INDIAN BANKING SECTOR IN THE ERA OF COVID-19 PANDEMIC

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Abstract:
The COVID-$_{19}$ pandemic has hit millions of lives globally. Such corona virus is an unprecedented challenge for our society. It has adversely affected the different sector of the country as well as the global economy. The consequences of such pandemic are unpredictable. So many sectors including banking sector which were performing well before the pandemic are now have been pulled down due to such pandemic. The growth rate of the economy has also came down. So, it becomes necessary to analyse and cater the data about different sectors which are badly affected by the pandemic. Banking is one of the most important sectors of any economy as it plays a crucial role in economic growth of the country. Entire Banking sector throughout the world is facing challenges like Non Performing Assets (NPA), customer frauds etc. as the business income comes down and people are struggling to get source of income due to lockdown. Therefore, central banks of various countries have already intervened and using all possible measures to calm markets. In India the RBI had made necessary changes to face COVID-$_{19}$ pandemic situation e.g. reduction in repo rate, increase in the period for repayment of easy monthly instalments (EMI) etc. This paper focuses on impact of COVID-$_{19}$ on banking industry of the country and changes made by RBI in its policy to overcome this situation. This has been done with the help of secondary information available. Further the proposed solution required for smooth and effective functioning of banking sector are also highlighted.

Introduction:

Now a days the entire world is suffering from corona virus. In December 2019, the first case of COVID-$_{19}$ was found in Wuhan, the capital of Hubai China and after that it spread to all over the world. On 11th March 2020, World Health Organisation (WHO) had declared it as Pandemic. The entire world had gone into recession due to COVID-$_{19}$. Banking sector which is working as a supporting hand to all the industries within the country also affected from COVID-$_{19}$ pandemic and is facing various challenges. There is a change in customer behaviour due to corona virus. They reduced their buying activities as they are facing serious problem of losing their jobs, so they are asking for some financial relief. Many people who are working with corporate sector lost their jobs. Thus, the scope of availing loans and repayment of it, is very less. Banks are losing the confidence of their customers. Due to COVID-$_{19}$ pandemic, the problem related to NPA has been increased rapidly and the banking system has been converted from stable to negative as there is a continuous decline in asset quality and disruption in economic activities.

RBI is the apex body of banking sector in India. It gives instructions and guidance to all other banks and also frames the monetary policy for smooth functioning. It prints the currency and also keeps a reserve to maintain price stability and credit control in the economy. The research found that to minimize the effect of COVID-$_{19}$ on economy RBI has added various measures. RBI encouraged the banks to provide financial relief to their customers by framing good banking policies. For security purpose, the people have been asked to avoid handling banking notes as much as possible and also advised to make contactless payment. Now, the people are shifting towards Digital banking and they are relying on online, telephone banking. RBI has already announced COVID-$_{19}$ regulatory package for all other banks (including local area banks, cooperative banks, all other financial institutions and non-banking financial companies like housing finance companies etc.)

COVID-$_{19}$ pandemic affected all the sectors in India. It had created great depression across the world. The consumers buying activities had been reduced as people are facing serious problem of losing their jobs. Many large companies like L&T, Tata Motors, Aditya Birla etc. have reduced their production due to slowdown in sales and reduced profits. The refineries functioning at 20% to 25% less capacity. Due to unavailability of labour and restriction on imports, there is sharp decline in production sector of the economy. Some MSME units have been completely shut down due to this pandemic situation. Source of income of people have come to halt due to this shutdown. The global supply chain system has also been disrupted. Tourism industry is also badly affected. Due to uncertainty surrounding the severity and restrictions on economic activities, the total operating environment has become negative. Government revenue is reduced due to continuous rise in unemployment.

