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Study of the Impact of Covid-19 on the Banking Sector in India

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Abstract

COVID-19 pandemic posed a serious threat to the Indian banking industry. From operational concerns and business continuity challenges to the overall financial outlook, the pandemic had an influence on the banking industry. Increases in non-performing assets (NPAs) and lending demand have affected Indian banks' profitability. There were no sources of income due to the shutdown, and costs were rising. People were requesting advances, but they were also unable to pay back the loans. Thus, a liquidity crisis developed. The central government and Reserve Bank of India have taken numerous steps to alleviate this predicament. This study aims to examine the connection between COVID-19-related NPAs, advances, and profitability as well as the effects of government and RBI actions on the Indian banking industry.

Keywords

Indian Banking sector, NPA, COVID-19 and RBI.

Introduction

Because of the COVID-19 outbreak's worldwide spread and severity, the WHO formally designated it a pandemic on March 11, 2020. The Latin word corona, which means 'crown', is the source of the term 'corona virus', which itself is a derivation from the Greek word korṓnē. The term was initially used by a loose association of virologists in 1968. After being initially discovered in Wuhan, China on December 31, 2019, COVID 19 swiftly began to spread throughout the world. According to economist Robert J. Shiller, COVID-19 is not the

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lone pandemic; it is part of a larger one. The health pandemic is undoubtedly the first, but the second is the fear of the pandemic's impact on the economy.

The pandemic has affected nearly every industry. Social life, business operations, the manufacturing, service, and other ancillary industries are all negatively impacted by this pandemic. Businesses may even close as a result of this pandemic, which would raise the unemployment rate; many people will lose their sources of income, and they may do whatever it takes to make ends meet; and in the midst of all of this, people may not take enough precautions to prevent the disease from spreading. However, the Indian government's actions to stop the COVID-19 pandemic's spread had a negative effect on the nation's GDP.

The banking industry, which oversees all financial operations in the nation and provides assistance to all other industries in terms of financing, credit, transactions, collection, and payment, is one of the most significant sectors of the Indian economy. Covid-19 has had a significant impact on the Indian banking industry's performance in terms of advances, profitability, and non-performing assets (NPAs). Indian banks have experienced challenges throughout the pandemic, which has affected their profitability. Their financial accounts have been affected by the modifications they made and the numerous difficulties they have encountered. The rise in non-performing assets (NPAs), loan non-repayment, and credit demand were among the main effects. As a result, the banks' profitability has decreased since 2019. The Reserve Bank of India and the Indian Government implemented a number of policy initiatives at the federal and state levels to lessen the impact of COVID-19 on Indian banks. According to some analysts, it would take a while for the banking industry, particularly in India, to recover from the effects of this pandemic.

A bank is an organisation whose main purpose is to take deposits and provide loans to governments, corporations, and needy individuals. All around the world, banks are regarded as reliable. Anybody who deposits money in a bank, regardless of the amount, knows that it will be safer there than it would be elsewhere. In addition, banks offer a wide range of services like credit and debit card facilities, fixed deposit plans, and loan facilities.There are currently 33 banks in India; 12 of these are public sector banks, and the remaining 21 are private sector banks. In India, banks hold a strong position in the economy and play a significant role in creating jobs. Regretfully, for the past five years, a number of India's banks' performance metrics have been in a bad state. In the case of PSBs, this is true because they appear to be less effective than their peer groups. Understanding the elements that influence bank profitability is essential to get a more comprehensive understanding of the effects of COVID-19 on Indian banks.Retail banks are having difficulty balancing their priorities of satisfying client expectations, brand image, earnings, etc. as the economic damage spreads. To combat the COVID-19 pandemic, the RBI has implemented a number of fiscal and economic policies.

Review of Related Studies:

Vikas Kumar and Sanjeev Kumar (Jan, 2021) carried out a research study titled “Impact of Covid-19 on Indian Economy with Special Reference to Banking Sector: An Indian Perspective”. The study provides a summary of how the COVID-19 pandemic has affected the Indian economy and banking industry. It also examines the many policy actions that the Indian government and Reserve Bank of India have done at the federal and state levels to improve the nation's present economic status.

