

# COVID-19 IMPACT ON INDIAN BANKING SECTOR

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## **EXECUTIVE SUMMARY**

COVID-19 is a disease which is caused by a new strain of coronavirus. This started from Wuhan, China, which is now a global concern and was declared as a global pandemic in 2019-20. In India, it started to spread in March 2020.

In order to defeat the pandemic, Indian Government announced lockdown in the country starting on March 24, 2020 and which was extended to 3rd May, 2020 in the second phase. The lockdown was necessary as to prevent the faster spread of Novel Coronavirus and to save lives of people of the country, knowingly that it was going to affect the various sectors of our economy severely. The Banking and Non-banking finance companies (NBFCs) which are backbone of India's economy are not exception to the above.

This report is an attempt to analyse the potential and actual impact of this pandemic on the banking sector due to lockdown which has resulted into closure of all commercial organisations, educational institutions, public and private offices, suspension of means of transportation, etc.

In order to know that what percentage of population has shifted towards the digital facilities offered by banks and whether these facilities has benefit them or not , the primary data has been used for the same, and tested by use of t-test analysis and calculation.

Further it has been analysed that the digital trends were in suggestion and would be benefiting the whole country, especially for government banks as it includes majority of population holding a bank account under it.

Though the situation is getting better, even the lockdown is not in continuation, still as the pandemic has not ended yet the country continues to suffer.

## 1. INTRODUCTION

### COVID-19

#### **ABOUT COVID-19**

COVID-19 is a disease which is caused by a new strain of coronavirus; where 'CO' stands for corona, 'VI' for virus, and 'D' for disease. This started from Wuhan, China, which is now a global concern and was declared as a global pandemic in 2019-20. In India, it started to spread in March 2020.

#### **THE LOCKDOWN**

In order to defeat the pandemic, Indian Government announced lockdown in the country starting on March 24, 2020 and which was extended to 3rd May, 2020 in the second phase. The lockdown was necessary as to prevent the faster spread of Novel Coronavirus and to save lives of people of the country, knowingly that it was going to affect the various sectors of our economy severely. The **Banking and Non-banking finance companies (NBFCs) which are backbone of India's economy** are not exception to the above.

This report is an attempt to analyse the impact of this pandemic on the banking sector due to lockdown which has resulted into closure of all commercial organisations, educational institutions, public and private offices, suspension of means of transportation, etc.

Though the situation is getting better, even the lockdown is not in continuation, still as the pandemic has not ended yet the country continues to suffer.

### 1.1 PANDEMIC AND THE INDIAN BANKING SECTOR

The covid-19 pandemic is one of the most serious challenges faced by the financial service industry like banking sectors.

Though India has overcome many pandemics in past like swing flu, plague, etc. but many experts call it as a “**black swan**” for the economy.

Rating agencies like “MOODY’S” has noted banking sector from “**negative to stable**”. It said that:

- the stress among NBFC’S **limited their capacity to lend**.
- Also due to increase in unemployment and decrease in economy, has caused **deterioration of household and corporate finance**.
- Due to rise in provision and fall in revenues will lead in **decrease in banks overall profitability**.

### **The future of banking after pandemic**

As the banking sector has faced many challenges posed by the covid-19 pandemic, banks have learned many valuable lessons about their customers, their own capabilities and market as a whole.

It will help in serving them years ahead, or if in case similar kind of situation arises.

- Seeing the current situation, the influence areas are now towards digitization of the banking sector.

This can be posed by:

- Eliminating the dependency on manual entries,
- Moving from traditional way of system to the digital and adopting banking technologies and blaze the digital transformation.

## 2.PROBLEM STATEMENT

This research report highlights the main impact of covid-19 pandemic on the banking sector.

On 31 December, 2019, first of all the news came on Novel Coronavirus outbreak from Wuhan city of China. This coronavirus is a new virus that has not been identified in human so far.

To deal with COVID-19, Indian Government announced complete lockdown in the country starting on March 24, 2020 and the same was extended to 3rd May, 2020. Same action has been taken by many governments around the world. WHO has appreciated the timely action in the form of lockdown by Indian

Prime Minister- Narendra Modi and many others as it seems the best alternate to stop the spread of the various in the absence of any cure or vaccine of this disease.

However, the Transnational institutions like IMF and World Bank, central banks of various countries, economists, fund managers and consulting firms have expressed their fear regarding the devastating effect of lockdown on GDP world over in general and emerging economies like India in particular.

