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"The Impact of Covid-19 Pandemic on Bank lending in India"

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ABSTARCT

The COVID-19 pandemic could be one of the most serious challenges faced by the financial services industry in nearly a century. The COVID-19 impact on banking will be severe fall in demand, lower incomes, and production shutdowns and will adversely affect the business of banks. The situation is exacerbated by staff shortages, inadequate digital maturity, and pressure on the existing infrastructure as firms scramble to deal with the impact of COVID-19 on financial services. Banks certainly have their hands full in light of the novel coronavirus outbreak COVID-19. Borrowers and businesses face job losses, slowed sales, and declining profits as the virus continues to spread around the world. Banking customers are likely to start seeking financial relief. An obvious way that pandemics can impact financial systems is through their enormous economic costs. To managing the direct economic impact of the coronavirus, banks need to have a plan in place to protect employees and customers from its spread. Many banks are already starting to encourage remote working of some employees. In this paper, we are aimed to demonstrate an impact of pandemic covid-19 on the banking and financial sector. India's coronavirus outbreak threatens a years-long clean up of its financial system, according to the Indian bank. Banks sit at the heart of the economy and provide funding to corporate and individuals. Their stability is crucial to keep the system up and running.

Key words: COVID-19, Indian Economy , Indian Banks, NPA , Lockdown

Introduction

Globally, the corona virus outbreak now has hit millions of lives with thousands of deaths across the world. The rising threat of this virus continues increasing as everyday new cases are coming out. However, countries affected with corona virus are now taking major steps to address it using AI and Big data technologies. According to the World Health Organization (WHO), AI and Big data played a significant role in COVID-19. The ongoing spread of COVID- 19 has become one of the biggest threats to the global economy and financial markets. To contain the impact of the corona virus outbreak, India, like many countries across the globe, is taking several measures, including a nationwide lockdown, limiting movement of the entire population, shutting down public places and transport, and urging the public to stay indoors, maintain social distance, and work from home. The resulting economic disruption is huge and the short term decline in activity for businesses, both large and small, considerable.

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The adverse effects of the COVID-19 pandemic are trickling down to major sectors of the Indian economy, with manufacturing, auto, retail, aviation and hospitality bearing the brunt of the lockdown. This in turn has affected fast- growing digital payments which are closely linked to the aforementioned sectors. Shut shops, travel bans and reduced discretionary spends by consumers are further negatively impacting digital payments. The rise in the cases of COVID-19, Io T software solutions are facing substantial hit. There are a lot of verticals of Io T, such as manufacturing, transportation, travel hospitality, where all the operations are put on hold. But organizations have changed their priorities, such as organizations want to monitor the health and wellness of employees as they are working from home. Such use cases are evolved in this COVID-19 pandemic. The new use cases have been generated along with the application areas where demand for Io T software solutions has witnessed a huge increase. The data is necessary for our understanding of the world, and particularly for the emergence of phenomena such as the COVID-19 outbreak. Data visualization is having a big moment during the COVID-19 pandemic. Social media feeds are inundated with infection heat maps and charts depicting transmission patterns.

Moody's Revises Indian Banking after Covid-19 Influence

Rating agency Moody's revised the Indian banking system to negative from stable, citing disruptions in economic activity caused by the COVID-19 outbreak and an ensuing decline in asset quality. It said asset quality will deteriorate across corporate, small, and medium enterprises and retail segments, leading to pressure on profitability and capital for lenders. According to Moody's, the stress among non-bank financiers will limit their capacity to lend, further hindering India's economic growth which was on a decline prior to the covid-19 outbreak. According to Moody's, a sharp decline in economic activity and a rise in unemployment will lead to a deterioration of household and corporate finances, which in turn will result in increases in delinquencies. The rating agency said the rise in provisions and fall in revenues will hurt banks' profitability, leading to a deterioration of capitalization. If the government makes more capital infusions into public sector banks (PSBs), as it has in the past few years, it will mitigate capital pressure for them. The COVID-19 is an unfolding event bringing uncertainty to every aspect of the society. Safety of the people is the utmost priority along with the continuity of business and providing consistent andtransparent financial reporting to stakeholders.

The Government of India and RBI has introduced various economic and fiscal stimulus measures to tide over the COVID-19 crisis. 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

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measures to give some relief to the lending institutions in the areas of liquidity, regulation and supervision, and financial markets.

