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RESEARCH ARTICLE

POST COVID-19: BOON OR BANE TO THE BANKING INDUSTRY

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ABSTRACT

The cataclysmic corona virus has changed how a layman looks at the future, permanently. The ripples of this disruptive pandemic will be felt emotionally, economically and politically for several generations. This uncontrollable situation threatens the economic growth severely while changing the outlook of well capitalised and profitable community banks and credit unions.The BFSI(Banking, financial service Insurance) sector has experienced a surge in its nett NPA, causing an economic turmoil. With continuous evaluations in the lending practices, several institutions have also improved their credit management system. Through this research paper, we learn how governments, banks and other financial institutions have adopted to such hard times.

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INTRODUCTION

As corona virus temporarily shuts down many businesses and chokes the consumer demand, the corporations find their bottom line in shambles, resulting in minimal cash flow and a diminished working capital to satisfy their creditors debt payments. This has caused a significant uncertainty and an economic turmoil. The finance ministry has taken several steps in coordination with RBI to curtail the rising non-performing assets and refrain the country from entering into a crippling recession by providing liquidity injections, targeted loans to affected sectors and regions and policy rate cuts. Majority of the business houses across the country have taken a haircut on their staff force which employs nearly 51% of the total Indian population resulting in an increased loss of income, which has caused a severe plunge in the economic activities thereby disrupting the supply chain and mobility.

The statistics of borrowers in india per anum: In the current world, Loans are very essential for an individual, business, country and without this it is almost impossible to buy a car, education etc.

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As years passing by, standard of living in India has increased and the number of people who take loans are increasing by the day. A study says that nearly 68% of the people in India are open to taking loans. Every 2 out of 3 people, out of which nearly 60% or little more are granted a loan. Personal loans constitute 28% (as of end of February,2020) of the total bank credit which clearly gives an idea of the number of people who take loans. Other than personal loans, other loans also are widely used by businesses etc. a graph of the same shows a representation of the approximate figures. A lot of borrowers do not pay their dues on time thereby defaulting resulting to mounted losses. Over the past few years , the number of defaulters has increased by a large scale. In the last three years, the Indian banking system has lost Rs 1.76 lakh crore on account of non-performing loans of 416 defaulters - each owing an average of Rs 100 crore.

Evaluation Of Bank Lending Practices: The GFC (Global financial Crisis) has shaken the banking industry to its roots. The Indian financial system is heading for a dark turn, where it could witness a 2.76 percent growth in its non-performing assets and a staggering increase of the credit cost by nearly 150 points. Prior to the pandemic, the private banks had forecasted to double their retail loan books to 96 trillion rupees with Increased availability of information, increased competition resulting in lower costs for customers, government and regulatory policies, significantly increased penetration of digital lending and a reduced operating costs as a result of increased use of technology and data analytics at its core. The implementation of these five elements will sketch out a path for the bankers, but presently, the industry walks upon a thin screen. The appetite of leading bankers towards the unsecured retail loans has faced a major downturn, the risk-reward pay-off for unsecured lending may no longer meet return expectations. There has been a paradigm shift to a Loan book with a sharp rise of wholesale secured lending, where the market valuation for the commercial real estate are significantly revised, which will result in borrowers reducing their leverage thereby providing higher value of collateral to underwrite the loan.

Trends of credit management over the years: The entire process of loans essentially involves acceptance of deposits and channelizing these deposits into loans that are issued to borrowers. In this process, certain amount of default is likely to happen by the borrowers for which the bank has to be prepared and this is facilitated by the credit management system and this is a crucial part of the banking system that should ensure that the risk is reduced to the maximum. In the outset lending decisions were made on impressions and judgements as banks knew their borrowers where complete information and data was not required. But over times, lending practices got diversified, more complicated which resulted with increased risks and the credit management naturally had to evolve. Early 2000s things started to change and post the 2008 crisis is when things took a drastic turn in the financial system. This time saw the most credit defaulters. The financial system saw a huge dip which is when the credit policies, framework, models, portfolio management and risk and a lot more rules and regulations came into action thereby making the process of credit management more efficient.