Ambrish Kumar Mishra et al. (Feb, 2021) carried out a research study titled “Impact of Covid-19 Outbreak on Performance of Indian Banking Sector” The study's analysis illustrates how the COVID-19 pandemic has affected the performance of the Indian banking industry by developing and assessing the largest comprehensive knowledge base, known as the Covid19-IBO ontology, to obtain semantic information. Additionally, they address a few key research questions pertaining to the Indian economy.

Nilam Panchal (2021) studied, “Impact of Covid-19 on Banking in India : An Empirical Analysis” According to the report, the COVID-19 pandemic has hindered the banking industry in India. It has had a significant impact on every industry worldwide, not only the banking sector. There is a need for some sound policies and strategic actions as sectors try to revive. In the wake of COVID-19, the RBI must take all necessary steps to ensure that the financial system and its participants have enough liquidity.

Jitender Singh and B. S. Bodla (2020) carried out a research study titled “Covid-19 Pandemic and Lockdown Impact on India's Banking Sector: A Systemic Literature Review” By taking into account the opinions of various groups, including economists, financial institutions like the IMF and World Bank, and consulting firms, the review illustrates how this pandemic has affected banks and NBFCs due to the lockdown that has caused the closure of all commercial organisations, educational institutions, public and private offices, and the suspension of transportation.

Nuno Fernandes (2020) Economic effects of COVID- 19 on the world economy. The study revealed that the economy of the countries that are hihly dependent on foreign trade were adversely affected. The analysis revealed that on an average each additional month during the pendamic crisis costed about 2.5-3% of GDP globally.

Patricia Lemos (2020) made an attempt to study, "Impact of COVID-19 on the Banking Sector". The global catastrophe caused by the corona virus (COVID-19) outbreak has caused consumers, communities, and businesses to suffer greatly on a personal and financial level. Since the startlingly quick global spread of COVID-19, banks have been impacted. The banking sector is required to assist clients despite the numerous difficulties it is now facing. Even with well-defined preparations, the financial industry may find it challenging to manage a crisis of this magnitude. The widespread effects of COVID-19 on the banking industry are discussed in this paper, along with the steps the Reserve Bank of India has taken to address the issues. Drawing on a range of research, a consideration of potential direct or indirect effects of COVID-19 is presented.

Asger Lau Andersen Et. al. (2020) studied, "Consumer Responses to the COVID-19 Crisis in Denmark". According to the study's findings, during the seven weeks after the shutdown, aggregate spending was, on average, 27% lower than the level that would have occurred in the absence of the pandemic.

Objectives of the Study

1. To study the effects of COVID 19 on the profitability of the banking sector.
2. To find out the relationship among NPAs, advances and Net profit in the banking sector.
3. To find out the measures taken by RBI to overcome the NPAs.
4. To study the Impact of the measures taken by RBI on general public.

Sampling:

Population: The Sample population for the study is all the banks (Public & Private) of India.

Sampling Unit: The sampling units consist of two banks (1 public bank and 1 private bank)

Data collection: The study is planned to be carried out with the help of secondary data.

Sources of Data: The sources of the data used are annual report of the bank, several magazines, newspaper, articles, journals and data from Literature review.

Method: Descriptive method of research is adopted and the data is presented by tables.

Data Analysis and Interpretation:

Private Bank (Axis Bank)

Year	NPAs (CR)	Net Profit	Total Advances
2017-18	16591.71	275.68	439650.00
2018-19	11275.60	4676.61	494798.00
2019-20	9360.41	1627.22	571424

According to the data, both net profit and non-performing assets (NPAs) are declining in 2019–20. It was noted that while loan disbursements are rising, non-performing assets (NPAs) are declining. The two metrics above indicate that the net profit ought to rise. Actually, though, it isn't. The reason for this is that non-performing assets (NPAs) exceed net earnings. Due to the pandemic, the bank raised its provisions for non-performing assets (NPAs) for the year.

State Bank of India

Year	NPAs (CR)	Net Profit	Total Advances
2017-18	110854.70	-6547.45	1934880.19
2018-19	65894.74	862.23	2185876.92
2019-20	51871.30	14488.11	2325289.56

The aforementioned NPA and advances data makes it evident that, while the NPA ratio was 5.72% in 2017–18, it dropped to 3.01% in 2018–19, increasing profitability. Despite the Covid-19 pandemic, a comparable location was discovered in 2019–20 after 2018–19. Digital payments, higher interest income from advances, corporate credit demand, and MSME lending are the causes.

