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## **STUDY THE EFFECT OF COVID-19 IN INDIAN BANKING SECTOR**

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### **Abstract**

The havoc created by the world-wide pandemic COVID-19 toppled the complete economic status of the world. Perhaps the most tragic period of history human has ever seen. Whether it's developing country, under-developed or world's most powerful economy for that matter, no country escaped safe from its brunt. The economy has been extremely affected due to COVID-19 Pandemic. Reserve Bank of India; the Apex bank of India made necessary changes with the help of expert in their policy for facing COVID-19 pandemic. Entire Indian Banking sector faced and continue to face many challenges such as liquidity issue, Reserve Bank Of Indian reduced REPO rate to name a few. Since people are struggling to receive income, Reserve Bank of India decided to provide concession for paying EMI from customer by increasing the period for re-payment. The objective of the research paper is to study the changes RBI bought in its policy due to COVID-19 and also in general how COVID-19 has impacted the Indian Banking Sector. Further the solution is proposed for Indian Banking system to tackle the losses due to COVID-19 Pandemic. The research found that Indian Banking system has added various measures due to COVID-19 Pandemic to make Banking system smooth and effective. Most of the Indian Banks were facing the problem of NPA, Non recovery of loan, customer frauds, Bad Loans etc. and to add on to it COVID-19 has expedited the collapse of Indian Banking business. No doubt banks are established in India with a fundamental purpose to make profit by giving expected comfort to customers. But Covid-19 has changed the scenario of Indian customers. Due to shut down of businesses income source of the people came to halt. Then where lie the scope of availing loan and repaying with interest. These challenges our Indian banks are facing in current pandemic situation.

### **1. Introduction**

Indian Banking system continuously framing reforms to minimize the effect of COVID-19. As total world suffering from COVID-19 Pandemic. It will change the way the world works. It creates great depression. The Corona virus disease first time identified in Wuhan, the capital of Hubei China in December 2019 and spread to the overall world. After observing its infection and increase the rate of death World Health Organization declare as Pandemic on 11<sup>th</sup> March 2020. As seen current situation India is Widely affected from Corona virus. According to WHO currently confirmed cases of COVID-19 have been 7,273,958 reported in the World including 4, 13,372 deaths. In India 1, 37, 448 active cases of COVID-19, out of that 8,102 deaths declared as a government of India. Total world go into recession from COVID-19. In India it's impacted all the sector. Continuously rise in unemployment, High stress incurred on supply chain management. Completely decreased the Government revenue. Suddenly downfall in Hospital and tourism industry. Reduced in consumer buying activity. Drastically reduced in fuel consumption activity. Big companies in India like TATA Motors, BHEL, Aditya Birla, Larsen and Turbo reduced their Industrial operation. Indian Banking sector get affected from Corona Pandemic. Banks get outbreak due to novel Corona Virus. Borrowers and Industries face the dangerous problem like job losses, slowdown in sales and decreased in the profit as virus spread in overall India. Banking customer wanted some financial relief and Reserve Bank of India encouraging national banks to provide the relief by framing good banking policies towards customer. For security issues amongst employees it was decided to give facility for employees to work from remote areas. World health Organization

(WHO) has advised people to use contactless payment and avoid handling banking note as much as possible. As it was found that Corona virus live in Banking Notes for days and accelerating spread of the disease. One of the good reform started in India due to Corona virus is banks are anticipating this shift towards Digital Marketing. Now in India people rely on Online Banking, Telephone Banking and call center. HSBC Banks in India started working by dividing the people. At Bank level problem of Non-Performing Asset has increased. Spike Increased on NPA in India. Currently NPA rate in India similarly to china like 2% but the credit costs ratio could be worse. Indian Banking System converted from stable to negative, as continuously disruption in economy activity caused by the COVID-19 pandemic and a decline in asset quality. From the research it was known that quality of the asset continuously goes down from corporate Small and Medium Enterprises (SME), and retail segment for lending to pressure on profitability and capital for lenders. Reduced productivity and lockdowns have already started to take a toll on the financials of the corporate sector. Indian Banks face so many challenges due to COVID-19 Pandemic. The total operating environment is negative due to uncertainty surrounding the severity and duration of the pandemic and the associated effects on India's bank of restrictions on economic activity. India's Bank already faced weak business and consumer confidence. Global risk aversion has hit the Indian Financial Market.