REVIEW OF LITERATURE

SARS and several other gruesome pandemics in the past had a massive impact on the economy of nations across the world. The stigma of community transmission played a severe downturn role in the local consumer spending, which is why individuals refrained from leaving the safety of their home.The ripple effected several sectors thereby worsening the unemployment problem. The arrival of visitors in top Asian countries dropped by 10.4%, thereby causing a drop in the aircraft movement. The overall export and re-export business was heavily disrupted with a trade deficit of HK$16.0 billion and HK$9.8 billion in the period (Asia-Pacific Economic Cooperation, 2004). The mother of all flu's, Spanish flu had massive implications on the banking system causing a staggering growth of non performing assets. Central banks apply full range of tools to remedy the fallout caused by the pandemic, thereby increasing the overall liquidity of nations. In the initial days, there were several incorrect steps adopted, where the banks did not borrow enough to offset the large deposit outflows as a result, these banks reduced loans and liquidated other cash assets. For the overall stability, it became essential to list the liquid assets held thereby tracking the vault reserve (Anderson, Chang & Copeland, 2020). Increased spread of HIV/AIDS had a dramatic effect on the overall labour supply, causing a wide spread disruption of the economy, specifically in European regions of Botswana. The national savings exceeded the overall investments by a substantial margin. The banking sector faced a range of pressures, as AIDS lead to significant drop in the life expectancy of those effected. The supplementary medical insurance premium surged by 40%over the last 3 years. Furthermore, it lead to permanent decline in the rate of capital inflow, a decline in capital accumulation (Lamontagne, Haacker, Ventelou& Greener, 2010). The stock market is the barometer of the economy, hence its highly essential to analyse the DJIA and S&P 500. COVID 19 stands out for an extremely high frequency of large daily stock market moves in both direction. Several epidemics like MERS, SARS , Ebola ,H5N1 or H1N1 had caused an everlasting impact on the how banks lent money, but the corona virus has suffocated the banking industry. Thereby increasing the volatility and bringing to light the policy uncertainty (Baker et al., 2020). The level of cover of different debacles giving knowledge into the possible effect of COVID-19 on the money related markets has a lot to do with levels of overflow related with different past occasions. As COVID-19's effect will cover the globe, it is valuable to contrast the COVID-19 circumstance with past occasions that, albeit more confined, have prompted overflows that have set up broad effects. An issue that will probably be considered by specialists is the means by which COVID-19 will possibly forever change firm financing. As examined above, COVID-19 features the chance, or to be sure the probability, of infectious sickness occasions that will have colossal negative effects on worldwide local interest. This is a distinct advantage from budgetary markets fail to value the possibility of awful tail-chance occasions that would not be survivable at any rate. COVID-19 and others like it are comprehensively harming to the world economy to a once in a while precedented degree. In any case, they are survivable. We ought to expect now that there will be a drawn out effect on firm financing and firm expenses of capital (Zimon & Dankiewicz, 2020).

Covid-19 pandemic has incited a profound monetary emergency that may incite another money related emergency. However, in the center of the budgetary unrest in the course of recent months, banks have been a wellspring of versatility. On account of significant changes after the emergency of 2007-2009, the vastly improved promoted and more fluid banks were not under quick pressure. Truth be told, they are viewed as helpful to help the genuine area's financing needs. Be that as it may, banks will go under pressure. Enormous scope bankruptcies among firms may emerge. An influx of insolvencies among families may follow. Banks could in the long run get made up for lost time, with worries to surpass those imagined in numerous tests. The emergency goes ahead head of the mix over the previous decade of determinedly low financing costs, guidelines, and rivalry from shadow banks and new computerized participants that has tested the customary plan of action in banking. The inquiry is the thing that the results will be for banks' plan of action. We contend in this report the Covid-19 emergency will quicken pre-emergency inclinations as stifled development and low loan fees will endure for quite a while and digitalisation will see an enormous stimulus, with numerous new computerized participants. Profound rebuilding in the segment will be required (Collins, 1988). Trade Credit Management Strategies in SMEs and Banks should concentrate fundamentally on key territories of retail and business banking,the most important one being: NPLs will flood as buyers and organizations can't make advance installments and there will be expanded interest for new credit. The income of numerous customers and organizations is crumbling as absence of interest courses through into lower business incomes and representative cutbacks.