We may therefore conclude that the financial crisis and COVID-19 epidemic caused a high demand for advances in 2019–20, which gave SBI a source of income in the form of loan interest. Additionally, a drop in non-performing assets (NPAs) enhanced profitability.

Correlation Analysis:

Correlation of	Axis Bank	SBI
Net profit	-0.90	-0.90
Net profit&Total advances	-0.70	-0.30

Analysis of Data:

In Axis bank there is a -0.90 correlation between net profit and non-performing assets. There is a -0.7 link between total advances and net profit. This demonstrates the reciprocal relationship between the two variables. Because the profit is so small in comparison to the bank's non-performing assets (NPAs), the reciprocal relationship is justifiable. NPAs therefore have a more detrimental effect on the company's profitability. Even while advances are growing, non-performing assets (NPAs) are impeding profitability.

The relationship between net profit and non-performing assets (NPAs) at SBI is -0.90. There is a -0.3 correlation between the total advances and net profit. For the correlations shown above, the explanation is reasonable. NPAs and net profit have a reciprocal relationship. The explanation is that SBI's non-performing assets (NPAs) exceed their net profit. In 2019–20, they made more loan advances. People needed credit demand throughout the pandemic time. NPAs have also decreased as a result of the customers' moratorium. As a result, their 2019–20 profitability has gone up. However, the bank's profitability will suffer in the upcoming years as a result of having to increase provisions for non-performing assets..

Findings of the Study:

During 2019–20, Axis Bank showed a rise in advances and a fall in profitability. in contrast to years prior because of the COVID-19 pandemic. However, SBI recorded a sharp rise in profits and a drop in non-performing assets (NPAs) in 2019–20. The demand for corporate credit, interest income from higher advances, SBI's robust and well-established digital platform (SBI YONO), and MSME lending are some possible causes.

Effects of COVID -19 on the Banking Sector

1. Difficulty in funding / providing loans: Banks offer loans based on a customer's creditworthiness. Banks may find it unusual or even unsafe to offer loans because of the unstable job market and business environment. Both banks and corporations are evaluating the pandemic's effects and the necessary actions to deal with the crisis on their own. It states that in order to assist the economy in overcoming the crisis brought on by the new corona virus pandemic, the RBI has announced a number of measures, such as special lines of liquidity, loan moratoriums, and loosened asset quality standards.
2. Digital Banking: Banks and government organisations are preparing for the transition to digital banking. There has been a noticeable increase in internet banking activity,

and consumers are no longer physically visiting banks. Many consumers are compelled to register and use digital banking applications and online banking as a new method of banking as a result of the disease's spread. With the advent of new digital capabilities, banks may respond to past problems in a completely different way. The banking industry's digital transition has been hastened by COVID-19. Customers of the bank who are not tech-savvy will face the challenge.

3. Effect on Credit Rating: The disruptions to India's economic activity caused by the corona virus pandemic have had an impact on the banking industry in India, which will make borrowers weaker. The impact of COVID-19 will hasten the decline in the banks' profitability and asset quality. The long-term local and foreign currency deposits of State Bank of India and HDFC Bank have been downgraded from "Baa2" to "Baa3" by international rating agency Moody's. Following Moody's downgrading India's sovereign rating from "Baa2" to "Baa3" with a negative outlook, this is part of rating action on 11 banks. Additionally, they changed Export and Import Bank of India's (EXIM India) long-term issuer rating from "Baa2" to "Baa3."
4. Loans: The demand for loans has declined as a result of the pandemic's significant impact on businesses and the job landscape. People's ability to repay has decreased as a result of the large number of job losses. It will be difficult for the banks to grant additional loans based on their creditworthiness at this time because the future is unknown.
5. Reduction in Income: Interest income and other sources of income are how banks make money. Due to a decrease in daily bank transactions and the RBI's moratorium period policy, the majority of bank revenue will decrease during the lockdown period. This had a significant effect on bank revenue, particularly during the lockdown quarters..
6. Security Issues: Unfortunately, fraudsters frequently exploit unforeseen circumstances or difficulties. One of the challenges facing the banking industry is cyber security. Banks are frequently the target of cyber security threats such as spoofing, botnets, cyber-squatting, cross-site scripting, and phishing. This damages the bank's brand, reduces consumer trust, and results in a huge financial loss for both the customer and the bank. The need for cyber security technologies has increased significantly as a result of the epidemic.

