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A STUDY ON IMPACT OF COVID-19 ON INDIAN BANKING SECTOR

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Abstract

Pandemic COVID-19 slump the complete economic status of the world. Perhaps the most tragic period of history human has ever seen. Developing country or under developed country, no country escaped safe from its brunt. The Indian economy has been particularly affected due to COVID-19 Pandemic. Indian Banking sector faced and continue to face many challenges. Government and RBI made necessary changes in their policy with the help of reforms for facing COVID-19 pandemic. The objective of the research paper is to study the situation of Indian banking sector during covid-19 and the reforms RBI bought in its policy due to COVID-19 and also in general how the Indian Banking Sector is affected by COVID-19. It's true that banks are established in India with a primary purpose to make profit by giving expected services to customers. But Covid19 has changed the scenario of Indian customers. Due to lockdown and shut down of businesses income source of the people came to close down. These challenges our Indian banks are facing in current pandemic situation.

Keyword: Banking, Covid-19, RBI, Lockdown

1. Introduction

The corona virus epidemic has hit millions of lives with thousands of deaths across the world. The rising threat of corona virus continues increasing as everyday new cases are coming out. The Corona virus disease first time identified in Wuhan, China in December 2019 and spread to the overall world. After observing its infection and increase the rate of death World Health Organization (WHO) declare it as Pandemic on 11th March 2020.As seen current situation India is extensively affected from Corona virus. Total world goes into recession from COVID-19. In India, COVID-19 impacted the entire sector. In a report published by the RBI, states that corona virus has impacted better companies, organizations and businesses that were performing well before this pandemic.

Indian economy basically depends on the three sectors namely primary sector, secondary sector and tertiary sector and all the three sectors are being majorly supported by banking sector (Singhal, Goyal & Singhal, 2020; Singhal, Goyal & Singhal, 2021). Banking sector is providing the financial support to all these sectors by disbursing loans, advances, short term credits, issuing letter of credit, bank guarantees etc. as its traditional work. The new phase of Indian Banking resembles in work like providing forex support, digital banking, e-commerce, telebanking, e-kiosk and many more. If banking sector gets impacted by any obstacle its consequences will definitely be borne by all these three sectors which are pillar of the Indian economy.

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. 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 associated effects on Indian bank of restrictions on economy activity.

2. Research Methodology

Research is based upon effect of COVID -19 in Indian Banking Sector. 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.

3. Objectives of the Study

1. To study the impacted area of COVID -19.
2. To study the effect of COVID-19 in Indian Banking Sector.

2. To study the Government and RBI Reforms due to COVID-19.

3. To find out solution for Indian Banking system to face COVID-19 Pandemic.

4. Impact areas of Covid-19

Banking operations such as cash deposits, withdrawals, clearing of cheques and other traditional teller services had to be executed by maintaining a safe distance of at-least a meter. The operational and technical challenges for both the customers and employees highlighted a deficiency and the general lack of agility in our banking systems when faced with an emergency situation. The immediate learning's from the current COVID-19 situation is to shift towards digitizing and optimizing the bank's backend operations. This will eliminate the dependency on manual entries, person led reviews i.e., paper and employee intervention within banks.

The COVID-19 situation will not only accelerate the adoption of technology, but will renew focus on key areas of banking:

- **Implementation of New Technologies** – In the consequences of the pandemic and economic uncertainties, budding technologies will play a key role in speeding up transactions and reducing costs for banks. Indian banking sector has realized the role of technology in achieving the success. It predicts higher rates of adoption of micro service building by dropping vertically integrated loads. These new technologies will play major roles in digital transformation of Banks and Financial Institutions.
- **Channels of Digitization** – As per the 2017 global index report by the World Bank, India is home to the world's second largest unbanked population at 190 million adults without access to a bank account. With increased access of mobile and Internet, the primary focus would to accelerate technology enabled digital financial inclusion. The business focus would also be to create a steady shift in customer preference from visiting bank branches to using digital channels. Banks will enable its customers to interact over multiple automated and digital channels to offer the optimal channel mix.

Banks will consider important factors such as demographics, access to internet, last mile connectivity, customer banking behavior patterns etc. to enable effective adoption by the Indian banking consumers.