For certain specialists, similar to those in the gig economy and the café business, the effect will be quick and extreme as demonstrated by the spike in joblessness claims the world over. For those in normal pay demployment the momentary effect perhaps restricted, yet in the coming months cutbacks will ascend as will leave of absence programs and different estimates that will decrease family unit earnings. On the off chance that successful move isn't made ,there will be a fast ascent in shopper and business NPLs as borrowers battle to make planned intrigue and head instalments (Altman, 2020). Italy and some other European nations have battled to change over certain clients to internet banking. Presently that the covid-19 flare-up has constrained them on the web, it is an open door for banks to bring themselves into the future and spotlight on high-esteem include administrations. In nations like the US and the UK where national banks are free just by strategy decision, the market will generally expect that these national banks will consistently assist with monetising the obligation, either by direct buys or by roundabout command over the yield bend. Monetary forms should fall however in reality as we know it where everybody has comparable issues, there might be advantages to really having an answer for the issue(Horvath, Kay &Wix, 2020).

Because of the pandemic, it may turn out to be excessively unwieldy or hard for banks to decide the degree and sufficiency of guarantees accessible with them and the ensuing provisioning. There might be extra revelations required in the fiscal reports and the calculation of capital ampleness for COVID-19. Banks would accordingly be required to keep up strong hazard the board capacities and track their borrowers separately to decide and isolate the changeless effect from the impermanent effect and make proper arrangements. The defaults may have expanded generously the same number of organizations would have lost income for quite a while. An expansion in defaults is probably going to cause issues in liquidity and capital ampleness. Nonetheless, the RBI has thought of specific measures to give liquidity to all the loaning foundations (Wang &Enilov, 2020).

RESEARCH METHODOLOGY

The research is empirical in nature and is mainly based on secondary data. Through this research paper, the authors have mainly focused on the rural population of India and covers the rural areas of the country. The data collected is mainly secondary data, collected from various websites, research papers and journals.

DATA ANALYSIS AND INTERPRETATION

The pandemic has created a void with massive implications on the overall financial health of several countries. The central banks have to juggle between taking immediate and concrete steps to protect the current scenario while planning and recalibrating for the dynamic future. The economic fallout has resulted in a near zero interest rate loans to satisfy the consumer expectations. According to the secondary data, there are several ordeal tasks , banks can undertake to support the masses and the failing economies by creating parity between medium and long term positioning.

Challenges faced by the market: As the pandemic persists, the non-banking institutions which are mortgage centric with minimal liquidity and a bleak capital buffer will be unable to withstand a shock of this magnitude. This ordeal situation is led by increasing delinquencies of unemployment as well as emerging risk in mortgage servicing has caused a storm in the overall financial system. This could resonate to the rest of the industries. Several Public Sector Units(PSU) have stepped up their services to curb the growing default rates such as limiting the duration for advancing payments, by providing pass-through programs, and allowing a rejig in NPA's. The likely increase in challenges will cripple profitability. Minimising the management of delinquencies, fronting the home loans as well as loan modification would drastically increase the operational cost.

To manage this deteriorating situation, the banking industry must:

Be more proactive

- Focus on the stressed loans to provide a win-win solution
- Regularly initiate an engagement with lenders and PSU's to manage liquidity
- Understand and communicate clear advice to distressed customers.
- Forbearance, modification of loans and refinancing must be the options provided to borrowers.