According to KPMG, the lockdown in India will have a huge impact on the economy chiefly on consumption which is the biggest component of GDP.

It says that reduction in the urban transaction can lead to a steep fall in the consumption of non-essential goods.

Further, according to the assessment of World Bank, the growth rate in India is expected between 1.5 per cent to 2.8 per cent.

Adding more, the lockdown and pandemic is targeting several other sectors including banks, NBFCs, MSME, hospitality, civil aviation, agriculture and allied sector.

Different experts and authorities have given different opinions about the impact of Pandemic, Covid-19 caused lockdown on current position and future of Indian Financial sector, primarily on Banks and NBFCs.

So, the flooding of information has confused investors, depositors, borrowers and other stakeholders in this sector of high importance.

### 3.A SYSTEMATIC LITERATURE REVIEW

The COVID-19 impact on banking will be severe fall in demand, lower incomes, and production shutdowns and will adversely affect the business of banks.

The situation is exacerbated by staff shortages, inadequate digital maturity, and pressure on the existing infrastructure as firms scramble to deal with the impact of COVID-19 on financial services.

Banks certainly have their hands full in light of the novel coronavirus outbreak COVID-19. Borrowers and businesses face job losses, slowed sales, and declining profits as the virus continues to spread around the world.

Banking customers are likely to start seeking financial relief. An obvious way that pandemics can impact financial systems is through their enormous economic costs.

To managing the direct economic impact of the coronavirus, banks need to have a plan in place to protect employees and customers from its spread. Many banks are already starting to encourage remote working of some employees. In this paper, we are aimed to demonstrate an impact of pandemic covid-19 on the banking and financial sector.

India's coronavirus outbreak threatens a years-long cleanup of its financial system, according to the Indian bank. Banks sit at the heart of the economy and provide funding to corporate and individuals. Their stability is crucial to keep the system up and running

This report is an attempt to assess the impact of this pandemic on Banks and NBFCs due to lockdown which has resulted the closure of all commercial organizations, educational institutions, public and private offices, suspension of means of transportation, etc.

The conclusion in this regard is based on the views expressed by several groups including economists, financial institutions like IMF, World Bank and consulting firms. Secondary sources of information are used to collect the required information.

#### 4.RESEARCH METHODOLOGY

##### **SIGNIFICANCE OF THE STUDY**

Banks and finance industry plays a very important role in the day-to-day activities of the common man, business houses, industries, agriculturists and other service providers. Investment under banking sector not only provides protection for individual and industry through risk coverage; it also mobilizes funds for economic activity, and encourages savings. **It ensures both present and future financial security.** And now it is a way more important to ensure one's own future after the pandemic situation. It also provides numerous advantages like mobility of funds, low risk, diversification, professional management and economies of scale for both businesses and personal benefit.

Thus the banking sector is considered an important tool for economic and personal stability. The banking and finance industry is a key sector in the economy of any country.

## **OBJECTIVES OF THE RESEARCH**

The objectives of the research as follows:

- To determine the actual and potential impacts of covid-19 pandemic on the Indian banking sector.
- To analyze the recent measures adopted by the Indian banks to cope-up with the problem.
- To analyze the present state and recovery rate for the same.
- To determine the future for the banks after pandemic.
- Predicting for the possible suggestions that would be required to cope up with the damages after pandemic.
- Lastly, to analyze the new digital trends adopted by Indian banks.

## **OBJECTIVE OF PREPAIRING THE QUESTIONNAIRE**

The main objective to prepare the questionnaire was to analyze the new digital trends under banking sector and the customer perception in order to choose digital or traditional method of banking. The set of questions were prepared accordingly.

## **SCOPE OF THE STUDY**

A big boom has been witnessed in finance industry in recent times. A large number of new players have entered the market and are trying to gain market share in this rapidly improving market. The study deals with Reliance in focus and the various segments that it caters to. The study then goes on to evaluate and analyse the findings so as to present a clear picture of trends in the banking sectors and opportunities.

## **SIGNIFICANCE TO THE INDUSTRY**

This is a limited study which takes into consideration the responses of 100 people. This data can be explored to take in the trends across the industry. The significance for the industry lies in studying these trends that emerge from the study, as the environment is very dynamic in nature. People are only beginning to wake up to its vast possibilities. A study like this can attempt to guide the future of the industry based on current trends, especially during the situations like pandemic.