Indian Government is continuously taking action to minimise the impact of this COVID-$_{19}$ pandemic. Government has issued standard operating procedure (SOP) for different sectors of the economy. Employees have been asked to work from home. Central Government has also announced 1.7 trillion relief package for poor people who need money for their livelihood and food security. To reduce the unemployment rate in the country, government is framing different strategies. For uplift of society, government gave instructions to various welfare agencies functioning in India. Government emphasized to those priority sectors which need support for survival like hospitals, schools and other service sectors.

Review of Literature: From December 2019, corona virus starts spreading across the world. In order to control the COVID-$_{19}$ Pandemic, the Prime Minister of India has declared nationwide lockdown w.e.f. March 24, 2020. The complete lockdown in the country affected the various sectors of the economy harshly. Many of researchers' starts writing articles related to COVID-$_{19}$ Pandemic, its impact on the economies, etc. While drafting this paper we include the research papers:

Kakodkhar et.al. (2020) conducted a study to find out the need of optimization in clinical course & management of COVID-$_{19}$. On the basis of information collected from different sources, this research paper emphasize on the preventive measures suggested by world health organization, guidelines for taking measures from COVID-$_{19}$ pandemic, how the people can overcome COVID-$_{19}$ phobia and become mentally fit.

Singh and Bodla (2020) This research paper entitled "COVID-$_{19}$ Pandemic and Lockdown Impact on India's Banking Sector: A Systemic Literature Review" emphasize on severe effect of novel corona virus on service sector of the economy like Banking sector, education sector, transportation etc.

Sudha. G, et.al. (2020) conducted a study that focused on different methods of digital payments used by the public during this pandemic period. This research was based on primary data collected from 220 respondents and Digital India initiative program. During this pandemic period people had made transactions through contactless cards, net banking and different payment apps like Google Pay, Phone Pay, Paytm etc. The Reserve Bank of India had also planned to raise digital transactions to about 15% of gross domestic product by 2021. As the mobile industry is the fastest growing industry across the world the GOI is looking for a billion digital transaction per day.

Bagewadi and Dhingra (2020) published a research paper entitled "Analysis of Banking Sector in India: Post COVID-$_{19}$" focuses on pre & post effects of novel corona virus on banking industry as well as on environment of India.

Bobade and Alex (2020) conducted a research on "Study of effect of COVID-$_{19}$ in Indian banking sector". This study emphasized on short-term and long-term effects of COVID-$_{19}$ on banking sector. Due to corona virus the banking sector is suffering from huge losses. This paper also focused on measures taken by Reserve Bank of India to minimize the impact of Covid-19 on the economy.

Dev and Sengupta (2020) conducted a study to find out the Impact of COVID-$_{19}$ pandemic on Indian Economy and financial sector. This study focused on disruptive situation of Indian economy due to dependence on informal labour and lockdown in the country. It was suggested by the study that Indian government is required to balance the income support so that the financial situation within the country doesn't spin out of control.

Research Methodology and Objectives: The present research has been undertaken to find out the impact of COVID-$_{19}$ on banking sector in India. The research is based on secondary information which is collected from various sources like RBI website and manuals, books, internet, newspapers and magazines.

Following are the main objectives of this research:

1. To study the reforms made by RBI to overcome the situation of COVID-$_{19}$ Pandemic;
2. To understand the challenges faced by banking sector due to COVID-$_{19}$ pandemic;
3. To find out possible solutions for banking sector that can be taken to face COVID-$_{19}$ situation.

Challenges: From the last more than one year we all have been affected by global crisis due to COVID-$_{19}$ pandemic which is one of the most far reaching pandemic. It had adversely affected our health and economic perspective. Financial institutions across the world had heavily affected by COVID-$_{19.}$ This pandemic not only change our priorities and the way we work but also change the way we bank in near future. The current situation of pandemic has created some following challenges before the banking sector.