Be more agile

- To adopt an approach to improve efficiency and reduce risk.
- To focus on transferable skills and cross train employees to increase the scale of operations.
- Outsource third parties wherever possible, to maintain the working capital and manage the cash flow.

Be more digital

- Utilising digital data to identify borrowers which are most likely to face financial difficulties, thereby providing them with tailored financial solutions.
- To deploy cloud based- tech to induce customer engagement and document workflow to serve customers better.

Dependency on digitisation: The pre-COVID scenario included a massive infusion of capital, liquidity breathers and extended moratoriums to increase the overall credit demand. The banking industry in association with the GoI have made significant improvements in the digital space. They have enabled a digital payment ecosystems as well as a digitised lending process to increase liquidity and achieve the target interest rate, thereby fulfilling the consumer demand faster and more efficiently. The Reserve Bank of India introduced Aadhaar-based video customer identification, is aimed to provide a more reliable and an economically beneficial method of on boarding a customer. Institutions are incorporating components such as workflow to process the information as well as business rules engine to automate credit decision. This dynamic shift will help corporations to mitigate losses and will initiate the beginning of a new era.

How has covid 19 affected banks?: Public sector banks, previously sitting on a major awful bad debts , gaze at more defaults due to the coronavirus emergency.

They anticipate a progression of defaults by little and medium organizations as the money related year attracts to an end. Envisioning future income issues and likely ban on credit reimbursement, an enormous number of organizations may want to default on their next advance contracts to safeguard money in the midst of questionable future. In the event that the ban on credit reimbursement doesn't come, banks might be burdened with tremendous NPAs by virtue of defaults.

The corporates are pulling back money from the fluid assets of common assets and may tap the crisis acknowledge lines as income gets close to zero. Obligation common assets have seen Rs 1 lakh crore being pulled out of fluid assets by a week ago. Security advertise liquidity has additionally evaporated as yields have shot up by up to 150 premise focuses.

WHAT ARE THE POSSIBLE SOLUTIONS?

A great deal has been done as of now. Banks in India have concentrated on keeping up basic staff at branches and have briefly redeployed staff to oversee on the web or telephone enquiries from clients. They've likewise sent versatile ATMs and executed doorstep banking for senior residents and different clients that need extra consideration. We anticipate that money related firms should execute video coordinated effort devices, new visit and informing programming and other fintech developments to proceed with live cooperations with clients who have been adapting to social separating standards, with some previously utilizing basic purchaser applications keeping that in mind. A few banks have made interests in innovation and computerized change over the recent years. A ton of them, be that as it may, are still intensely dependent on up close and personal communications, bolstered by paper forms. Thus, we hope to see reestablished energy in the Indian money related administrations industry with banks putting forth a purposeful attempt to up their advanced game. This will be critical as COVID-19 is probably going to have a drawn out effect, and banking contacts all aspects of our economy.

In this dire need of solutions, banks are focusing on the following major components

a)Customer Service and Advice: Because of social distancing, an expanding number of consumers are utilizing internet banking channels to deal with their cash. This is probably going to bring about a more perpetual move in client inclinations to computerized channels and an expanded interest for advanced administrations. It's significant for banks to be available to all purchasers, including the older or those inexperienced with advanced banking, giving training on the most proficient method to utilize computerized instruments, keeping ATMs loaded and operational. As clients look for help and exhortation on momentary money the board and rethinking their future, banks would need to organize live communications through video coordinated effort instruments. This expansion in advanced client commitment must go connected at the hip with an increase of cybersecurity and misrepresentation security apparatuses to ensure clients.

