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An Empirical Study on Covid-19 Impact of Banking Sector

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ABSTRACT: In today's world everyone knows that the problem like covid-19 from 24th March 2020 Indian government announced total lockdown in the country and then Indian government extended this lockdown till 3rd May 2020. The country needs lockdown so that the lives of people in the country can be saved. Locking down and restricting the movement of people was the only solution to manage this crisis. These actions by all countries stopped all commercial activities. This pandemic affects various sectors such as commercial organizations, educational institutions, public and private offices, transportation, one of the sectors being banking, non-banking and non-banking financial companies (NBFCs), which are the backbone of the Indian economy. This article is an attempt to find out the impact of this pandemic on the banking sectors. As a result, all educational institutions, private and public sector offices and all commercial organizations were closed. However, the banking sector these days is burdened with bulky non-performing assets (NPAs), which affect not only the bank's profitability and liquidity, but also its reputation. The article indicated a very serious impact of the lockdown on banks and non-banking financial companies (NBFCs) if extended beyond July 2020.

KEYWORDS: Lockdown, covid-19, banks, Indian economy, government, people, country

I. INTRODUCTION

Covid-19 affects different people in different ways. To reduce the spread of the covid-19, government use some strategies like social distancing, compulsory wearing masks, shutdown of non-essential businesses like gift shops, fancy stores, electric shops so on . And because of covid-19 so many people face major health issues the main features of covid-19 are fever, cough, tiredness, loss of test, headache, aches and pains, sore throat, a rash on skin, or discolouration of fingers or toes, diarrhoea etc..,

II. LITERATURE REVIEW

The purpose of this paper is to review the previous of researchers on "A STUDY ON COVID-19 IMPACT OF BANKING SECTOR" This paper will present the main works on the financial effect of a study on covid-19 impact of banking sectors . overall, the results suggest that the crisis and the countercyclical lending role that banks are expected to play have put banking systems under significant stress, with bank stocks underperforming their domestic markets .

Some recent literature has studied the impact of COVID-19 on the banking sector. In this section I will go through some of them to focus on the topics of banking stability and performance, systemic risk, bank loans and non-performing loans.

Stability and performance of banking

According to Elnahasse, Trinha, and Li (2021), all economic players face unprecedented crisis with the global spread of the coronavirus. Banks and other financial institutions suffered immediate exogenous shocks. That's why it's important to examine the impact of this pandemic on the stability of the global banking industry. Elnahass, Trinh and Li (2021) examine the impact of COVID-19 on financial performance and financial stability using accounting, market and risk measures indicators before and during the pandemic. The study focuses on 1,090 banks from 116 countries between the first quarter of 2019 and the second quarter of 2020. The results show that the COVID-19 crisis has significantly reduced banks' profitability, costs efficiency, financial stability and stock market valuation. However, they state that there is a signal of recovery in bank stability during the second quarter of 2020. In particular, in tests in the US, China and UK/Europe, the results show that there is significant negative correlation between COVID-19 and ROA/SDROA of Chinese and American banks. This result shows that both banks in these two countries were negatively affected by COVID-19. Elnahass, Trinh, and Li (2021) argue that accounting and market measures show poor



profitability in US banks during the outbreak, while Chinese banks show marginal evidence of the negative impact of the pandemic on the ROE indicator, but other accounting measures, such as ROA and cost/income ratio are insignificant. In addition, Elnahass, Trinh, and Li (2021) also found that the market value of Chinese banks is significantly low during the outbreak, which is marginal for US banks. However, American banks have relatively higher assets risk than Chinese banks. Kunt, Pedraza and Ortega (2021) also investigated the impact similarly. However, the COVID-19 pandemic is targeting the banking industry, whether there is a shock they have a different impact on banks and businesses. The result is consistent with Elnahass Trinh and Li (2021) suggests that the COVID-19 pandemic is having an adverse impact on banks. Interestingly, they find that the impact of the shock on banks is more pronounced and longer term than for businesses and other non-bank financial institutions also recorded a larger decrease returns, which is consistent with their greater vulnerability to shocks. . In addition, they claim to have income from the shares of larger banks and public banks decreased significantly, and banks with lower liquidity

Problem statement:

The immediate spread of covid-19 has led to a vertical decline in key indices, it indicating a impact on GDP growth.

The first news burst came from Wuhan city of china on 31 December 2019. This corona virus is a new that has not yet been find in humans. The literature shows that covid-19 is a biggest family of viruses. This virus is spread very fast. This virus cause any kind like from normal cold to related to brain development problems . To avert covid-19 from spreading over the country, the Indian government announced a lockdown on 24/03/2020 and this lockdown extended upto 3/05/2020. Different actions taken by different governments across the world, the timely actions taken by the Indian Prime Minister Narendra Modi was praised by WHO and many people as a lockdown , because of the cure or to prevent of the disease was the best preference. Various institutions like World bank ,central banks economist, fund managers,IMF and consulting firms from various countries have expressed their fears about the devastating effect of lockdown in GDP world specially in general and emerging economics like India.