Reserve Bank of India is the apex body of India. RBI frame the monetary policy and give guidance to all public sector and private sector banks. RBI issue the Bank notes and keeping of reserves with a view to securing monetary stability in India and operate currency and credit system in India. RBI maintain price stability while keeping growth of the country. Reserve Bank Of India announce COVID-19 Regulatory Package for all commercial banks (including Small Finance Bank, Local Area Bank, Regional Rural Bank), All Primary (Urban) Cooperative Banks / State Co-operative Banks/ District Central Co-operative Banks All All-India Financial Institutions, All Non-Banking Financial Companies (including Housing Finance Companies).

COVID-19 created crises in India overall 1.5 trillion revenue loss. 20 to 25% reduction in refinery utilization. Fall in production due to shutdown, import restriction and labor unavailability. 35-40 % reduction in refinery utilization. Slowdown in pharmaceutical sector due to restriction in import. Closing the business of small and medium dealers. Sharp decline in renewable energy sector due to lack of competitive price. Reduction and postponement in capacity additions due to financial viability concern and global supply chain disruptions.

Government & RBI are continuous in action mode for providing relief to the people. Government has announce 1.7 trillion package for the poor people who needs money for their livelihood and food security. Many corporate employees lose their job due to COVID-19 Pandemic. Government are continuously forming economic measure and strategy so the unemployment rate will reduce. Government has also given instruction to many welfare agencies in India for strengthening their self and to support the society for upliftment. Government also give concentration on municipal party. Grampanchayat for knowing the root cause and find out the solution for minimizing the problem. Government also give emphasize on priority sector like hospital, schools, service sector who takes loan from bank and they need support for survival.

### **1.1 Short Term Disruption in Indian Banking due to COVID-19 Pandemic.**

1. Inability to access the data / Infrastructure, leading to reduce serviceability.
2. Temporary correction in valuation of FIIs, with an expected reduction in returns
3. Difficulty in accessing branches for routine operation
4. Default in loan payment
5. Scaling down of non essential operations
6. Significant reduction in domestic and cross border trade

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## **1.2 Prolonged crisis in Indian Banking due to COVID-19 Pandemic**

1. Increasing preference for distributed workforce shared services
2. Raising need and preference for digital transactions
3. Growing preference for health and life insurance policies
4. Accumulation of surplus capital due to limited deployment opportunities
5. Increase loan defaulters due to reduce revenue and margin

## **2. Review of Literature**

Covid-19 Virus starts spread up in the world from 1st December 2019, Many of the researcher starts writing on the research article related to Covid-19, Their Effect on word economy, Covid-19 effect on Indian economy, How the human beings psychological become weak due to Corona Virus..

Research is publish In January 2020 made by Pramath Kakodkar, Nagham Kaka, M N Baig. The research is based on “Clinical Course and Management of the COVID-19 pandemic. Due to COVID-19 Pandemic how the multiple parameter of the clinical course & management of the COVID-19 need optimization. From the social media, misinformation passed out to the people Research paper emphasize on what are the true guidelines for taking measures from COVID-19, what preventive measures suggested by World Health Organization, How the people become mentally fit from this COVID-19 phobia.

Research is published on June 2020 “Literature Review of the Economics of COVID-19”, by Abel Brodeur David Gray, Anik Islam, Suraiya Jabeen, The research paper is focus on to survey the emerging & rapidly growing literature on the economic consequences of COVID-19 & government response. How much death cases occurred due to COVID-19, How many people follow social distancing as preventive measures. How the word is change due to this pandemic. What are the effect of COVID-19 pandemic in service sector?