- **Crisis Management:** During this pandemic situation the way of working in banks and interaction with customers and colleagues has been changed. Due to uncertainty in the economy banks are required to make quick decisions to adapt "new normal" and adjust accordingly. In addition to adapt the "new normal" in a record time, banks will face the further challenges like make a plan for and limits impacts of forthcoming post-COVID-$_{19}$ financial downturn..
- **Credit Risk:** There is tremendous increase in debt restructuring requests and fresh loans especially from MSMEs during this pandemic period. In order to adapt to the context of current circumstances and to provide unprecedented degree of liquidity to the financial market, banks are required to revaluate their way to deal with credit risk and credit scoring. At the same time, regulatory authorities are also required to relax some of the credit risk mandates.
- **Digitalisation:** Due to nationwide lockdown and quarantine, people who were earlier hesitant to make digital transaction with their banks, now have been "constrained" to do it. Subsequently, the digital transactions have been increased significantly during the last one year. Thus, now banks are facing a new challenge to ensure that they can provide all the basic services digitally to their customers. Banks are required to make changes in some old methods and find out new ways to make easy banking for customers.

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- **Cyber Threats:** As the employees of banks are working from home, there is a huge growth in digital financial transactions. It also create a problem of potential increase cyber-attacks and fraud attempts before the banking sector. As per a report published in newspapers cyberattacks has been increased by 238% in the month of February and April alone. It has encouraged the banks face the challenge and implement new safeguards. Thus, cyber threats and fraud will most likely become the overwhelming focus for banking sector.
- **Capital Investment and Business Stability:** During this pandemic situation financial institutions need to adjust rapidly, both internally and vis-à-vis their clients/customers. Banks are required to make huge investment in digital transformation. Despite making huge investment, keeping their business stable and reliable will also be a vital focal point of banks.
- **From 'nice to have' to must have' Innovation:** Since the internet revolution COVID-$_{19}$ pandemic might be one of the strongest stimulant for digitalisation in banking sector. Earlier, there was a thought that innovation is a nice thing to have, but not a need. But now the entire banking sector have been convinced that innovation will be treated as an 'absolute necessity to have'. Now the banks are required to provide end to end digital services to their customers.

Opportunities: Like in the case of emergencies, the current situation of COVID-$_{19}$ pandemic brings multiple challenges to the banking industry, as described above, it also carries with it following opportunities for banking sector:

- **Technological Innovation:** Due to technological innovation like development of banking applications etc. digital transactions have been increased manifold during this pandemic situation. Many of the customers are engaging digitally with their banks, out of them, some for the first time. Now the banks are having opportunity to retain their digital customers during post COVID-$_{19}$ situation. The extent of services provided by the banks today will decide the share of customers which will not revert back to traditional channels when things eventually revisit to normal.
- **Cost Reduction Strategy (Economical):** Numerous business organisations realised that working from home, sometimes, be more useful & economical and accordingly banking organisations are also thinking the possibility of work from home, even

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during post-COVID-19 situation. It will be beneficial for both employees and employer as it will increase employee satisfaction and work life balance on one hand and cost reduction to banks on the other hand.

- **Digitalisation:** As per world retail banking report 2020 written by Capgemini, during COVID-19 pandemic period 57% of total customers prefer online transactions for purchasing groceries, paying bills and shopping for brands as compared to 49% during pre-pandemic period. As the customers are moving towards online transactions, it provides an opportunity to banks to make a well-developed strategy towards digitalisation. During this situation, the big banks had performed better as these had already providing digital services to their customers. These banks also educate their customers that how to use mobile banking and online banking services.
- **Onboarding:** Due to technological innovations the entire banking system is moving to more connected and digital form of organisation. Thus, digital and paperless onboarding has become necessity during this COVID-19 situation for getting new customers. So many banks have started completely paperless onboarding from anywhere in India like Kotak Mahindra Bank, RBL bank etc. Other banks are also acting quickly on this. But paperless onboarding is not viable in rural areas as a large chunk of customers are illiterate.

