An Indian Viewpoint of The Impact of Covid-19 on The Banking Sector

Mr. Samoon khan
Student, Department of Commerce, School of Commerce and and Management, Central University of Rajasthan, Kishangarh, Ajmer, Rajasthan, 305817
E-mail: Thesamoonkhan@gmail.com

Abstract
The business sector's finances have already begun to suffer as a result of decreased production and lockdowns, which have already begun to take their toll. In order to keep operations running smoothly, a significant public budget or stimulus is required to address issues such as interruptions in supply chains, difficulties in manufacturing, and paralyzed health systems. The banking and financial industry, whose prospects are related closely to those of the economy, is sure to face the brunt of the anticipated slowdown in economic development. The International Monetary Fund has reduced India's GDP growth prediction to 1.9 percent for 2020-21. There is a possibility of an increase in defaulted loans. "The downturn might potentially lead to job losses, which could put on on the retail lending books of financial institutions. The loss of revenue from tourism and the entertainment industries, amongst many other areas of business, has already damaged the economy. These and other such factors are all building up to put a burden on the economy of the whole world, which may potentially have ramifications for the next year. The governments, central banks, and regulatory bodies in the Asia-Pacific region have each implemented their own unique set of countermeasures in response to COVID-19. These include the infusion of additional cash, loans directed at damaged companies and areas, and reductions in the policy interest rate. Additionally, it involves assistance for financial institutions in their provision of forbearance to economically viable people and companies that were negatively impacted by COVID-19.

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I. Introduction

The recent precipitous fall in the price of bank equities is a reflection of investors' diminishing trust in trust in the international monetary system. The economic slump caused by the COVID-19 crisis, according to the survey findings, would cause local banks to face a rise in their non-performing total asset ratio of 1.9% and their credit cost ratio of 130 basis points by the year 2020. The assumption behind these projections is that the economy will continue to strengthen in the aftermath of the COVID-19 disaster. According to the article "For Asia-Pacific Bankers, COVID-19 Problem Could Add USD 300 Billion To Credit Expenses," this sum of money will be required to meet the costs connected with the crisis inside the region's financial institutions. S&P Global Ratings predicts that by 2020, the proportion of non-performing assets (NPA) in China's banking system would have increased by around 2%. This outlook is based on the assumption that the Chinese economy would continue to contract. The research indicated that the economic volatility brought on by COVID-19 would test the rating resilience of the region's twenty various banking sectors. The success of government and regulatory efforts to ensure that financial institutions' assets remain in good shape beyond 2020 will rely in part on these efforts. One of credit's many functions is to even out fluctuations in consumer spending by acting as a kind of temporary insurance against life's unexpected bumps, such as the recent pandemic and its consequent lockdown. (Panchal, 2021)

II. Objective

The research aimed to fulfill the following objectives:

- The Study Of Covid-19 On the Banking Sector
- Other Repercussions Of Covid-19 On the Banking Sector
- Reforms To The Rib In IndiaOf Covid-19

III. METHODOLOGY

As a direct consequence of this, a market for financial solutions that contribute to the attenuation of the consequences of any potential future crises will develop. It's possible that the producers of these things are capitalizing on the desire of homeowners and companies alike to take safety measures and steer clear of needless dangers.Because the Coronavirus may be carried on the surface of banknotes and coins, one might argue that the virus "dirties" money. This is due to the fact that the virus can be carried on the surface of these items.Therefore, the fear of infection will be the driving force behind the second wave of digitalization, as well as the flight away from cash.

This would provide even more assistance to India's already amazing pace of digitalization, which has been picking up steam over the course of the last several years. Despite this, it is anticipated that there will be a decrease in both the value of transactions and the number of transactions as a consequence of the possibility of a prolonged slowdown in the economy in the medium future. The activity level of transactions is expected to steadily decline, which will operate as a barrier to the expansion of the market share of digital transactions.It is probable that the pandemic will have an impact not only on the method of choice for the delivery of financial commodities but also on the sort of products that are provided and their structure. In India's economy, the expansion of the financial industry will continue regardless of whether or not COVID-19 is put into effect.