Worldwide Banking System and Influence of Covid-19

The COVID-19 pandemic has impacted nearly every aspect of life around the globally. Decreased productivity and lockdowns have already started to take a toll on the financials of the corporate sector. Supply chain disruptions, manufacturing hindrances and crippled health systems need a hefty public fund & stimulus to continue operations smoothly. Income from tourism, entertainment sectors among many others has already crippled the economic situation. We have already seen humongous losses in the financial markets of up to Rs 59.87 trillion due to this pandemic. Investor sentiments are at an all time low and it is also becoming evident how difficult it is going to be for banks all over the world to maintain good assets and good earnings. The situation has continued to escalate even after total lockdowns and borders being completely shut down. The Fitch ratings agency already warned of Italian banking system coping mechanism with COVID-19. Then countries that were already sliding into recession like Greece increase investors worry more. People have put large portfolios in United States or Europe and are now in a fix because of the pandemic emptying their pockets as financial markets crash all over the world. Bank shares have been seeing a sharp decline showing the shaking confidence in the global financial system.

Central banks around the world, meanwhile, have already proactively intervened to calm markets and show commitment to using all possible measures. In its first emergency move since the recession in 2008, the US Federal Reserve (the Fed) recently cut the federal funds rate by 50 basis points. The Fed has also actively intervened in the repo market to add further liquidity. We now also assume a more gradual recovery in numerous countries, with continued downside risk to this base-case scenario. We acknowledge a high degree of uncertainty about the rate of spread and peak of the corona virus pandemic. The consensus among health experts is that the pandemic may now be at, or near, its peak in some regions, but will remain a threat until a vaccine or effective treatment is widely available, which may not occur until the second half of 2021. We are using this assumption in assessing the economic and credit implications associated with the pandemic.

The Influence Areas of Covid-19 on Digitization of the India Banks

The banking services in India are classified under the essential services list. Banking and financial institutions were under immense pressure to ensure business-as-usual amidst the lockdown and health crisis. 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. Social media was abuzz with a bank employee's effort to handle cheques with tongs and sanitize them with a steam iron. The operational and technical challenges for both the customers and employees highlighted a lacuna 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 will add the much-needed rigor towards digitizing and optimizing the bank's backend operations. The traditional banks will stand the opportunity to leapfrog adopting cutting edge banking technologies and blaze the digital transformation trail. At present, 27 of Indian public sector (PSU) banks are on a path of consolidation to 10 large banks. It is an opportune time for the PSU's to explore better technology integration and customer adoption. Legacy Indian banks and financial institutions will also look at collaboration with the new entrants and fintechs. Such necessity-driven partnerships will drive innovation and jointly reap the benefits of the large customer base of the banks and the new technologies of the fintechs.

<u>Are Indian Banks Ready to Assimilate Covid-19 Influence</u>

The troubles for Rs 166 lakh crore banking sector are far from over. A few months ago when bank non-performing assets (NPAs) declined from its peak of over 10 per cent of the advances and profitability returned, the telecom AGR (adjusted gross revenue) liability and the Yes Bank debacle hit them hard both in terms of sentiment and loss in market valuations. The GST came as a shocker as many micro, small and medium enterprises (MSMEs) got wiped out and the banks were forced to restructure many of the loans to MSMEs. In this section, we are analyze how prepared the banking sector is to weather the Covid-19 storm, which is playing out in full force globally as we speak.

<u>Indian Public Sector Banks in Consolidation Mode</u>

The government move to amalgamate 27-odd public sector banks (PSBs) into 10 large banks is currently taking place when the Covid-19 is creating yet another direct disruption in sectors such as travel, transportation, tourism, hospitality and trade etc. The anchor banks such as Union Bank of India, Punjab National Bank, Indian Bank and Canara Bank are in the process of branch and people rationalisation, technologyintegration and stressed loan strategy etc.

<u>Private Sector Banks Not Out of the Woods</u>

For long it was PSBs that shared all the blame for poor corporate governance and leadership, but now private sector's weak links are also exposed. Chanda Kochhar and Rana Kapoor came under the scanner of investigating agencies for corruption charges or violating the service rules. Similarly, the growing NPAs in their book showed the bad lending practices. Currently, the leadership at large private banks is stabilizing with a new strategy in place. Many private banks are in the process of capital rising. In fact, the equity dilution will be higher now as their valuation has fallen big time over the last one month.

