. The economy gradually has to come out of this crisis, there will be sufficient production capacity but the availability of the working capital may act as the lubricating oil to keep the machines working or an impediment in that process. Medium level businesses are likely to keep a higher buffer of current assets like raw materials and inventories. Businesses will keep more of their assets in liquid funds, sacrificing their returns on assets. Hence for all these reasons banks are likely to witness significant increase in demand for working capital finance, cash management, trade finance and transaction banking products. Big corporate companies are likely to keep committed but may leave undrawn credit lines, so bank's asset liability management has to be more dynamic. The current focus of the economy is on stabilization of existing operations, conservation of liquidity to meet the demand for term loans. Term loans for refinancing and core working capital requirement will continue to be in demand. Small and Medium Enterprises (SME) is the backbone of the Indian economy but are bearing the brunt of the current situation with respect to raw materials, supply chain, customers, employees, working capital. SMEs need to work hard to come to a normal situation. Banks which deal with such SME clients will see a big demand for funds and other banking services. There will be a suppressed demand for auto loans and personal loans at the present moment but banks have to be prepared once the situation normalizes. Credit to industry contracted by 1.3% in January 2021 as compared to 2.5% growth in January 2020 mainly due to contraction in industrial credit to large industries by 2.5%. (RBI Website)

h) **Increase in Deposits than Credit disbursed**: Economic activities have dried up knocking a stop board to banks loan business. According to the RBI statistics the loans and advances disbursed was Rs.102 lakh crores while the number of deposits received was Rs.143 lakh crores in September 2020. The ideal credit-deposit ratio is around 80-90% in an economy. Credit shrinkage adversely affects the income of the banks. So, the banking sector needs to restructure its loan and investment portfolio for a moderate profit. Banks can explore new areas to lend and adopt development banking to nurture the credit absorption capacity to different sectors.

i) **Agricultural credit:** Finance for agriculture has been growing from the past 15 years due to the introduction of Kisan Credit Card program. By March 2020, the outstanding credit from agriculture was Rs. 11.69 lakh crores. But this share is relatively less when compared to the GDP of our country. During the year 2019-2020 majority of the banks found it hard to reach their priority sector lending targets. Even to this day small and marginal farmers are dependent on informal sources of finance for their agricultural needs. As of August 2020, around 30 million farmers have received a moratorium on their agriculture based loan. Since banks do not provide a fresh loan facility when the first one is outstanding it is a difficult situation to obtain a second loan for the kharif crops. The merger of many public sector banks has also added to the woes as staff have not been allocated to the rural branches.

5.1 MEASURES TAKEN BY RBI TO COMBAT COVID 19

In the wake of the pandemic, RBI has come out with various measures to help the retail as well as institutional players in the Indian market. Some of the measures are as follows:

- The RBI has allowed a moratorium period on payment of all instalments due between March 1,2020 to August 31,2020. This facility has to be granted by all commercial banks, nonbanking financial companies, all India financial institutions. The RBI has further allowed the lending institutions to defer the recovery of any applicable interest in the working capital facility sanctioned during the above-mentioned period. The accumulated accrued interest is to be recovered immediately after the completion of the period. The moratorium/deferment /recalculation of the drawing power is not to be treated as a change or concession in the terms of the loan agreement due to the financial difficulties of the borrower. Hence the asset should not be downgraded for asset classification.
- Lending institutions have been asked to recalculate their respective drawing power by reassessing their working capital cycle and /or by reducing their margins in respect of Cash credit or overdraft facility to their borrowers who are facing the stress of the pandemic.
- No further dividend payout from profits pertaining to the financial year ending on 31st March 2020 by scheduled banks and co-operative banks is allowed until future review in September 2020.
- Liquidity Coverage ratio has been reduced to the extent of 80% and will be gradually restored back to 100% by April 2021.
- Exemption from reporting of defaults to credit bureaus during this moratorium period.
- In respect of loans given to real estate projects the date for commencement of commercial operations can be delayed by one year without treating the same as restructuring.
- With respect to short term loans given to farmers on agricultural crops a moratorium period of three months has been granted in case the instalments are due during March to August, 2020.

