Impact of Covid -19 Pandemic Crisis on Indian Banks

***Mrs. Nanda B. K, **Dr. B. S. Hugar**

*Research Scholar, Sharnbasva University, Kalaburagi.

**Professor and Chairman, MBA Programme, Faculty of Business Studies, Sharnbasva University, Kalaburagi.

ABSTRACT

Covid-19 pandemic hasaffectedoverall banking sector including public sector, private sector banks and co-operative banks very badly. Whole banking sector in the country hasfaced an increased non-performing assets ratio. MSMEs are the backbone of our Indian economy, but due to lockdown 60% of small& medium enterprises got impacted, as many merchant shops were closed.[1] *Covid pandemic pushed banks towards digitization. The repayment of debt has been temporarily postponed to future periodbecause of themoratorium measure has been taken by the RBI due to covid pandemic.In order to fight against growth slowdown in the economy due to covid pandemic RBI has taken so many measures. Prime Minister Narendra Modi also welcomed the measures taken by the Reserve Bank of India and said the measures will enhance liquidity, improve credit supply and help small businesses and farmers hit by the nationwide lockdown.*[2]

Key Words: Pandemic, Digitization, Measures. Credit, Liquidity.

I. INTRODUCTION:

A Bank is a financial organization which accepts deposits that can be withdrawn ondemand and also lends money to individuals and business houses that need it.

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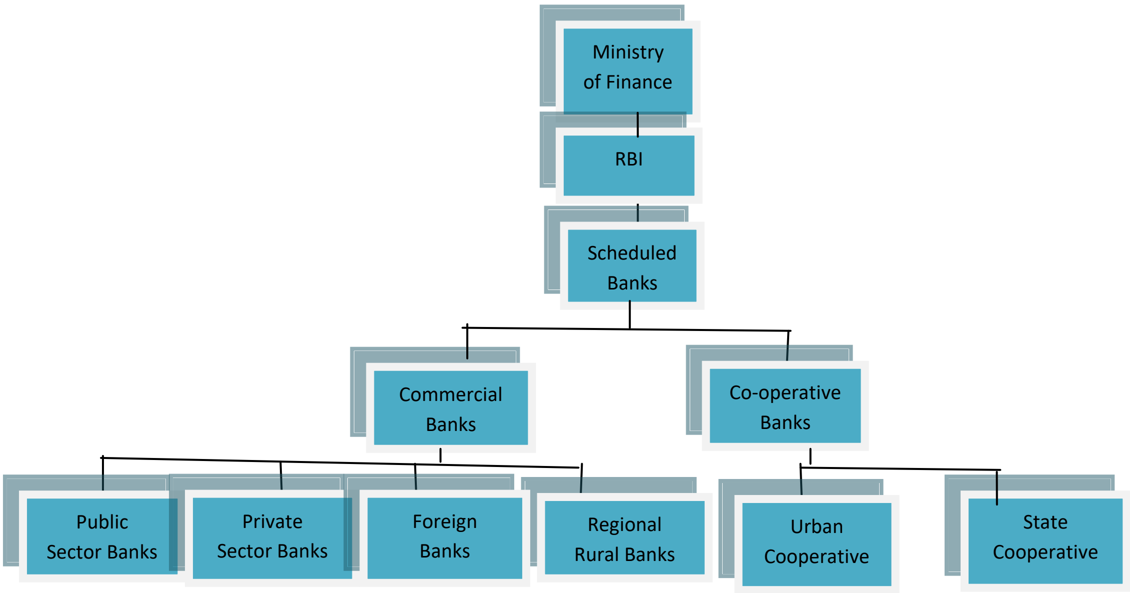
[1] www.bankingfrontiers.com

[2] www.livemint.com

Structure of banking sector in India:



Impact of covid 19 on banks performance

Due to covid-19 pandemic the non-performing assets ratio of banks in the country has been increased by 1.9 percent and credit cost ratios by 130 basis point in 2020.On March 27, the RBI has announced that the repo rate has been reduced by 75 basis points to 4.40 percent. It has decided to provide Rs 3.74 lakh crore liquidity to banks through reduction in cash reserve ratio.

On 1 March 2020, the RBI has allowed three months moratorium on repayment of dues to all the borrowers of commercial banksincluding regional rural banks, public sector banks, private sector banks co-operative banks, and NBFCs, including housing finance companies and micro-finance institutions.[3]

- There is a greater impact on MSME segment. The impact is very severe in an all the places where covid spread is high like Delhi, Punjab, MP, Maharashtra, Karnataka and Tamil Nadu.Approximately 50% of customers have opted for a moratorium on repayments.
- Due to economic crisis there is an increase in the customer preference towards digital channels and products such as insurance.