<u>Loss of Faith in the Banking Entities</u>

For the first time in many decades, a private sector bank saw a moratorium being imposed

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by the RBI. A moratorium by the regulator is the last resort as PCA framework is available to nurse the bank back on health. Yes Bank's balance size of over Rs 3 lakh crore was enough to create panic in the market. The government, on its part, has also raised the deposit insurance limit from Rs 1 lakh to Rs 5 lakh per depositor per bank. In fact, the banks in India are well capitalized with the exception of few but the recent debacle has done the damage by jolting the small depositors' trust in the banking industry.

The Resolution of Undeservedly Loan is Stuck

The IBC is a path-breaking law for the banking sector as it is creating a deterrent in the market for defaulters. The banks have made all the NPA provisioning in the books, but the recovery is still far away. While the NCLT courts are flooded with cases, there is lack of interest from buyer's especially global distressed funds because of too many amendments in a short period of time and legal challenges at every stage. The buyers are probably waiting for clearer signals from the economy, which is on a downhill journey. Distinctly, the banks are not in the best of shape to take a large hit from Covid-19 impacted industries.

The Biggest Business Impacts of the Covid-19 Pandemic

The COVID-19 pandemic continues to spread globally, Business Insider Intelligence and e-Marketer are continuing to work to analyze the business impact of the virus across each of our coverage areas. Corona virus is shaking up business and consumer behavior on a massive scale. Both the public and private sectors are scrambling to slow the spread of the illness and contain COVID-19 infection, while the full economic consequences of this black swan event are still unclear, we know that the effects that the virus and the drastic measures being taken to contain it are already precipitating change across industries. Here are the top three ways Business Insider Intelligence and e-Marketer analysts think the pandemic is set to impact telecoms and technology, digital media, payments and commerce, fintech, banking, and healthcare sector. Many organizations are already taking "no regret" actions to emerge from the pandemic stronger. These leaders are facing the crisis with a spirit of reinvention accelerating digital transformation, establishing variable cost structures, and implementing agile operations. But in recent weeks, the landscape has changed, with the pandemic continuing to peak in some markets and returning in others.

Credit Management

Even with the Indian government's stimulus packages and Reserve Bank of India's (RBI) liquidity measures, banks can expect an increase in loan defaults as borrowers across customer groups struggle to make payments in the face of an economic crisis resulting from lost business and jobs. Besides the moratorium facility announced by the RBI for all term loans, as part of the COVID-19 package, lenders should consider proactively restructuring loans to reduce the cash flow burden in the near term, thus reducing defaults in the immediate future. So, banks should prepare for losses and build capacity to deal with an increase in delinquent loans. As consumer demand picks up, albeit gradually, post lockdown, banks will need to repurpose their go-to-market and customer acquisition model, keeping in mind changing consumer behavior post COVID-19, as well as focus on digitally native journeys and re-look at underwriting norms for better risk discovery.

Revenue Pressure

Revenue from retail and commercial banking is falling sharply, as underlying consumption and transactions have seen an exponential dip. While central banks around the world slash interest rates, banks are reducing yields to generate business, thus significantly reducing net interest margins. Income from payments and other fee-based services are hit by a general decline in economic activity. With measures like moratorium periods provided on loans, banks' cash flow has also taken a hit. Banks can also focus on cash back and loyalty rewards to encourage spending in sectors that need it the most.

Operating Model Consistence, Cost Elasticity andTransmogrification

Over the next few quarters, the banking sector will face a misalignment between short-term costs and revenues due to the economic impact of COVID-19. Banks would need to review and prioritize current projects to ensure allocation of resources to the most pressing needs. Banks should also focus on investing in areas that will outlive the current pandemic, including projects and initiatives that maintain or improve the customer experience such as a paperless utility, end-to-end digital advisory and lending capabilities, increased fraud and cyber security analysis and detection, etc. These new digital tools will make banks more efficient and resilient to future changes. Banks that haven't focused on remote working and virtual collaboration in the past should explore establishing elastic operations. This will insure banks against such unprecedented lockdowns and perhaps better manage cost overheads.

Inflection Comprehensive Challenges into Meaningful Transformation

Today scenario businesses must navigate the financial and operational challenges of COVID-19, while rapidly addressing the needs of their people, customers, and suppliers. In this section offers expert insights from our leaders paired with tangible actions that our organization can take to turn massive complexity into meaningful transformation.

Restructuring for Global Resilience

The COVID-19 crisis, fundamental changes in consumer behavior, supply chains, and routes to market are knocking companies off balance. Responding to the pandemic has underscored the need for leaders to accelerate the adoption of agile ways of working and value chain transformation to help outmaneuver uncertainty. An intelligent enterprise means shifting from top-down decision-making, empowering teams guided by purpose, driven by data, powered

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by technology and enabled by cloud for faster speed to market. The intelligent enterprise is capable of dynamic self- management and continual adaptation. It is built for agility, resiliency, and growth.