Research paper is published in June 2020 on the title of “Covid-19 Pandemic And Lockdown Impact On India's Banking Sector: A Systemic Literature Review”, the paper emphasize on impact of Covid-19 pandemic on Banks, NBFC, Educational Institution, Public & Private offices, suspension of means of transportation. What are the severe effect of COVID-19 in economy are described in the research paper. Research paper is published on the title “Analysis of Banking Sector in India: Post Covid-19” dated Sept 2020 by Ashish Bagewadi & Dewang Dhingra, this paper emphasize on pre & post effect of COVID-19 in Banking sector along with that what are the effect of COVID-19 on environment is publishes on research paper.

Research Paper published on June 2020 on the title of “A study on impact of COVID-19 on banking sector: An Indian Perspective. Research paper is emphasize on decrease in productivity of the corporate, Supply chain disruption, Manufacturing Hindrances & crippled health systems. Banking & Financial system suffer from losses. Increased in Bad loan, reduce income of tourism entertainment sector etc.

Research Paper is based on The Impact of COVID-19 on Financial Markets, Banking Systems, and the Overall Economy published on June 2020. The paper emphasize on what are the effect of COVID-19 on fiscal policies, why the financial market go down what are the changes in banking policy, why the economy is slowdown etc.

## **3. Research Methodology**

Research is based upon effect of COVID -19 in Indian Banking Sector. As total world is suffering from the worst situation. Indian Banking also affected. People repaying capacity of loan get reduced. GDP of India got down. Economy progress of India got lower. Indian Government along with Reserve Bank of India is continuously in the process of developing new policy which help to reduce impact of COVID-19.

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**Following are the objectives of Research Paper**

1. To study the Change in RBI policy due to COVID-19.
2. To study the effect of COVID-19 in Indian Banking Sector.
3. To find out solution for Indian Banking system to face COVID-19 Pandemic.

The Research is based on the secondary data. For the Research paper data is collected from Reserve Bank of India Website, Reserve Bank of India Manual, Guideline provided by RBI in their manuscript, Books, Internet, Magazines and Newspaper.

**4. RBI Reforms In India**

**4.1 COVID -19 –Regulatory Package**

By RBI Circular announced certain regulatory measures for overcoming from the COVID-19 Pandemic Disruptions by forming provisions and Asset Classification Norms. In Announcement they declare providing relaxation in repayment of debt and improving access to working capital management along with that RBI focus on prevention of financial stress to the business holders, so that they continue their business in favorable environment.

**(i) Rescheduling of Payments – Term Loans and Working Capital Facilities**

For reducing the effect of COVID-19 Pandemic all commercial Bank (including regional rural bank small finance bank and local area bank), co-operative bank all India Financial Institution and Non-banking Financial Companies (including housing finance companies) (“lending institutions”) are allowed to provide relaxation for next 3 –Month i.e. 1<sup>st</sup> June 2020 to 31<sup>st</sup> August 2020 in payment of all Equated Monthly Installment (EMI) in respect of term loan that includes agricultural term loan, Retail Loan, and crop Loan. For schedule repayment such loan has residual tenor will be shifted to the board. Interest will continuously accrue of the term loan during moratorium period.

In respect of **working capital** facilities Reserve bank of India decides to sanction in the form of cash credit and Overdraft. Commercial Banks decides to relaxation in payments for another 3-Months from 1<sup>st</sup> June 2020 to 31<sup>st</sup> August 2020. On recovery of interest applied in respect of all such facilities. Financial institutions are permitted, at their prudence, to convert the accumulated interest for the postponement period up to August 31, 2020, into a funded interest term loan (FITL) which shall be repayable not later than March 31, 2021.

Banking Industry suffering from stress as strong industry downturn and business closure. As a result structural shift in banking policy and industry

**(ii) Provisions in Making Working Capital Financing**

Reserve Bank of India provide the facilities to pay the working capital loan in the form of Cash Credit or to borrowers and minimizing stress of financial institution. This step has taken by RBI as a measure for facing COVID-19 Pandemic.

