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The Influence of Covid-19 on the Indian Banking System

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The world economy faced never-before-seen obstacles as a result of the COVID-19 epidemic, which had a major impact on the Indian banking industry. This article looks at the pandemic's repercussions on Indian banks, emphasizing both the immediate and long-term consequences. Short-term interruptions to the financial sector were caused by decreased commerce, loan defaults, lower serviceability, and nationwide lockdowns. The long-term consequences encompass heightened significance given to digital transactions, a transition towards health and life insurance plans, and restricted prospects for deployment. The Reserve Bank of India (RBI) was instrumental in putting regulatory measures in place to assist the banking industry despite these obstacles. The RBI implemented relief measures such as moratoriums on loan repayment, modifications to working capital financing, and amendments to asset categorization guidelines to reduce financial strain. The financial markets were also stabilized by the RBI's monetary measures, which included large drops in the REPO Rate and injections of cash. In response, Indian banks hastened their digital transformation, a move that was motivated by the pandemic's revolutionary effect on banking practices and consumer expectations.

Keywords: *covid-19, banking system, financial stress, digital transformation, and economic recovery.*

INTRODUCTION

It is known that the banking system plays a major role in the modern economic world. The banking sector acts as a catalyst that boosts the growth in many other sectors of the economy and causes the development of the country. [1]Banks are the main source for maintaining liquidity in the market by accepting deposits and lending credit to people. The money in the market is created by the banking system. In a developing country like India, where its economy is developing, banks play a major role in regulating the money supply.

Millions of lives in the world have been affected by Covid-19. Globally, we could witness many deaths due to it. Covid-19 has affected the global economy and financial market. The Covid-19 pandemic exerted unprecedented pressure on the Indian Banking sector, creating multiple challenges. There was a fall in demand, production, and income that affected the working of the banks.[2] India took several measures to maintain the safety of the people of the country and this led to the disruption of the country's economy. Banks help to develop undeveloped regions in the country by transferring surplus capital and by making credits accessible and reasonably priced.[3]

INDIAN BANKING AFTER THE IMPACT OF COVID-19

The Indian Banking system was said that fallen to negative from stable, as it was mainly due to disturbance in the economic activity which made assets decline and this was because of the Covid-19 pandemic. Moody's analysis says that the decline in economic activity will cause unemployment will lead to a weakening the corporate finances, etc and it will increase wrongdoings. The bank's profitability is affected by an increase in provisions and a decrease in revenues that ultimately leads to a weakening of capitalization.[4] The government just can't infuse capital into public sector banks because it would be creating capital pressure on them.

[1] Nipun S, 'Role of Banks in the Economic Development of a Country' (*Economics Discussion*, 13 January 2017) <https://www.economicsdiscussion.net/banking/role-of-banks-in-the-economic-development-of-a-country/26094> accessed 10 March 2024
[2] Asif Perwej, 'The Impact of Pandemic Covid-19 on the Indian Banking System' (2020) 11(10) International Journal of Recent Scientific Research <http://dx.doi.org/10.24327/ijrsr.2020.1110.5578> accessed 10 March 2024
[3] *Ibid*
[4] *Ibid*

The COVID-19 outbreak had a profound effect on Indian banking. Consider this: during the period of widespread lockdowns, companies came to a complete stop, employment fell, and the overall level of economic activity decreased. All of a sudden, banks were dealing with a flood of loan defaults and were finding it difficult to remain open—both physically and metaphorically—as clients were unable to visit their offices and staff were having trouble working remotely.

Various economic and fiscal stimulus measures have been introduced by the government and RBI to overcome the crises. Banking, Financial Services, and Insurance (BFSI) were expected to focus on liquidity, ensure their employees well and credit risk moreover to maintain the quality of financial reporting and disclosures.[5] A relief in liquidity, regulation, and supervision of the financial market was given by RBI as measures to financial institutions. The banks were expected to consider financial and reporting with regards to liquidity and credit risk assessment.

THE COURSE OF ACTION TAKEN BY THE WORLDWIDE BANKING SYSTEM AGAINST THE COVID-19 PANDEMIC

There is active participation from the central banks to stabilize the market and take all the measures possible. The US Federal Reserve (Fed) deducts 50 basis points from federal funds. The Fed increased liquidity by actively intervening in the repo market. The Bank of Japan bought assets through which it injected liquidity into the market. The Bank of China has injected more than 240 billion us dollars of liquidity into the market to overcome the COVID-19 crisis.