The IMF released its world growth projections on 14 April. It was that the great depression was likely to happen after the great depression in the 1930, which could be better than world financial organizations.

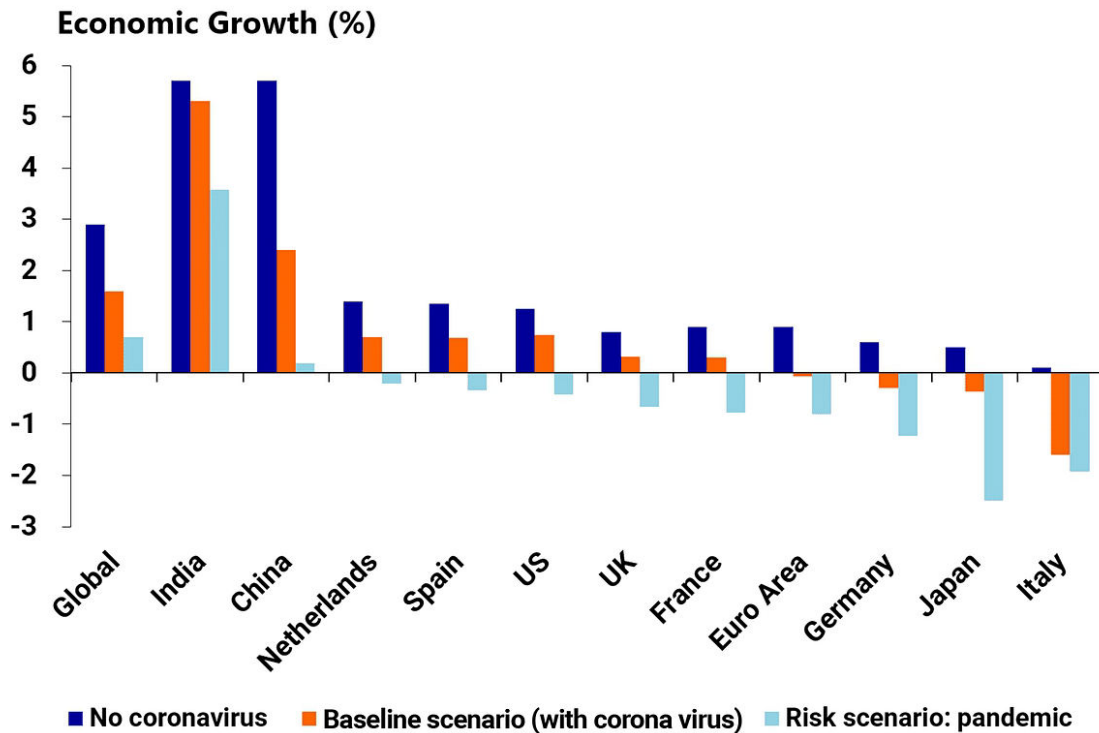
Indian banking sector: a Background

Bank is consider as a business activity of accepting and safeguarding money owned by individuals and then lending out this money in order to conduct economic activities such as making profit like by providing loans . Banks around the world considered as trustworthy.

Everyone believes in the bank and that money whatever an individual deposits is safe with the bank .The bank provided facilities to customers such as providing debit cards, credit cards and loans, organizing the loan mela, introducing partial credit guarantee scheme, etc. prominent position in India's economy and contribute to employment in India. Unfortunately of Banks has deteriorated.



Global Economic Impact Of COVID-19



Source: Rabobank, Macrobond

Bloomberg | Quint

Since the beginning of the reforms in 1991, it has been expamodernized.(KPMG 2017) as certain that the Banking sector is poised to become the fifth largest banking industry in the world in the year 2020 and will be the third largest by 2025. There are currently 34 Banks in India, out of which 12 are Public sector Banks. 14 Banks were nationalized in 1969 and 6 Banks were nationalized in 1980. The Reserve Bank of India announced in August 2019 that banks can have an exposure of up to 20 per cent of their Tier 1 capital to a single NBFC. This limit was 15 per cent earlier. This helped boost credit flow as bank funding to NBFCs grew by 30 per cent year on year. The Government has taken a series measures to generate demand and ease the liquidity by ensuring public sector banks lend furth to NBFCs, introducing partial credit guarantee scheme, organizing loan mel

+Non Performing Assets :

A non- performing assets (NPA) is a loan or advance for which the principal or interest payment remained overdue for a period of 90 days or more. Nonperforming assets is an assets that is used by financial institutions .

The Decisions Taken By the RBI To Check The Virus Impact On Economy

RBI announced a slew of measures in order to provide relief for the covid -19 outbreak in India. These include:

1. **CRR-** The RBI also announced that the cash reserve ratio would be reduced by 100 bps, or 1% , to 3%. This would be applicable from March 23, and would inject Rs.137, 000crore.