## **RESEARCH DESIGN**

**DATA SOURCE:** both primary and secondary data is been used for collecting information. For the purpose of knowing the actual and potential impacts of Covid-19 to the banking sector, various statements of different experts has been analysed from secondary data. To analyse the digital trends and customer perception towards the banking sector the use of primary data that is the questionnaire is been used.

**RESEARCH DESIGN TYPE :** it is both descriptive and exploratory research as the facts has been availed from secondary data source and described, also the facts has been explored to conclude the better understanding of the banking sector under pandemic situation from both experts and common man.

## **SPECIFICATION OF THE RESEARCH**

1. The research is limited to the information of only 100 responses.
2. The responses have been collected from all over India.
3. Primary data source is been used to analyse only a part of research that is to know the recent trends in banking sector and the customer perception.
4. In a rapidly changing industry, analysis on one day or in one segment can change very quickly. The environmental changes are vital to be considered in order to assimilate the findings.

## 5. DATA INTERPRETATION AND ANALYSIS

### Q1 Your age

Description: this question was required as to know the perception and preference according to the age groups division. As shown below, the following age groups have filled the survey and recorded their preferences,

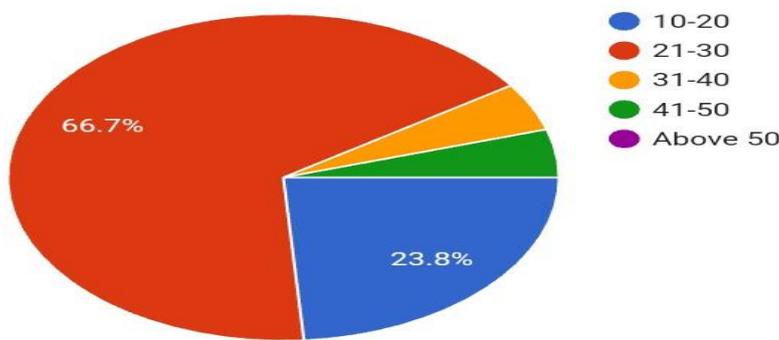


Fig:1

### Q2 Do you have a bank account?

Description: this question was a very obvious one to ask as without having a bank account the objective of conducting the questionnaire would not be fulfilled. As shown in below pie chart, the 90.5 percent of people were having a bank account while other 9.5 percent of people though not having a bank account have given some suggestions and preference for the digital trends

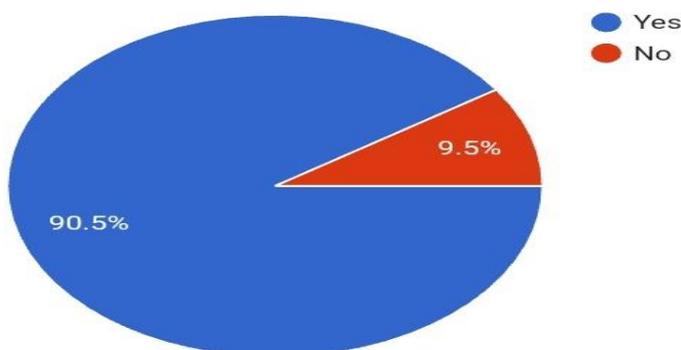


Fig2

Q4 You have a bank account under which of the following?

- Private bank
- Government bank

Description: this question was with the objective to know the facilities differently provided by private and government banks. The results recorded in the following pie chart.

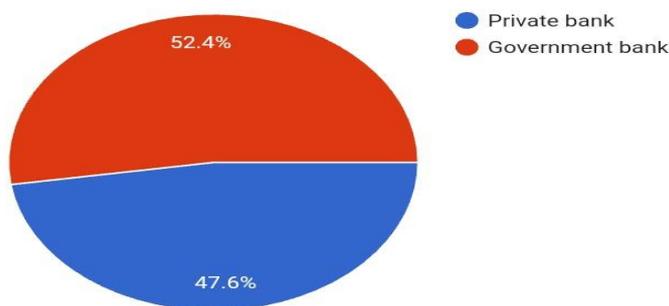


Fig.3

Q5 Before pandemic which of the following would you go for?

