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Covid-19 Paralyzing the Backbone of Indian Economy

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Abstract*: The Indian government's three-decade-old economic reforms altered the terrain of various sectors of the Indian economy. The banking sector was no exception. As a result of reforms, this industry has seen significant changes. The banking sector plays vital role because it provides one of the most critical services for a developing economy. India is one of the largest economy in the world and its US$ 2.52 trillion[1] banking industry is the backbone of the Indian economy. The sector recovered well from global financial crisis and demonstrated its resilience when the industrialized economies were affected. The banking sector in India is booming, thanks to the government's efforts to increase financial inclusion. Today service sector contributes half to Indian GDP and banking makes up chunk of it. India must continue to exploit the growth of banking sector which will help in achieving the distant goal of becoming a developed economy.

Keywords: Banking sector, Banks, Covid-19.

I. INTRODUCTION

In 2008 we witnessed the World economy going through some intricate circumstances as countries banking structure was collapsing. The scenario lead to recession in many major economies like US and Europe. However, amidst all of this Indian banking structure had been amongst the few to maintain resilience. Ever since we have seen tremendous growth in Indian banking sector. In addition to cooperative credit institutions, the Indian banking system includes 12 public sector banks, 22 private sector banks, 44 foreign banks, 56 regional rural banks, 1,485 urban cooperative banks, and 96,000 rural cooperative banks[2]. The total number of ATMs in India climbed to 209,110 in August 2020, and is predicted to reach 407,000 in 2021. India's foreign exchange reserve, according to the Reserve Bank of India, reached US$ 560.53 billion on October 23, 2020. In the workweek ending October 9, 2020, bank credit and deposits were Rs. 103.43 lakh crore (US$ 1.39 trillion) and Rs. 143.02 lakh crore (US$ 1.92 trillion), respectively, according to the Reserve Bank of India.[3]. However, all of this might change amid the covid crisis. The coronavirus pandemic also brought into light many existing challenges faced by these banks for years which were overshadowed by the overall growth of the banking sector.

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[1] https://www.caclubindia.com/articles/banking-sector-in-india-market-size-investments-developments- 27549.asp

[2] https://www.ibef.org/industry/banking-presentation#:~:text=As%20of%20August%202020%2C%20total,to%20reach%20407%2C000 %20by%202021.&text=102.80%20lakh%20crore%20(US% 24%201.38,%24%201.52%20trillion)%20in%20F Y20.

[3] https://www.iasgyan.in/ig-uploads/pdf/9030484.pdf

II. OBJECTIVES

To examine the challenges faced by the banking sector amid the coronavirus pandemic.

III. METHODOLOGY

The methodology used were quantitative methods. Secondary data was collected from published sources. The data obtained from all these sources has been used in the study.

IV. CHALLENGES FACED BY BANK BEFORE PANDEMIC

1. Rural banking:

RBI has directed all banks that their service must extend to all the Indian villages as a part of financial inclusion strategy. But the problem is there are about 70000such villages[4]. Setting upa brick and motor bank in every village is not financially feasible [1]. The cost involved is huge and returns very minimal. So, banks have to explore expensive modern information and communication technologies to expand their reach.

2. Failure of Public banks:

It's no mystery that public banks are highly corrupt and inefficient. It's so bad that RBI has to introduce several action banks to keep these banks alive. The government every fiscal year injects crores of Rs into thee banks. The main problem with these banks is the rising NPA's or the non-performing assets. Their NPA ratio is so high that it is adversely affecting their ability to grow. It is because of this reason many of these public banks are being privatized [2].

3. Increasing expectations:

Clients today are more savvy, intelligent, and well-informed. They anticipate a high level of personalization and convenience from their financial services. These heightened expectations are mostly due to changing client demographics [3]. Clients of financial services are becoming more technologically savvy with each new generation. As a result, there is a higher expectation for digitalized opportunities.

[4] https://www.businesstoday.in/moneytoday/perspective/atm-rural-areas-non-bank- entities-rbi-nod- automated-teller-machines/story/22789.html

Based on these figures, financial institutions should expect future generations to be even more invested in digital banking and technologically dependent. Human engagement is important to Generation X and Baby Boomers. They prefer to physically visit branch locations. This provides a unique challenge to the banking system once again. They must devise methods to please both younger and older generations of banking customers at the same time. Client satisfaction is crucial to a company's success. Banks will have to keep all of their customers pleased in order to retain and attract new investment.

4. Regulatory compliance:

This is one of the most critical issues facing the financial industry. This has been led by the huge growth in regulatory fees. As financial organizations acquire resources, compliance with numerous specified requirements can put a substantial load on them. Similarly, if banks do to follow the rules, they will suffer significant financial penalties5. They take on additional risks and costs in order to stay current on regulatory changes. They must also supervise the controls necessary to ensure that those standards are met. To overcome the regulatory compliance issue, credit unions and banks must cultivate a compliance culture within their organizations. Technology can play a critical role in fostering a compliance culture [4].

5. Security Breaches:

Security is one of the most pressing banking industry concerns, as well as a key concern for bank and credit union consumers, following a succession of high-profile breaches in recent years6 [5]. To keep sensitive consumer information safe, financial institutions must invest in cutting-edge technology-driven security procedures.