IV. COVID-19 ON BANKING SECTOR

Standard teller services and banking activities, including depositing and withdrawing money and clearing checks, required customers to keep at least one metre of distance. A bank employee's effort to clean dirty checks with a steam iron has gone viral after he or she was caught on camera using tongs.
A weakness in our banking systems and a general lack of adaptation in the industry were exposed in the face of an emergency by the operational and technical challenges faced by both customers and employees. The bank's continuing attempts to digitalize and improve its backend procedures will get an injection of much-needed discipline as a result of the immediate lessons learnt from the ongoing COVID-19 challenge. Banking institutions will no longer have to rely on paper, manual reviews conducted by humans, or employee participation in the process. According to a study (Jaiswal, 2020),

Because to COVID-19, not only will new technology be adopted more quickly, but four fundamental areas of banking will also get renewed emphasis:

- Taking Advantage of New Technologies – Emerging technologies will play a pivotal role in the aftermath of the epidemic and the economic uncertainty, playing a significant role in both the acceleration of transactions and the reduction of costs for banks. The banking industry in India has previously acknowledged the importance of technology in expanding its customer base and business operations.
- The removal of vertically integrated stacks, APIs, containerization, cloud computing, artificial intelligence, and blockchains is anticipated to result in increased rates of use of microservice architecture.
- The digital transformation of banks and other financial institutions, as well as the reimagining of digital service delivery, will be significantly aided by the use of these technologies.

The 2017 World Bank Global Findex Report found that among the world's 190 million individuals who do not possess access to a bank account, a large percentage live in India. Channels of Digitization - As mobile phone and internet usage continues to rise, the primary focus will be on boosting the uptake of technology that allows digital financial inclusion. Another area of focus would be the continuing shift in customer behaviour away from in-person interactions with bank branches and toward those conducted through digital means. Banks will allow customers to interact with the institution via a wide range of digital and automated channels, allowing for the optimal channel mix. Banks in India will take into account important factors including demographics, internet availability, last-mile connectivity, and consumer banking activity patterns to facilitate effective adoption. (SALEEM et al., 2022)

Security, Privacy, and the Trust of the Customers - There was an upsurge in cyber fraud in India's banking sector during the fiscal year 2017–2018, with losses estimated at $13.7 million, as reported by the Reserve Bank of India (RBI). As the use of cashless transactions in digital economies grows, banks will need to develop secure frameworks and systems. Financial fraud, money laundering, data loss, identity theft, and privacy breaches are just a few of the threats that may occur on the internet. After uncovering external and internal system flaws, the bank should take severe actions. Firewalls, smart networks, financial-grade application programming interfaces (APIs), and secure communication with customers need strong customer authentication (SCA). Robust financial solutions, including cyber security measures, are crucial for protecting against hostile assaults. (Kaicker et al., 2022)

Policy and Compliance – With the goal of developing an enhances business for the unbanked and under-banked people in our nation, we must prioritise expanding access to digital payment methods, especially in rural India. There are two types of persons in this category: those without bank accounts and those with insufficient funds in their existing accounts.

When it comes to safety and privacy, India is already well on its way to introducing the Personal Data Protection law (PDP), which will be modeled after the GDPR that will be implemented in the EU. The implementation of an open banking rule in India, similar to those that have been implemented in the UK and the EU, has the potential to further accelerate the ongoing financial revolution in India.

OTHER REPERCUSSIONS

There is a high probability that COVID-19 will cause a significant change in consumers' prophylactic savings and their avoidance of risk. This rise may cause an increase in the proportion of people who put their savings into bank deposits, which are often seen as the safest kind of savings vehicle. On the other side, the tendency of families to borrow money in order to spend it will decrease. Bank tellers may amass large accounts but face a dearth of loan applicants. Banks, despite an increase in loan demand, will remain risk-averse. As a result, financial institutions are likely to place more emphasis on the need for safe as liquid collateral when extending credit. This might lead to a reduction in the availability of unsecured forms of credit such personal loans and mortgages. Borrowers of all stripes, from consumers to corporations, can benefit from better lending if better techniques for measuring risk are developed, and deeper studies of borrower risks are conducted. Because of this, there is a pressing need for a significant improvement in the analytical techniques and data that are used to construct more "full" risk profiles of borrowers. The banking and financial industry is among the industries that have been struck particularly hard by the recent economic crisis. While the Nifty50 index has dropped by 27.7 percent during the previous three months, the Nifty Bank index has plunged by 40.1 percent. There is a possibility that individuals would buy more insurance as a result of the epidemic, which is something that should be taken into consideration by insurance companies. An investor must have a time horizon of at least seven years in order to purchase shares in a fund that invests in the banking and financial industry and has a continuous track record. Steer clear of people who have a connection to the more susceptible market groups described before. The proportion of an equity portfolio that is put into a sector fund should not be more than five percent. (Mathew et al., 2022)