- **Security, Privacy and Customer Trust** – According to RBI, for the financial year 2017-18, India's banking sector witnessed a spike in cyber frauds and pegged the losses at $ 13.7 million. With increased use of cashless and digital economy, it will be imperative for the banks to implement secure frameworks and systems. Some of the obvious cyber risks include financial frauds, money laundering, data loss, identity thefts and privacy breaches. Banks need to take strict steps to identify both internal and external system permeability. They should be technically strengthened by rigorous KYC, strong customer authentication (SCA), financial grade APIs, firewalls, smart networks, etc., for secure and seamless transactions.
- **Policy and Compliance** – The focus should be on increased digital payment infrastructure, especially in rural India, with an intention to create a financial ecosystem for the unbanked and under-banked population of our country.

5. Government and RBI Reforms in India

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 Cooperative Banks All All-India Financial Institutions, All Non-Banking Financial Companies (including Housing Finance Companies). Government has announced 1.7 trillion packages for the poor person who needs money for their livelihood and food security. Many corporate employees lose their job due to COVID-19 Pandemic.

The Government is 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 gives concentration on municipal party. Gram panchayat for knowing the basis cause and determine the answer for minimizing the matter. Government also gives emphasize on priority sector like hospital, schools, service sector who takes loan from bank and they need support for survival.

The Government of India and RBI has introduced various economic and monetary stimulus measures to bridge over the COVID-19 crisis. To navigate through these unprecedented times the BFSI needs to focus on liquidity, credit risk, wellbeing of its employees along with the quality of financial reporting and disclosures. The COVID-19 would impact the financial statements of the entities in the financial services in the areas of business model assessment, post balance sheet events and certain other key areas. The Reserve Bank of India has taken certain measures to give some relief to the lending institutions in the areas of liquidity, regulation and supervision, and financial markets. In light of these measures, banks need to consider financial and reporting considerations around going concern, liquidity and credit risk assessment, etc.

- **COVID -19 Regulatory Packages**

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.

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. 1st June 2020 to 31st 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. In schedule repayment such loan's 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. Banking Industry affected by stress as strong industry downturn and business closure. As a result, structural shift in banking policy and industry.

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 n" by reducing working capital margin till august 31, 2020.This temporary arrangement done by reserve bank of India till 31st March 2021. Reserve Bank of India continuously take the review for sanctioning working capital limits up to 31st 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 policies that are framed by the board of Reserve Bank of India.

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 7th 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.

6. Reforms by Financial Institution

Financial Institutes provide COVID-19 insurance to the customer for facing unpredicted circumstance. Financial Institutions are providing loan term relaxation to the general public. They're performing on data partnership for trade finance. They're performing on to make comprehensive digital platform for customer service. Financial Institutes provide digital trade financing to the customer for giving effective service. they're providing "Home delivery of cash". Financial Institutes also performing on Revamping of their Internal System. Migration to cloud system to enable employee remote access. they're Giving assurance to employees for job security.

7. Findings of the study

Government is taking initiative by announcing relief package for the poor folks that includes cash transfer and food security within the country. Government Introduce emergency / drastic measures for economic survival. Government is pushing priority sector by providing lending from banks. Financial organization declared larger corporate bailout packages. Indian government strengthening administrative machinery for effectively distribution of advantage of welfare program. Indian government is functioning on increasing empowerment of local bodies for effective crisis management of crisis.

Reserve bank of India gives the rules for institution of operating limits for patrons for structural strengthen. RBI provide 3-Month Moratorium period for paying term loans. Federal Reserve Bank of India provide relaxation in Asset Classification Norms to the general public and personal sector Banks. Federal Reserve Bank of India reduced REPO Rate by 90 BPS. RBI Reduced further REPO Rate by 2-3%. Reserve Bank of India Sustained REPO Rate reduction to close zero level.

8. Conclusion

Banks will operate during an economic system that's awash with liquidity and interest rates are extremely low. The government are going to be a key player within the financial sector, both as a borrower (to fund its deficit) and as a "risk absorber" providing guarantees, back-stops and more direct fiscal support for borrowers whose businesses and cash flows bear the brunt of the virus. This brings us to the related issue of how banks' loan books are likely to seem within the future since major economic upheavals invariably cause an escalation in risk perception and a flight to quality. RBI frames the policy for ensuring business continuity, engage in partnership to optimize process and enhance experience. Reprioritize sectors and customer segment supported growth and risk profile.

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