6. THE WAY FORWARD

Despite the impact of the pandemic the financial system of the country is functioning without any hindrance. The economy has already started giving indications of normalcy to the staggered ease of restrictions. In the vastly different post Covid global economy, reallocation of factors of production within the economy and innovative ways of expanding economic activity may lead to emergence of new growth drivers. To preserve the financial stability, confidence and trigger growth the RBI is making continuous assessment of the changing trajectory of financial stability risks and upgradation of the supervisory framework. Banks and financial intermediaries have to be extra cautious and substantially upgrade their capabilities towards risk culture, assurance, governance and functions.

7. FINDINGS OF THE STUDY

- Banks dealing with SMEs can witness a huge demand for funds and banking services as they supply spare parts/products to big companies.
- The number of NPA (nonperforming assets) cases is on an increasing trend. The loan moratorium extension may pave way for a greater number of NPA cases in this year particularly in the MSME, tourism sector. This is supported by the increase in number of applications received from MSME sector for restructuring of loans.
- The Indian Government and the RBI has brought in substantial liquidity into the system to enable the availability of requisite credit to corporates and individuals. This will reduce the interest rates and this trend has already set in.
- Service charges, locker rent, SMS charges of banks is expected to rise in the future
- Poor asset quality and the recovery of loans determines the survival of new payment banks and small finance banks.
- There is an increase in the adoption of self-service technology by the general public. Increase in number of fraud cases has prompted for usage of firewalls for seamless transactions, strong customer authentication and so on.
- Bank employees are to be trained to handle the current condition. This program requires to cover many practical inputs to provide the banking fraternity to tide over the present storm.

8. SUGGESTIONS OF THE STUDY

- Small finance banks have been reporting relatively less NPA when compared to the public sector or private sector banks. Banks need to increase the steps of follow up of the loan issued to the customers. An increased usage of the artificial Intelligence to detect the stressed assets in the first instance can protect the banks from the NPA crisis.
- Banks need to take additional security for the credit disbursed and the value of the assets needs to be checked frequently. In case the account becomes a stressed asset also then banks can go for the sale of the pledged asset and make good for the loan account. Along with this the complete details of the customer must be obtained before the disbursal of the loan.
- On a bigger scale financial penetration and reduced customer interaction banks can utilize this opportunity to use data to personalize customer experiences, recommendations and services. Banks need to have a complete view and invest on different channels of digital banking to retain existing customers and attain new ones. Further banks need to identify the early adopters using analytics and helping them to shift to self- service channels.
- Banks need a robust digital learning and development platform to train the new/old employees even in a lock down situation. Financial institutions are exploring multiple options like micro skilling, upskilling, reskilling and hiring new talent as they have to respond to new shifts in customer demand, heightened expectations for paperless servicing and remote advisory. According to the need of the hour a different mix of full and part time positions to work schedules has to be set up based to the daily demand.
- In case of MSMEs, the Covid related resolution framework is in line with the MSME restructuring package announced earlier in January 2019. So, public sector, private sector banks can come forward to extend the support to these organizations

9. CONCLUSION

The RBI has come up with financial packages to bring back the economy to normalcy. Majority of the measures introduced by the RBI are a part of the Relief package already announced by the Central Government. Though these measures/packages have been adopted and implemented by the RBI yet it is temporary arrangement. These measures have been effective to stabilize the volatile situation going on in the financial market. The pandemic is spreading drastically across the length and breadth of the country, both borrowers and lenders should be watchful for the various compliance requirements and take appropriate steps to fulfil such obligations in a timely manner. Usage of currency notes has increased the risk of the spread of the pandemic, so there is an urgent need to incentivize digital payments as this will be an effective solution in this situation.

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