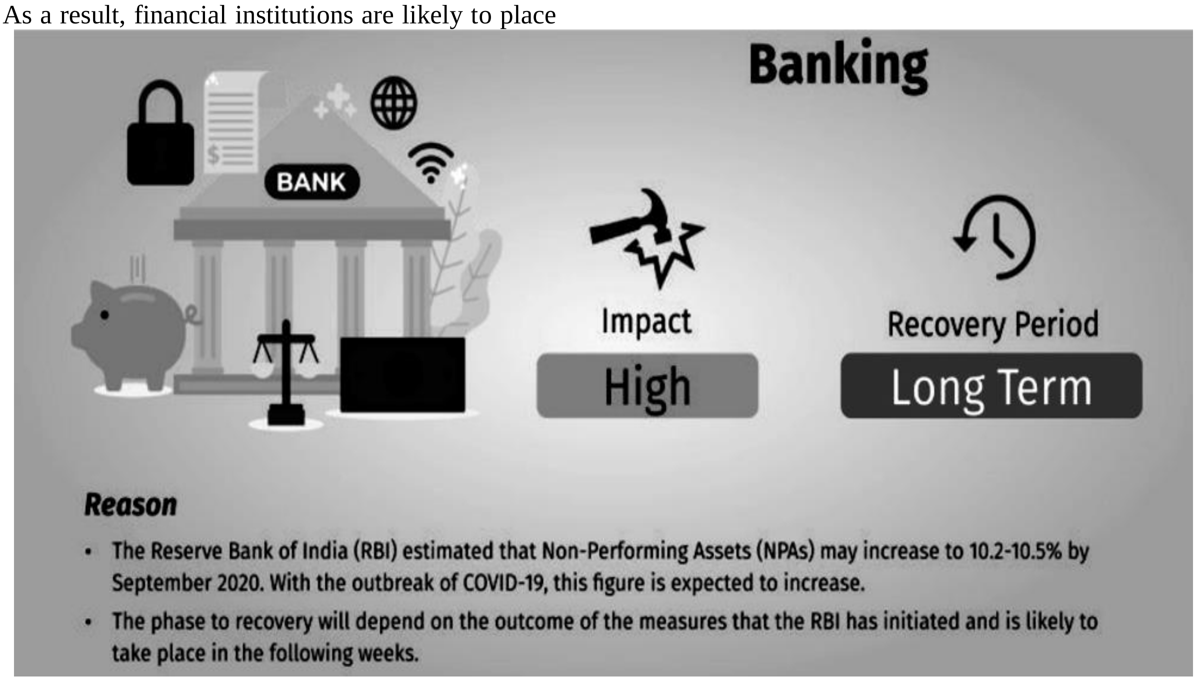

Figure 1: Impact Of Covid On the Banking Sector

V. REFORMS TO THE RBI IN INDIA

Regulatory Document for COVID-19 In response to the COVID-19 Pandemic Disruptions, the RBI released a circular outlining a number of regulatory measures, including the establishment of provisions and Asset Classification Norms. You may find these steps in the preceding phrase. The RBI has made it clear that it intends to make it easier for businesses to make their loan payments, as well as easier for them to manage their working capital, and that it intends to do all this in an effort to reduce the financial strain on company owners. (Kanojia, 2020)

- **Adjustments to Payment Schedules for Term Loans and Working Capital Facilities**

Due on April 1, 2019, commercial banks in India (including regional rural banks, small finance banks, and local area banks) and then all cooperative banks and non-banking financial companies in India must pay the Equated Monthly Installment (EMI) on all outstanding agricultural term loans, retail loans, but instead crop loans in an effort to lessen the impact of the COVID-19 pandemic. As a means of maintaining the repayment schedule, the loan amount term will be transferred to the board. Interest on the term loan will accrue at the regular rate throughout the moratorium period. The Reserve Bank of India has decided to provide working capital services including cash credits and overdrafts. Commercial banks will have less payment obligations starting June 1, 2020, and going through August 31, 2020, per a decision reached earlier. To recoup interest, which applied to all of those establishments. Financial institutions may, at their option, convert the postponed interest accumulated until August 31, 2020 into a funded interest term loan (FITL) with a repayment deadline of no later than March 31, 2021. We expect full repayment of this loan. As a result of the severe economic downturn and business closures, the banking industry is now under significant stress. As a result, the banking industry and the law have undergone significant changes. (Gul &Kaytaz, 2021)

- ***Provisions in Making Working Capital Financing***

Borrowers in India have the option of using either Cash Credit or to repay their working capital loan from the Reserve Bank of India. This helps ease the burden on banking institutions so that they may continue to serve their customers. The RBI has decided to do this as a preventative precaution in the face of the COVID-19 Pandemic. It's 2020, as announced by RBI. The Reserve Bank of India established this arrangement as a short-term measure, and it will expire on March 31, 2021. Until March 31st, 2021, the Reserve Bank of India will continue to conduct these evaluations in order to authorise working capital constraints; these evaluations will be based on an examination of the working capital. In order for the financial institution to engage in the aforementioned tasks, it will need to be convinced that doing so is important due to the monetary damage brought on by the COVID-19 epidemic. Further, given the impact that the COVID-19 outbreak has had upon the financial sector, accounts that are granted extra flexibility in accordance with these instructions will indeed be subject to a further supervisory review to confirm their justifiability. The Reserve Bank of India's board of directors sets the rules for the country's banking system, and financial firms in India must follow these rules at all times. (Bhattacharyya et al., 2022)