V. CHALLENGES FACED BY BANK AMID COVID CRISIS

1. Loan Moratorium:

Despite the Reserve Bank of India (RBI) approving a one-time debt restructuring for borrowers under hardship due to the COVID-19 outbreak, India's banking sector may suffer a significant increase in bad loans now that the loan moratorium period has expired.

[5]https://www.rbi.org.in/commonperson/English/Scripts/ServiceCharge.aspx

[6] https://www.zeebiz.com/technology/news-banks-under-threat-this-report-suggests-what- they-need-to-do-143031#:~:text=by%20Deloitte%20India.-,Observing%20that%20banks%20are%20the%20most%20targeted%20sector%2C%20the%20 report, becoming %20complex%20day%20by%20day.

The consequence of this, according to analysts, will be noticeable in the second and third quarters of current fiscal year. Most observers assume that the impact of the Covid-19 pandemic will be reflected in bank accounts sooner rather than later, although the extent of the crisis remains unknown. Now the dilemma here is that no one knows how bad the actual picture is we may see a rise of up to 40% in NPA's. And that's bad really bad. It's like a ticking time bomb waiting to explode. The credit cost will also increase making it difficult to borrow money. Because of this pandemic many middle class people have lost their jobs, which means they won't be able to repay their loans even after the moratorium ends and will eventually default on their loans. The biggest impact of moratorium as we all know is the NPA's During the moratorium, banks were not allowed to report an account as non-performing asset if it was standard as on March 1. The Supreme Court asked lenders not to classify any new account as an NPA after Sept. 1[7]. Now the banks will have to tackle this sudden rise in NPA's all at once. It would be like climbing an Everest within a day. Banks were already struggling to improve their profitability and now this big headache of NPA's will further deprive their sleep.

2. Digital Adaptability:

Social Distancing is the new norm, which means banks have to go digital to reach the consumers. Banks already have their own apps and digital services online. But the problem istheir digital infrastructure. Banks don't have the capacity to manage this huge influx of new customers.

Recently, RBI had to intervene and halt some of the activities of HDFC bank as consumers were reporting failure in UPI transactions because of a technical glitch in banks server and misjudgment of volumes[8].

The banks have to step up their digital game if they want to survive in these difficult times.

[7] https://www.livemint.com/industry/banking/what-today-s-supreme-court-order-on-loan-moratorium- means-for-banks-11616504216224.html

[8] https://trak.in/tags/business/2020/12/05/hdfc-banks-upi-is-not-working-customers-upset- angry-over-failed- upi-transactions

3. Cyber Attacks:

When you have to build a successful business with minimum cost we tend to compromise on secondary things like security etc. It's the same case with the banks both public and private. Indian banks are the favorite targets of cyber attackers because of a lot of loopholes in Indian digital banking infrastructure. A report by DELLOITE showed that cyber-attacks on Indian are at their highest point amid the pandemic. There have been many instances of frauds and data leaks from these banks. Recently, HDFC bank was attacked and the hackers managed to steal credit card information of over 1 million users[9].

4. Liquidity Risk:

The banks are facing a liquidity crisis because of reduced cash flow from loan repayments and also increased cash withdraws. This is leading to banks having less money to give to others as loan. Reduced profit levels and capital depletion may come from the combination of poor company activity, higher impairment, and possible operational and fair value losses. Ultimately, Banks survival is at stake especially the smaller banks. If things are not managed properly then the chances of a bank going bankrupt are high.

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VI. CONCLUSION AND RESULT

Indian banks are hoping for a 2008 recession style economic recovery to help ease their burdens. The pandemic and its impact on the banking sector has never been seen before. But the Indian banks, RBI and the government seems adamant in pulling off this miraculous recovery. This is the first time that all 3 are working together in such a focused approach. The RBI with its various fiscal policies like reducing interest rates is aiding the banks in reducing their cost and increase credit supply in the economy. The government with its infusion of fresh funds into public sector banks to help them survive. Finally, the bank's trying to adapt to the pandemic and take everything online. For the first time in Indian history you can open your bank account and avail all the banking facilities online without any bank mediator involved. Indian banks have a lot of challenges to face but the worst is behind us. Indian banking structure is very flexible and stable it has survived 1991 economic crisis and the 2008 recession, so the chances of it surviving the pandemic are really high. The banks should see this pandemic as an opportunity instead of a threat and should exploit this opportunity to push all the users online. The future seems very bright with economic recovery in full pace and international rating agencies expecting India s economy to grow by more than 12% which will have a direct impacton the banking sector.

[9]https://bfsi.economictimes.indiatimes.com/news/banking/rbi-pulls-up-banks-for-1-3-million-cards-data- breach-orders-probe/71891158

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3. https://www.santander.com/en/press-room/insights/challenges-of-the-banking-sector-after-the-covid-19
4. " Future of Banking in India" by deloitte
5. " Non-Performing Assets: A timebomb" by Dr. Punnet Kaur

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Rajat Rana, UG Student, B.Com. LL.B.(Hons.) from Amity Law School, Noida is a hardworking and diligent student who is keenly interested in becoming a good corporate lawyer. He is a member of Student Bar Forum at Amity Law School, Noida. He has also interned under advocate of Supreme Court of India. He has also previously published various research papers on multidisciplinary issues. He is an on merit scholar at Amity Law School, Noida. He is extremely dynamic in nature and has a strong grasping power which makes him a good learner. His current focus is to gain invaluable experiences and expertise which will enable him to become a successful corporate lawyer.

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