EFFECTS OF COVID-19 ON DIGITIZATION OF THE INDIAN BANKS

The Banking service is known as one of the essential services in the country. The Banking and financial institutions were pressured to work as usual during lockdown and health crises. All the functions of banks that are accepting deposits, withdrawals, and clearing cheques had to be executed by taking proper measures.[6] It was a challenge to both employees and customers which

[5] *Ibid*
[6] *Ibid*

created a loophole and there was a lack of suppleness in the banking system. Covid-19 has transformed us to do digital transactions and use E-banking, this will remove the dependency and intervention with banks.[7]

It is expected that Indian banks will shift from a traditional way of operation to a new digital way of operation. Due to the adverse effect of COVID-19, 27 Indian Public Sector banks were merged into 10 large banks.[8] If these public banks adopt better technology and customers it will add to digitalization. The rest of the banks that are already working online will be expected to focus on the digital transition. The practice started during Covid-19 times and has become the new normal that we have been using in our daily lives. This is how it improves the digitalization of banks in India.

SHORT-TERM AND LONG-TERM EFFECTS ON INDIAN BANKS DUE TO COVID-19

The short-term effects are: the unable to access the data or infrastructure due to the national lockdown which led to a decrease in serviceability, default in payment of the loan, a major decrease in domestic and international trade, and Both employees and customers can't access the branches of the banks and the returns expected are low because of temporary correction in the valuation of FIs.[9]

The long-term effects are: It would increase the need and preference for digital transactions, it would increase the demand and preference for health and life insurance policies, there would be limited deployment opportunities which would concentrate the surplus capital and the payment of loans would be less due to the reduction in revenue and margin.[10]

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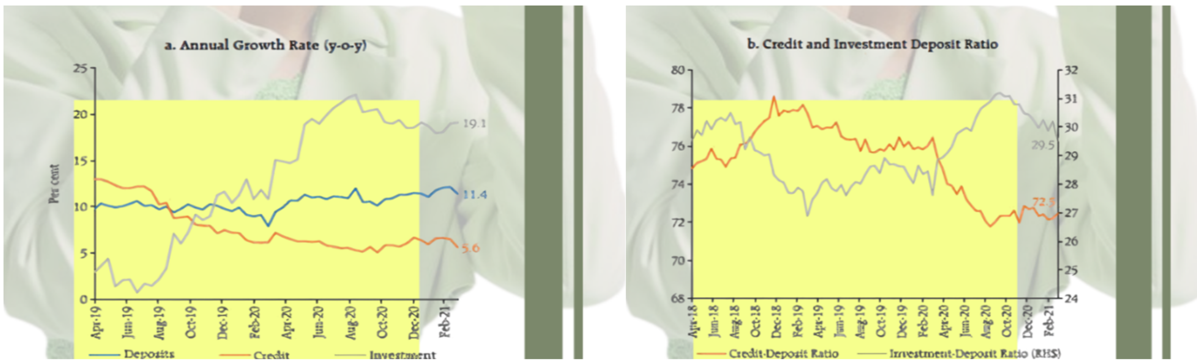
[7] *Ibid*
[8] *Ibid*
[9] Priyanka Bobade and Prof. Anu Alex, 'STUDY THE EFFECT OF COVID-19 IN INDIAN BANKING SECTOR' (2nd International Research e-Conference on Corporate Social Responsibility and Sustainable Development, 10-12 December 2020)
[10] *Ibid*

The Graphical representation of Annual Growth and Credit and Investment Deposit



The Scheduled Commercial Banks' credit growth for the fiscal year 2020-2021 has been shown as 5.6% at y-o-y in the graph, the balance sheets got impaired because of the risk posed by the pandemic and it was continuously pointed out. (Reserve Bank of India, 2021) At the end of the year, the deposit growth was robust and still consistently at 11.4%. (Reserve Bank of India, 2021)The banking system's ability to provide the economy's credit needs is waning as it increasingly finances the government's market borrowing program. Bank investments in governmental securities increased by 22.1% by mid-September in 2020–21 and continued to be high after that. Similar periods of slow loan expansion and rapid investment growth in government securities were observed following the global financial crisis and after the introduction of demonetization. As a result, banks' credit-deposit (C-D) ratios sharply decreased in the first half of 2020–21, while investment-deposit ratios increased in the cycle. In H2:2020-21, the drop in C-D ratios was stopped.[11]