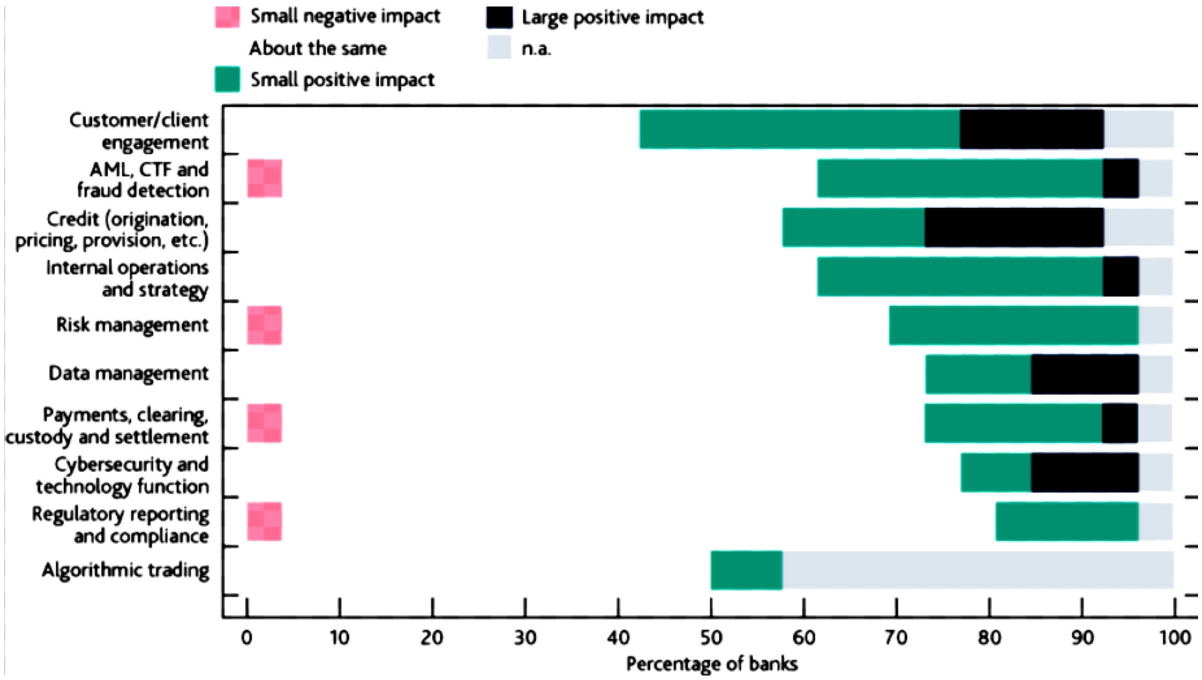

Figure 2: **Impact of covid on banking**

CONCLUSION

This has two ramifications for the future of banking. Initially, the banking sector will function in a monetary environment characterised by abundant liquidity and very low interest rates. As a second point, the government will play a major role in the banking sector as both a borrower (to finance its deficit) and then a "risk absorber," providing guarantees, back-stops, and more direct fiscal support to borrowers whose businesses and cash flows are impacted hardest by the virus. In its role as a borrower, the government will use the money it receives toward reducing the deficit. A related question is what the future of banks' loan books will look like, given big economic upheavals often lead to an increase in risk perception and a simple flight to quality. This implies that banks will be more likely to lend to borrowers their income or cash flow are stable and predictable, and less likely to lend to those whose financial stability is at risk from fluctuations in their income or cash flow. Instead, financial institutions will prioritise extending credit to borrowers who can provide evidence of stable cash flow. Generally speaking, banks tend to follow the adage that "big does matter". The flight to quality might end up becoming a race to the size of the company since, on average, larger businesses have a lower risk of going bankrupt than their smaller counterparts. The majority of businesses in consumer-oriented industries are now working at less than 70 percent of their capacity, which is the general agreement among industry executives. Banks continue to have a very low tolerance for risk, and this is also the case. The speed with which the economy makes a recovery will determine the state of the banking industry. Now, everyone's attention is focused on the anticipated economic stimulus package from the government.

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