Measures taken by Reserve Bank of India: The COVID-19 pandemic has affected the economic system of almost all the countries. Banking sector is most important sector of any country and the strategies adopted by banking sector influence the economy as they facilitate domestic and international trade. To minimize the negative impact of COVID-19 pandemic, the national authorities of different countries have taken a lot of critical decisions. The Reserve Bank of India had also announced the following measures:

- **Decrease in Repo Rate:** Repo rate is the rate at which RBI provides loans to other commercial banks. It affects the overall interest rates in the financial system of the country. To maintain the liquidity in the market the RBI had announced a cut in repo rate by 75 basis point to 4.4 percent. Overall interest rates in financial market will also reduce with reduction in repo rate. It will make easier for people to take loans for business or any other purpose.

- **Decrease in Reverse Repo Rate:** Reverse repo rate is the rate at which commercial banks lends money to RBI. Before COVID-19 pandemic the banks preferred to keep money with RBI and an average amount of Rs. 3 trillion was being kept with RBI. Thus RBI has now lowered the reverse repo rate by 90 basis points to 4 percent. It will encourage the commercial banks to lend to general public as opposed to loan to RBI. It will help in providing working capital for their business.

- **Decrease in Cash Reserve Ratio:** To maintain liquidity banks are required to keep a fixed percentage of their total deposits with the RBI which is known as Cash reserve ratio (CRR). The RBI had also reduced CRR by 1 percent points to 3 percent of the net demands and time liabilities w.e.f. March 28, 2020 for a year. It will help to increase in liquidity with the banks. Further, the daily minimum CRR balance maintenance had been reduced from 90% to 80%.

- **Increase in Marginal Standing Facility:** The RBI has made available additional Rs. 1.37 trillion under the emergency lending window which is also known as Marginal Standing Facility. Now under this window banks can borrow up to three percent of their total deposits which is higher than the current limit of two percent. This measure was applicable up to June 30, 2020.

- **Moratorium Period:** Due to nationwide lockdown people were facing a problem of repayment of their EMI as a consequence of lack of regular income. Thus to give a relief to retail borrowers RBI has allowed a moratorium period of three months to pay principal and interest. By allowing this measure the accounts of retail borrowers will not be treated as non-performing.

Conclusion and Suggestions: In this paper, we aimed to demonstrate the challenges, opportunities and measures taken by RBI during COVID-19 pandemic situation. The worldwide spread of corona virus had affected all the sectors across the globe. The banking sector had faced multiple operational and technical challenges to ensure business-as-usual amidst the nationwide lockdown. Despite of multiple aforesaid challenges banks played a very important role by supplying vital credit to the corporate and household customers. In an effort to facilitate this, the RBI and Indian Government had taken a wide range of policy measures to provide greater liquidity in the economy. It

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showed that during this crisis banks tried to keep up with their customer expectations and crossed the lockdown period successfully. As per the results of the study it may be suggested that the following measures should be taken by the banks for enhancing their performance in future:

- Banks should focus on digital transformation positively and migrate traditional banking services;
- To remove the trust issues raised due to inability of bank executives to meet their customers personally banks are required to adopt an attitude towards digital communication like secure video banking, employee digital engagement etc;
- Banks are required to focus on accessibility, transparency, ease of use and have transparent and lower costs;
- To reduce uncertainty and provide non-stop assistance, banks must provide transaction confirmation documents, customer friendly interface, security and more personal relationship with customer;
- To face the changing behaviour of employees and customers, banks must build a reliable strategy to understand customer needs;
- To overcome the problem of shortage of workforce due to lockdown and sickness banks may adopt either interactive voice response (IVR) system to address the routine queries or digital apps to influence employee behaviour;
- To overcome the problem of shortage of workforce due to social distancing, banks may adopt mobile appointment booking apps or tokens to control customer footfall;
- To increase customer confidence, banks are required to adopt multiple digital communication channels like video banking, ATM screens and mobile apps.

In nutshell, it is clear that no one knows what tomorrow's future will look like, but only those banks will be benefitted which will modernize their IT infrastructure and provide online access to banking products and services. Thus, to provide seamless delivery of services without disruptions to the clients' banks are required to quickly initiate measures.

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