2. **Deferment capital interest-** The net stable funding ratio, which reduces funding risk by Requiring banks to fund their activities with sufficiently stable sources of funding was postponed to October 1, 2020. The NSFR was earlier supposed to be implemented by April 1, 2020.



3. **Ease of working Capital financing**- Lenders were allowed lending to recalculate drawing power by reducing margins and / or by reassessing the working capital cycle for the borrowers. The RBI also specified that such a move would not result in asset classification downgrade.
4. **Fresh Liquidity** - The impact of all the announcements today shall inject almost 3.2% of GDP, the Governor said in his brief today. The RBI also added that since February 2020 it had injected Rs 2.8 lakh crore of liquidity , equivalent to 1.4 percent of GDP.
5. **Repo Rate** - RBI announced that it was cutting the Repo rate by 75 bps, or 0.75% to 4.4. the Repo rate was earlier 5.15;last being cut in October 2019.
6. **Reverse Repo**- The regulator also announced that it would cut the reverse repo rate by 90 bps, or 0.90%. on a daily average , banks had been parking Rs 3 lakh crore with the RBI. The current reverse repo rate was 4 %.
7. **Loan Moratorium** - In a massive relief for the middle class, the RBI Governor also announced that lenders could give a moratorium of 3 months on term loans, outstanding as on 1 march , 2020. This is applicable to all commercial banks including regional , rural, small finance, Co-op bank, all India financial institutions and NBFCs including housing finance and Microfinance.
8. **LTRO** -The RBI will also undertake long term Repo operations; allowing further liquidity with the banks. The banks however are specified that this liquidity will be deployed in Commercial papers, investment grade corporate bonds and non -convertible debentures.
9. **MSF**- Marginal standing facility has also been increased to 3 % of SLR, available till June 30,2020. This measure should provide comfort to the banking system by allowing it to avail an additional 137000 crore of liquidity under the LAF window in times of stress at the reduced said RBI.
10. **Working capital interest** -A three month interest moratorium shall also be permitted to all lending institutions.

III. RESEARCH METHODOLOGY

As mentioned earlier, the aim of the paper is to assess the impact of covid-19 pandemic in India's banking sector. To achieve the objective's, as some conclusions have been arrived from the present literature on different sites of the journal and internet as highlights of interviews with renowned economics and fund managers, economic and financial advisors and senior officials of economic bodies, chambers of commerce and industry. At present, there is no proper data on the impact of covid-19 on different sectors of the economy including banks and there is only a rough estimate is available only about the number of positive cases. This paper is completely based on secondary data with the help of other articles, journals and internet. The covid-19 situation will not only accelerate adaption of technology, but will renew focus on the various areas of banking.

Channels of Digitization - according to the global search report , across the world India is the second largest non-populous household with 190 million adults without accessing a bank account by going to bank branches to utilize digital channels to current this column channel mix. Bank will consider some important factors like connectivity, lat mile, internet access, demographic, behavior patterns , customer banking,etc. To effectively adopted by Indian banking consumers.

Embracing Neo Technologies - in the pose -epidemic and economic emergency, emerging Technologies will play a vital role in fast transactions and less cost for banks. The Indian banking sector has realized that the role of technology to meet access and scale. These technologies will play a vital role in the digital transformation of banks and financial Institutions and re-imagine the digital delivery of services.

Customer Trust – in the financial year 2017 according to the RBI , a loss of 13 points 7 million dollars and india's banking sector saw an increase in cyber fraud. With the increasing use of digital economy and cashless , it will be mandatory for bank to implement privacy and secure structures and systems. Internal and external both weaknesses bank to identify .



Policy and compliance – specially in rural india focus should be on digital payments and infrastructure. India is already on its path to introduce the personal data protection bill on the lines of GDPR in the EU.

Other Impact

1. An outbreak like covid-19 is likely to result in a crucial shift in savings and risk to households. This increase can raise the flow of savings in bank deposits in the middle of struments of savings, which are always considered safe.

2. An outbreak like covid-19 may increase the demand for loans from banks, slowing down Secured lending like personal loans or credit cards.

IV. CONCLUSION

The impact of the covid-19 like epidemic on banks in India has left some banks to struggle because of deposits, as loans are protected by deposits. may force customers to lend less is tha condition of private banks, which may lead to poor liquidity. The RBI has given a 3 month extra period to all banks because of covid -19 which has brought some relief from the rules governing bad credit recognition , but banks non performing assest (NPA) have increased. It is well known to the bankers that since the implementation of the lockdown by the government of India on 25 March 2020, Reserve bank of india has taken a number of steps in performance of business in the banking sector. Reserve bank of india has also relaxed the deadline for bad credit rules due to the covid-19 and barred borrowers from paying dividends for the year ended 31 march 2019. The situation of Banks has decline due to the lockdown. But after withdrawing the lockdown now it will take longer to return to normally.

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