RBI declare recalculate the ‘drawing power’ by reducing working capital margin till August 31, 2020. This temporary arrangement done by reserve bank of India till 31<sup>st</sup> March 2021.

Reserve Bank of India continuously take the review for sanctioning working capital limits up to 31<sup>st</sup> March 2021, based on Reassessment of working capital cycle. The above measures will be contingent on the financial institute satisfy themselves that the same needed on account of the economic fallout from COVID-19 pandemic. Further, accounts provided relaxation under these instructions shall be subject to subsequent supervisory review with regard to their justifiability on account of the financial economy fall down from COVID-19 pandemic. Financial Institutions worked accordingly the policy that are framed by the board of Reserve Bank of India.

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### **(iii) Asset Classification**

Reserve Bank of India decides to convert accumulated Interest into Funded Interest Term Loan and change the credit policy of the borrower to particularly overcoming from COVID-19 Crises. RBI work on resolution of stressed assets as direction getting from 7<sup>th</sup> June 2019 in prudential framework and relatively will not result in downgrade of Asset Classification

In respect of account classified standard on February 29 2020, even if past due the COVID-19 Pandemic period. Wherever granted in respect of term loans, will be excluded by the financial institutions from the number of days overdue for the purpose of asset classification under the Income Recognition and Asset Classification (IRAC) norms. The asset classification for such accounts will be identified on the basis of revised due dates and the revised repayment schedule.

Similarly, in respect of working capital facilities sanctioned in the form of cash credit/overdraft (“CC/OD”), where the account is classified as standard, including Special mentioned Account?

### **4.2 Financial Institution form the reforms for Business Continuity.**

1. Financial Institute provide COVID-19 insurance to the customer for facing unpredicted circumstance.
2. Financial Institution giving loan term relaxation to the public.
3. Financial institution work on data partnership for trade finance.
4. Financial institute provide plug and play non-financial services for Small Manufacturing Enterprises.
5. Financial Institute work on to form comprehensive digital platform for customer service.
6. Financial Institute provide digital trade financing to the customer for giving effective service.
7. Financial institution work on “Home Delivery of cash”
8. Financial Institute also work on Revamping of their Internal System. Migration to cloud system to enable employee remote access.
9. By Managing Talent-Given assurance to employees for job security.

### **5. Findings**

1. Government take initiative by announcing Rs. 1.7 trillion relief package for the poor people that includes cash transfer and food security
2. Financial Institution declare larger corporate bail out packages
3. Government Introduce emergency / drastic measures for economic survival.
4. Indian government strengthening administrative machinery to effectively distribute benefit of welfare program.
5. Indian government Increasing empowerment of local bodies for effective crisis management of crisis.
6. Government push priority sector by providing lending from banks.
7. Reserve bank of India provide 3-Month Moratorium period for paying term loans
8. Reserve Bank of India provide relaxation in Asset Classification Norms to the public and private sector Banks.
9. RBI gives the guidelines for institution of operating limits for customers for structural strengthening
10. Reserve Bank of india reduced REPO Rate by 90 BPS.
11. RBI Reduced further REPO Rate by 2-3%
12. Reserve Bank of India Sustained REPO Rate reduction to near zero level.
13. RBI work on through 25000 carorers. Long Term Repo Operation(LTRO)
14. Reserve Bank of India make further infusion of domestic liquidity through dollar SWAPS LTRO.

## **6. Conclusion**

Financial Institution facilitate a conducive healthy environment to the employees and reskilling of the employees on new processes for ways of working. They enhancing customer centric approach through digital channels. RBI frame the policy for ensuring business continuity, Engage in partnership to optimize process and enhance experience. Reprioritize sectors and customer segment based on growth and risk profile. As situation change due to COVID-19 pandemic government encouraging people to design innovative business model for the new industry environment. Focusing on build robust digital ecosystem leveraging latest technology.

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