[3]www.economictimes..com

- Liquidity and working capital of banks got affected due to covid pandemic.So, in order to enhance liquidity RBI has provided liquidity support to the banks and also enabled them to reduce their rates to make availability of the funds at a lower rate.
- It was difficult for the banks to hire and onboard new workforce during lockdown in order to fill gaps of the employees with specialized skills who were not able to work for some reason.

Since the lockdown, many production houses have been out of business due to fall in customer's demand. So, it has resulted in many difficulties like decline in corporate profitability, inability to repay loans, mass lay-offs etc.

NPAs in the country will be 11-11.5% for the year 2021 according to a report published by CRISIL. The report also revealed that Indian GDP decline by four percent. During lockdown it was very difficult for the borrowers to generate sufficient income to meet their debt obligations which resulted in defaults and higher bad loans in bank balance sheets.[4]

From 1st March 2020 to 31st August 2020, RBI has postponed the repayment of principle and interest. Due to this recovery got affected in quarter 2 onwards.Income and provisioning of the bank may also get affected for later quarters.[5]

RBI has announced thata total amount of Rs 50,000 crore was allocated as a refinance facility to all India financial institutionssuch as Small industrial Development Bank of India NABARDand National Housing Bank to help them to meet their credit needs. It has allocated ₹25,000 crore to NABARD for refinancing regional rural banks, cooperative banks and micro finance institutions; ₹15,000 crore to Small industrial Development Bank of India forlending and ₹ 10,000 crore to National Housing Bank for supporting housing finance companies.In order to provide credit at low rates to all borrowers, RBI grant advances at reduced repo rate.[6]

RBI governor Shaktikanta Das said that, due to COVID-19 there is a worst economic conditionin the country, so RBI has stopped the scheduled commercial banks and cooperative banks from making any further dividend pay-outs out of the

[4] www.outlookindia.com
[5] www.economictimes.indiatimes.com
[6] www.bfsi.economictimes.indiatimes.com

profit pertaining to the financial year ended March 31, 2020 until its further instructions.[7]

Due to transmission of the virus through the exchange of physical currency, banks have promotedonline card transactions.Banks waived fund transfer charges on their digital platformsuch as NEFT, RTGS and IMPS and also on cash withdrawals from third-party ATMs via debit cards to ensure convenient access to funds. Due to covid pandemic transactions at ATMs got decreased.[8]

II. OBJECTIVES OF THE STUDY

- To study banking transactions during covid-19 pandemic.
- To study the impact of covid 19 on banks NPA, digitisation.
- To study the problems faced by co-operative banks, public and private sector banks.
- To know the measures taken by RBI during covid 19.

III. METHODOLOGY OF THE STUDY

The present study is based on the collection of secondarysources of information.Secondary source of information is collected through various reports, websites, articles etc.

IV. ABOUT THE STUDY

Impact on Banks NPA

By the end of March 2020 all the borrowers whose bank accounts wereconsidered as special mention accounts-2,which turned into NPA worth over Rs 50,000 crore for the entire banking system. Thesespecial mention accounts-2 were mainly belonged to the micro, small and medium enterprises.

SMA-1 Accounts are those accounts in which loan repayments have been overdue for a period between 31 and 60 days.

[7] www.financialexpress.com
[8] www.pwc.in

SMA 2 Accounts are the ones with a delay of 61-90 days. If interest or principal amount of the loan is overdue 90 days it is classified as an NPA.[9]

Four impact areas of COVID-19 on digitization of banks in India

Due to COVID-19 pandemic banks rushed towards digitization. It was very difficult for the bank employees to handle cheques with tongs and sanitize them with a steam iron. Due to the operational and technical challenges which were faced by both the customers and employees, banks have eliminated the dependency on manual entries. 27 Indian public sector banks were consolidatedinto 10 large banks. It is a great opportunity for the public sector banks to use better technology integration and customer adoption.Other Indian banks which are already online with some core banking functions are focusing on a complete digitization of all their functions, processes and systems.