The Influence of Covid-19 on Financial Services Sector

The human and business impact of the COVID-19 pandemic continues to unfold globally. The rapid pace at which the pandemic is spreading and the global actions taken to curtail it are having an unprecedented impact on the way we live and do business. In This section explores the impact of the COVID-19 pandemic on the financial services sector.

Banking and Capital Markets

The re-regulation following the 2008 global financial crisis put banks in good stead when entering the COVID-19 pandemic. The similitude to banks, households, and companies entered the crisis relatively highly leveraged and, therefore, more susceptible to economic shocks. The practice of central banks aggressively cutting interest rates even further from previous historic lows has put additional pressure on banks' interest margins. This may suggest that banks will only be able to replenish their capital buffers through earnings and retained dividends, rather than through rights issues. All these pressures may lead to losses across the banking sector.

Insurance Sector

The insurance industry is by its very nature generally well prepared to deal with significant industry loss events, such as the COVID-19 pandemic. Several insurers learned lessons from the SARS outbreak of 2003 and introduced exclusion clauses for communicable diseases and epidemics & pandemics into most non-life products, such as business interruption (BI) and travel insurance. As business interruption and contingency claims continue to unfold for general insurers, which could potentially result in a reduced capacity in the market. As a consequence, multinational insurance groups are assessing how potential COVID-19 claims may affect their solvency capital requirements from a regulatory perspective, and whether they need to amend the terms of their existing inter-company reinsurance programme or increase the level of cover as the 2021 renewal season approaches.

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Profitability and Credit Management & Expense of Hazard

The low interest rate scenario, along with the significant impact of the COVID-19, is reducing the core banking profitability in mature markets. Financial institutions are thus shifting towards commission-based income from the likes of payments and tech businesses. The immediate effects of the health emergency on the real global economy are the increased credit risk of corporate and retail clients of the banks.

Exalted Volatility in Stock Markets Depressed Banks Evaluation

The COVID-19 has generated significant instability and high volatility in global capital markets. The financial sector has been one of the most affected, with bank valuations dropping in all countries around the world. Banking stocks were impacted during COVID-19. In the period from 01 December 2019 to until 2020 most banks saw a price slump in mid-March. European banks were adversely impacted as the Euro STOXX banks index saw a massive decline of 40.18 percent followed by STOXX North America 600 banks index (31.23 percent) and STOXX Asia/Pacific 600 Banks Index (26.09 percent) for the given period.

Covid-19 Pandemic How Banks Can Manage the Business Impact

The most banks will now be in full business continuity mode, they also need to consider the likely impact of COVID-19 on the banking industry and its customers. We believe the short-term impacts will affect four key areas of retail and commercial banking: credit management, revenue compression, customer service and advice provision, and operating model adjustments and cost control.

Credit Management

The cash flow of many consumers and businesses will collapse as lack of demand flows through into lower business revenues and employee layoffs. These in turn will cause an increase in both commercial and retail non-performing loans, as borrowers struggle to make scheduled interest and principal payments. There are, however, steps banks can take to mitigate this, to help their customers survive, and potentially to emerge with stronger customer relationships.

Revenue Compression

In the first few weeks of the pandemic the banking industry market value fell to a lower level than during the 2008/09 crisis. This is because the market has factored in short-term revenue compression from multiple sources including drop in payments revenue and decline in trade finance and cross-border payments.

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Customer Service and Advice Provision

A short-term impact of this pandemic will be rapid changes in customer servicing preferences. The many bank branches will stay open as a vital service, customers are increasingly looking to run their financial life through apps and online banking.

Operating Model Adjustments, Cost Control and Innovation

The cumulative impact of the three points above will lead to a misalignment of short-term revenue and expenses in the banking sector. We expect a range of impact from a 60 to 100 percent drop in PBT. The demands of the next four to six months will be different from what was envisaged six weeks ago, banks should respond with as much flexibility.

Will Indian Banking Sector Conquer the Impacts of Covid-19

The COVID-19 pandemic, indeed, is the third silent world war since it has disrupted normal life and upturned the modern world in no time. The COVID-19 unleashed its power on humanity without shedding blood but killed people silently and spread the fear of death. So, there is nothing wrong with equating the present situation with a world war. The whole world is still struggling to survive the pandemic.