ROLE OF RBI IN REFORMING THE BANKS DURING COVID-19

RBI had set a few regulations on the banks by forming provisions and asset classification norms. There was a relaxation to customers with regards to payment of the loan and improved access

[11] 'State of the Economy' (*RBI BULLETIN*, 26 April 2021) <https://www.rbi.org.in/Scripts/BS_ViewBulletin.aspx?Id=20202> accessed 25 September 2022

to functioning of capital management also it favours entrepreneurs to carry their business by preventing financial stress.[12]

The Reserve Bank of India (RBI) intervened to assist, nevertheless, amid the complication. Promptly, they implemented policies to mitigate the strain on banks and debtors, such as extending loan terms and providing liquidity injections to the economy. For everyone concerned, these steps gave them some much-needed breathing room. The shift to digital banking was one unanticipated benefit of the pandemic. People had to learn to use online and mobile banking choices as physical banks were no longer available. Customers may now handle their funds more easily from the comfort of their homes due to Indian banks' forced acceleration of their digital transformation initiatives. We are heading toward a future where we are more tech-savvy as if the pandemic gave digital banking a boost. Furthermore, it was no longer only about banking. Everyone, even banks, had to re-evaluate their objectives as a result of the pandemic People suddenly recognized how important it was to safeguard themselves and their loved ones during times of crisis, which led to a greater emphasis on health and life insurance plans. As banks realized their consumers required more than simply a location to store their money, they began to offer more complete financial solutions.

1. Changes in the Payments: RBI had asked to provide 3 months of relaxation i.e. from June 1st, 2020 to 31st August 2020 in the payment of EMIs, and the terms were changed for the loans which included agricultural loans, retail loans, and crop loans.[13] This was meant for all the commercial Banks, co-operative banks all India Financial institutions, and Non-banking Financial Companies. Banks were suffering as there was an industry downturn and the closure of business. Therefore, there was a structural shift in the policy and industry of banking. Indian banks showed perseverance in a time of difficulties. With support from the RBI, they braved the storm, welcomed change, and emerged stronger on the other side. Nonetheless, work has to be done. We must continue to help people in need and address the pandemic's aftereffects as we go forward.

[12] Bobade (n 9)
[13] State of the Economy (n 11)

2. Provisions made in Working Capital Finance to reduce the stress of financial institutions: RBI provides the facilities to pay the loan of working capital in cash credit form or to the borrowers which reduces the stress of financial institutions. The RBI declared the drawing power and the working capital was reduced till August 31st, 2020. This arrangement was temporary i.e. till March 31st, 2021. RBI used to keep a check on sanctioning working capital limits based on a reconsideration of the working capital cycle. The accounts that have been given relaxation under the guidance have been subjected to supervisory review with the justifiability given on their account of the economic fall from the pandemic.

3. Classification of Assets by RBI Guidance: The RBI made a Funded Interest Term Loan from accumulated Interest converted by it and to overcome the pandemic crises it changed the credit policies of the borrowers. RBI had worked on stressed assets by resolving them under a prudential framework that would not downgrade the asset classification. Under the Income Recognition and Asset Classification rules the granted term loans were excluded from overdue by financial institutions for asset classification.[14]

CONCLUSION AND OPINION

The bank activities have been problematic due to the global spread of COVID-19. Every business in the world has been badly hit by the COVID-19 epidemic. Greater planning and new strategic initiatives were required when efforts to recover were made. The continued effects of COVID-19 on a worldwide scale have posed several problems for banks and the broader financial services industry.[15] The Covid-19 pandemic epidemics have shocked the Indian economy like never before. To overcome these obstacles, banks continued to use technology and include flexibility in their infrastructure. In India, banking services are included in the list of essential services. In the middle of the lockdown and health crisis, banking and financial institutions were under intense pressure to maintain business as normal.

In this essay, we sought to show how closely the pandemic COVID-19 affected the Indian banking system and briefly discuss how Indian banks were prepared to deal with COVID-19

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[14] State of the Economy (n 11)
[15] Perwej (n 2)

and its effects on the financial services industry. The steps taken by the RBI to deal with pandemic crises were helpful to revive the banking sector during the pandemic. RBI had reduced the REPO Rate by 2-3% and it sustained the REPO Rate reduction to nearly zero. RBI also helped the liquidity of the domestic market by infusing dollar SWAPS LTRO.[16] Moreover, Public and private Indian banks started to focus on digital banking by making their functions fully digitalized.

[16] Bobade (n 9)