- **Traditional method only**
- **Digital method only**
- **Traditional > digital**
- **Digital > traditional**
- **Both equally**

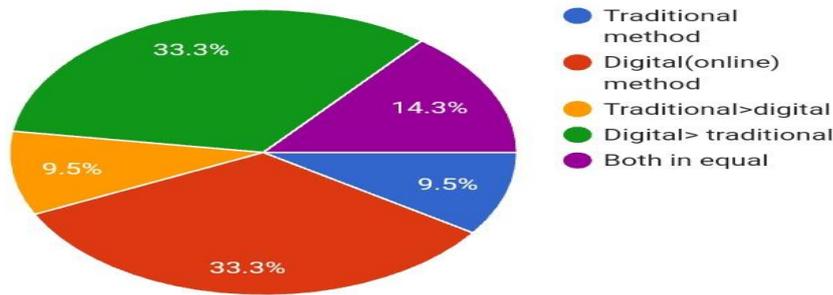


Fig.4

## 6. RESULTS AND CALCULATION

From the samples collected from questionnaire, the following data has been simplified into percentages, allotted accordingly before and after Pandemic for digital trends analysis. This test and calculation is being done for the purpose of analysing that whether after pandemic people should be shifting to digital trends would be benefitting or not .

Samples hypothetically taken: 20 (best samples leaving the repeated ones)

As the sample size is less than 30, using the t-test for analysing that whether after pandemic people should be shifting to digital trends would be benefitting or not .

Testing significance between 2 sample means (dependent samples)

(PERCENTAGE ALLOTTED FOR USE OF DIGITAL TRENDS)

TABLE1: CALCULATION FOR DIGITAL TREND ANALYSIS BEFORE AND AFTER PANDEMIC

NUMBER	PERCENTAGE ALLOTTED BEFORE PANDEMIC (X1)	PERCENTAGE ALLOTTED AFTER PANDEMIC (X2)	d=(X1-X2)	d-D	(d-D)SQUARE
1	50	100	-50	-40	1600
2	100	100	0	0	0

3	0	20	-20	-20	400
4	50	80	-30	-30	900
5	80	80	0	0	0
6	50	50	0	0	0
7	80	80	0	0	0
8	80	100	-20	-20	400
9	100	50	50	50	2500
10	100	100	0	0	0
11	100	100	0	0	0
12	50	100	-50	-50	2500
13	80	100	-20	-20	400
14	80	80	0	0	0
15	80	50	30	30	900
16	50	80	-30	-30	900
17	100	100	0	0	0
18	80	80	0	0	0
19	80	80	0	0	0
20	20	80	-60	-60	3600
<b>MEANS:</b>	<b>1410</b>	<b>1610</b>	<b>-200</b>		<b>14100</b>

note:  $D = \text{total } d / n = -200/20 = -10$

**TABLE-1**

$$Sd = \sqrt{1/(n-1) \cdot \sum (d - D)^2}$$

$$= 742.11$$

$$t = D / [sd / \sqrt{n}]$$

$$= 10 / 234.64$$

$$= 0.042$$

Therefore,  $(t)_{(0.05)} = 1.724718$  (see appendices section for tabular value)

Hence, calculated t (0.042) < calculated t (1.724718)

**Therefore, we will accept the H1 and conclude that the introduction of more digital trends and facilities would be benefitting the customers under pandemic situation.**

## 7. CONCLUSION

In order to conclude the research report, Firstly from the opinion of experts, the pandemic has a vast impact over the Indian GDP, and so with no exception to the Indian banking sector.

According to the experts: The stress among NBFC'S **limited their capacity to lend.**

Also due to increase in unemployment and decrease in economy, has caused **deterioration of household and corporate finance.**

Due to rise in provision and fall in revenues will lead in **decrease in banks overall profitability.**

Banks have learned many valuable lessons about their customers, their own capabilities and market as a whole.

It will help in serving them years ahead, or if in case similar kind of situation arises.

- Seeing the current situation, the influence areas are now towards digitization of the banking sector.

This can be posed by:

- Eliminating the dependency on manual entries,
- Moving from traditional way of system to the digital and adopting banking technologies and blaze the digital transformation

Moreover, for the purpose of analyzing digital trends and perception of customers towards digitization of banking sector, the samples were collected and concluded that people are shifting towards digital economy

and will continue to do so. Also, to test whether this shift would be benefitting or not the use of t-test was made which further concluded that yes, the digitization would be benefitting the economy.

Also, many banks have been noticed to take a step more forward towards digitization like, introducing online bill payment facility, money transfer facility through an app, etc.

## 8. REFERENCES

The references that were used for the report as follows:

- Internet sites:
  - Research gate
  - Wikipedia
  - [www.cxotoday.com](http://www.cxotoday.com)
  - [www.businessstandard.com](http://www.businessstandard.com)
- Newspapers referred:
  - Economic times
  - Hindustan times

Note: also refer appendix for the primary data: questionnaire