The Indian banking sector, COVID-19 and subsequent lock- down affected it heavily. The Central government declared lock-down of the entire nation on 24th March, and it abruptly brought down all the commercial activities. There started a slide down of lending activities in banks. Several changes took place in the banking sector during this great lockdown. The banking hours were shortened and operated with fifty percentof employees. The banks had to ensure the social distancing of customers. The main income source of banks is interest accrued on loans and advances. However, during the lockdown period, loans showed a downward trend because people preferred to deposit whatever they could to secure their future. In turn, the banks have become liable to pay them interest and figure 1 shown depicts the trend.

Challenges in Banking

The financial institutions worldwide have been constantly evolving their businesses due to regulatory and competitive pressures, stressed interest rate regime and changing customer expectations. Banks form the backbone of every economy and play a critical role in the lives of citizens by providing them with essential financial services. It is important for banks to remain operational during such a crisis. The ongoing COVID- 19 pandemic further poses a serious challenge for them. This can create challenges such as decline in revenue generation due to lower customer footfalls, lower demand, reduced and remote working of staff and likely stress on net interest income owing to skewed interest expense. In spite of these challenges, there is a significant opportunity for banks to transform themselves in areas such as cost optimisation,

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digitalisation and productivity, and become resilient, agile and profitable. Customers have realised that banking does not stop even if they can't visit branches. Would this change customer behaviour and how they interact with banks.

The key areas for banks to focus during covid-19 pandemic

Banks will need to look at short and mid-term tactical initiatives during the crisis, along with focusing on long-term strategic initiatives. Most Indians continue to use physical channels for their banking needs. While banks are encouraging their clients to use low-touch mediums, they will have to manage their touch points while adhering to the guidelines on social distancing. It is important for banks to differentiate between good costs and bad costs. Good costs will enable smoother functioning and growth, while bad costs can be terminated. Banks can identify initiatives based on the implementation time required and focus on quick wins while they keep working on long-term initiatives.

The key areas for banks to focus during covid-19 pandemic

In this section we are explores COVID-19 implications. It also raises questions around key areas that banking and capital markets leaders should be asking themselves right now and provides action steps for them to consider. We do not know the long-term implications of COVID-19 for financial markets and banking and capital markets firms.

The Impact of Covid-19 in Capital Markets

The uncertainty from COVID-19 will remain for the foreseeable future. Banks and capital markets institutions have no choice but to remain hyper vigilant and rewrite their business continuity playbooks as [49] circumstances change. While it is reassuring to see some aggressive fiscal and monetary policy responses around the world already, clarity on how these actions will stabilize markets and accelerate the path to normalcy is slowly emerging, and in emerge. However, banks and their customers can take some comfort that capital ratios were the strongest going into this crisis than at any time in the last decade.

Banks need to actively consider the immediate needs of their people and simultaneously the multiple near, short, and medium-term operational, financial, risk, and regulatory compliance implications. They have an opportunity to support market and economic activity and to facilitate a quick return to stability. If banks and capital markets firms respond well to these unprecedented challenges, they will not only help society, but also increase trust and the reputation of the banking industry in the long run. Revisions to the operating model, given the impact and lessons learned from this crisis, e.g., acceleration of digital transformation, organizational agility, future of work, and increased focus on cyber security. Impact of continued reduction of interest rates, reduced business activity, and large scale non-performing loans if this becomes a prolonged recession.

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Conclusion

The worldwide spreads of COVID-19, the bank operations have been hampered. The COVID-19 pandemic has severely impacted every industry across the globe in recent months. As industries attempt to recover, there is a need for new strategic initiatives and higher preparation. Banks and the wider financial services sector are facing multiple challenges from the ongoing global impact of COVID-19. The outbreak of the COVID-19 pandemic is an unprecedented shock to the Indian economy. Banks must continue to leverage technology and build flexibility in their infrastructure to navigate these challenges. Banking services in India are classified under the essential services list. Banking and financial institutions were under immense pressure to ensure business-as-usual amidst the lockdown and health crisis. 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. In this paper, we aimed to demonstrate a close look to about the impact of pandemic covid-19 on the Indian banking system and briefly discussing Indian banks ready to assimilate covid-19 as well as influence of covid-19 on financial services sector. The immediate learning from the current COVID-19 situation will add the much-needed rigor towards digitizing and optimizing the bank's backend operations. 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. Indian banks (both public and private) which are already online with some core banking functions will focus on a complete transition by digitization of all their functions, processes, and systems. In the end, we are in a nutshell discussing about the pandemic covid-19 effect inbanking system.

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