The COVID-19 pandemichas not only increased the use of technology, but also focus on the following four key areas of banking. They are:

- **Use of neo technologies** – Due to pandemic use of technologies playeda key role in speeding up transactions and reducing costs for banks.
- **Channels of digitization** –India is the world's second largest unbanked population.Totally 190 million adults who are not having any access to bank account as per the 2017 global findex report by the World Bank.With increased penetration of mobile and Internet, banks focussedmore on technology enabled digital financial inclusion.
- **Security, privacy and customer trust** –Some of the cyber risks such asfrauds, loss of data, money laundering,identity thefts and privacy breaches.Banks technically strengthened by rigorous KYC, strong customer authentication, financial grade APIs, firewalls, smart networks, etc for secure transactions.
- **Policy and compliance** – This focussedmainly on increase ofdigitalization in rural India, to provide banking services to unbanked and underbanked population of our country.[10]

[9] www.business-standard.com

Covid-19 impact on Public SectorBanks

Public sector banks including State Bank of India, Bank of Baroda and Bank of India have motivated their staffandbusiness correspondents who are providing services to about 60,000 customer service pointsby givingincentive especially in remote branches due to increased volume of direct benefit transfers from the government to the Jan-Dhan accounts of women and farmer's accounts. Some of these incentives include daily monetary allowance, an additional day's pay for every six days of work, insurance cover and a cut in the interest rate on the loans taken by them.

SBI has reduced the interest rate on all staff loans by 1% and also until the nationwide lockdown ends bank paid extra days salary to their frontline staff. Employees expenses on Covid-19 tests was reimbursed by SBI and Bank of Baroda.

Covid-19 pandemic hit MSMEs strongly. Followed by MSMEsimport and export industries have an outstanding loan amounted to Rs 5.19 lakh crore. The banks provision for Covid-19 hit sectors is in excess of Rs 11 lakh crore.

Impact on private sector banks

Some of the Indian Private sector banks such as ICICI Bank, AXIS Bank, Kotak Mahindra Bank and HDFC Bank are facing maximum risk.[11] Due to the impact of the covid-19 pandemic S&P Global Ratings revised ratings ofAxis Bank and ICICI Bankfrom stable to negative.Large banks such as HDFC Bank, ICICI, Axis Bank and Kotak Mahindra Bank are now offering doorstep service facility to their customers.[12]

There is an increase in job losses and bad loans due to the economic slowdownwhich created stress in banks. A report issued on April 15, 2020, Macquarie Research cut its earnings per share for private banks by35-40 percent and reduced its target prices for private banks by 45 percent.[13]

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[10] www.dqindia.com
[11] www.economictimes..com
[12] www.bloombergquint.com
[13] www.business-standard.com

Some private sector banks, particularly, small institutions have lost their deposits. So, itweakened their funding profiles."[14] The financial stability report said thatthe gross NPA of private sector banking group increased to 5.4 percent from 3.9.[15]

Impact on co-operative banks

RBI has allocated Rs 50,000 crore refinance facilities to All India financial institutions. Due to bad loans, financial irregularities by the bank's officials, and failure of internal controls and systems, the licence of CKP Co-operative Bank Ltd. got cancelled and it is prohibited from conducting the bankingbusiness. RBI imposed restrictions on PMC bank under Section 35A of the Banking Regulation Act.[16]

Measures taken by RBI during covid pandemic

- **Refinancing Facilities for All India Financial Institutions (AIFIs)**
  Due to COVID-19 pandemic AIFIs are facing difficulties in raising resources from the market. So, RBI hasdecided to provide special refinance facilities.

- **Liquidity Adjustment Facility: Fixed Rate Reverse Repo Rate**
  On April 15, various liquidity enhancing measures undertaken by the RBI. RBI has decided to reduce the fixed rate reverse repo rate by 25 basis points from 4.0 percent to 3.75 percent with immediate effect.

- **Asset Classification**
  On March 27, 2020 all the lending institutions were granted three months moratorium on loan repayment by RBI.

- **Extension of Resolution Timeline**
  Under RBI's prudential framework, all the Scheduled Commercial Banks, AIFIs, NBFC-ND-SIs and NBFCs arerequired to hold an additional provision of 20 percent within 210 days from the date of default.

- **Distribution of Dividend**
  Due to covid-19 pandemic, RBI has restricted all the scheduled commercial banks and cooperative banks from paying further dividend out of the profits of financial year ended March 31, 2020.

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[14] www.thehindubusinessline.com

[15] www.economictimes..com

[16] www.thehindubusinessline.com

❖ **Liquidity Coverage Ratio**

In order to ease the liquidity, position the LCR requirement for Scheduled Commercial Banks is being brought down from 100 percent to 80 percent with immediate effect of covid pandemic. The requirement is gradually restored back in two phases – 90 percent by October 1, 2020 and 100 per cent by April 1, 2021.[17]

V.CONCLUSION

There wasa great impact of Covid-19on banking sector in India, banks rushed towards digitization, NPA increased, Covid-19 pandemic hit MSMEs strongly. Small private banks reduced lending due to poor liquidity conditions.There was a reduction in the number of staff and working hours created lot of disturbance in banks. RBI took so many measures during covid-19 to ensure normal business functioning by the whole banking sector.

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[17] www.rbi.org.in