7. Prices of the shares in the market: Since the corona virus outbreak, the stock market has seen a significant change in price. Twelve of the banking industry's most liquid and highly capitalised stocks that trade on the National Stock Exchange (NSE) make up the Bank Nifty Index. It gives market participants and investors a standard that reflects the capital market performance of the Indian banking industry. The trend from January through May 2020 is depicted in the image below. After March, the trend appears to have sharply declined.
8. Disruption in supply and demand chain: In contrast to businesses, banks are less affected when production and distribution are disrupted. However, the funding for these businesses comes from bank loans. Therefore, the banks are concerned about recovering the loans that were given. The supply chain would be hampered by a decline in production as a result of some Indian businesses' heavy reliance on Chinese imports.

Measures taken by the RBI and Banks

1. **Reduction in margins and reassessment of working capital cycle:** With particular reference to the working capital facilities approved in the form of OD/CC to the borrower, the RBI has implemented a one-time measure for the top institutions in response to the economic strain caused by the pandemic. Recalculating the drawing power by lowering the margin until August 31, 2020, is the first phase. However, in any situation where a temporary increase in drawing power is to be considered, the margins must be returned to their initial levels by March 31, 2021; alternatively, the authorised limits for working capital up to that date must be reviewed, which will be determined by a reevaluation of the working capital cycle.
2. **Extension of Period of Advance**: For exports made up until July 31, 2020, the RBI has approved a term of realisation and repatriation for the export proceeds from the date of shipment that is 15 months instead of nine months. For payments made up until July 31, 2020, the RBI-approved maximum allowable pre-shipment and post-shipment credit period has been extended from one year to fifteen months. With the exception of imports of gold, diamonds, and precious stones and jewellery, the payment period for all imports made on or before July 31, 2020, was extended from six months to twelve months from the date of shipping.

3. **Reduction in the rate**: To lower the rate by 40 basis points, or from 4.4% to 4.0%, the Monetary Policy Committee voted in favour of the reduction by a number of votes of 5-1. Even the bank rate and the Marginal Standing Facility rate were lowered from 4.65% to 4.25 percent. The 3.75 percent reverse repo rate was lowered to 3.35 percent. (May 22, 2020)
4. **Refinancing Facility for Small Industries Development Bank of India (SIDBI):** A 90-day special refinance facility worth Rs 15,000 crores was previously announced by the RBI to SIDBI at the repo rate. It has been agreed to roll over the facility at the conclusion of the 90th day for an additional 90 days in order to give SIDBI more flexibility.
5. **Rescheduling of Payments:** The RBI has directed all commercial banks, cooperative banks, all-India financial institutions, and non-banking financial companies to extend the moratorium for an additional three months, from June 1, 2020, to August 31, 2020, for the payment of installments due to the extension of the lockdown on account of COVID-19. This moratorium applies to banks that offer loans, including agricultural term loans, crop loans, and retail loans. All of these loans had the same payback plan, including the residual tenor. Interest will continue to be charged on the remaining balance of the term loan during the moratorium period.

Impact of the measures taken by RBI on general public

1. Due to the lockdown, many businesses, organisations, and even individuals may not be able to pay back their debts, and income streams may not return to their previous location. The public will profit from the moratorium period, which is a very sensible move on the part of the Reserve Bank because it will lessen their financial burden.
2. Because the corona virus pandemic has harmed the world economy, the central bank decided to lower the various rates. A reduction in bank rates means that banks will be able to offer loans at a lower cost.
3. The repo rate is the interest rate at which the RBI loans money to other banks. Other banks can now borrow money from the RBI at a far cheaper interest rate when this rate declines. By lowering the interest rates on the loans they provide, commercial banks typically pass this benefit along to their clients.

4. By guaranteeing there will be enough money to cover redemption pressure, the special liquidity facility for mutual funds will create a liquidity window and serve more as a psychological signal to calm investor anxiety.

Conclusion

For India, COVID-19 has presented an unprecedented challenge. The Reserve Bank of India has acknowledged the difficulties and taken action, but they still have a long way to go and this should only be the first step. These are test periods, and banks must act swiftly to guarantee that services are delivered to clients smoothly and with the fewest possible interruptions. They will need to develop solutions that offer speedy fixes for the issues brought on by the COVID-19 pandemic. Financial institutions face a difficult task, and working with a reliable service provider could be the solution.

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