Credit Management: Even with the Indian government's stimulus packages and Reserve Bank of India's (RBI). liquidity measures, banks can expect an expansion in advance defaults as borrowers across client bunches battle to make installments despite a financial emergency coming about because of lost business and positions. Other than the ban office reported by the RBI for all term advances, as a component of the COVID-19 bundle, banks ought to consider proactively rebuilding advances to diminish the income trouble in the close to term, in this way decreasing defaults in the short term. The business must cooperate to make the budgetary alleviation process speedy and simple to send. Banks ought to proactively start credit patience and change programs utilizing an information driven way to deal with comprehend which clients need assistance and afterward quickly connect with custom fitted, pertinent arrangements. Indeed, even with these projects set up, a few clients may in any case not have the option to make their next installments. Thus, banks ought to get ready for misfortunes and manufacture ability to manage an expansion in deficient credits. As buyer request gets, though step by step, post lockdown, banks should repurpose their go-to-market and client securing model, remembering changing shopper conduct post COVID- 19, just as spotlight on carefully local excursions and re-take a gander at guaranteeing standards for better hazard disclosure.

Revenue Compression: Revenue from retail and business banking is falling forcefully, as as underlying consumption and transactions have seen an exponential plunge. While national banks the world over cut loan costs, banks are diminishing respects create business, therefore altogether lessening net premium edges. Pay from installments and other charge based administrations are hit by an overall decrease in monetary movement. With measures like ban periods gave on advances, banks' income have likewise endured a shot. We anticipate a general drop of up to 10% in banks' installments incomes, which implies a USD 150 billion top-line decrease for the business universally, as request in divisions like retail and amusement falls strongly or moves to online channels, while action in zones, for example, the travel industry and travel vanishes. There is little that banks can to do to stop the general drop in income, yet they can concentrate on making installments more secure by expanding limits on contactless installment channels and instructing shoppers on computerized wallets. Banks can likewise concentrate on cashback and devotion awards to empower spending in segments that need it the most.

Operating Model Adjustments, Cost Elasticity and Innovation: Over the following hardly any quarters, the financial area will confront a misalignment between transient expenses and incomes because of the monetary effect of COVID-19. Banks would need to survey and organize current tasks to guarantee distribution of assets to the most squeezing needs. Banks ought to likewise concentrate on putting resources into regions that will outlast the current pandemic, including activities and activities that keep up or improve the client experience, for example, a paperless utility, start to finish computerized warning and loaning abilities, expanded misrepresentation and cyber security investigation and location, and so on. These new computerized instruments will make banks more effective and tough to future changes. Banks that haven't concentrated on distant working and virtual joint effort in the past ought to investigate setting up flexible activities. This will safeguard banks against such extraordinary lockdowns and maybe better oversee cost overheads https://www.lightico.com/blog/coronavirus-covid-19-and-the-banking-industry-impact-and- solutions/amp/

Conclusion

The entire economy has come to a point where it is stagnant and dysfunctional. At this time, in the need of the hour and the dire need of money banks are the only saviours. But what if these same banks are in a tight situation, caught up with previous bad debts and with this surge of episodes, a new pile of bad debts and defaults are just making it much harder for these banks to function efficiently . Covid 19 has hit almost all the sectors hard and one a lot of industries are deeply affected by this pandemic. The banking sector is one sector that has been affected the most and it will take a good amount of time to get things back to normal with its proper functionality. Although banks are walking on a thin rope in the current situation, a lot of precautions and necessary measures have been made. Taking into consideration the previous SARS epidemic and the 2008 crisis, it is fair enough to say that we are lucky enough to have some previous knowledge and experience of how to handle the situation. After these two incidents, a lot of rules and regulations came into play, with strict security measures as well. On a whole the process became more systematic and easy to handle. In brief we can say that it has been a learning experience for the banking sector which proves to be an advantage. That being said, the banking sectors have applied a lot of their previous knowledge into handing the covid situation. Strict measures, rules and regulations. Credit management has been given a lot of importance. Banks are dealing with this aspect with more caution than ever. Other aspects that banks are focusing on are revenue compression, cost elasticity, customer service and advice. Customer service and advice has increasingly been used by a lot of customers to make the right decision at this point in time. To conclude with , this pandemic has taken a huge toll on the banking sector but the banking sector is fighting real hard. The question is how successful will this be ? will the banks defeat the pandemic and emerge out victorious or succum to it? Well, the only answer is time. Time will give us all the unanswered questions.

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