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Managerial Economics Project

On

Banking Services during Covid-19

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Introduction

A **“Bank”** is a financial body which is involved in borrowing and lending money. Banks take client deposits in return for paying customers an annual interest of payment. The bank then uses the bulk of those deposits to lend to alternative customers for a variety of loans. Banks play a vital role within the economy for giving for people wishing to save. Banks additionally play a vital role in giving finance to businesses. These loans and business investment are necessary for a sanctionative economic process.

Main purpose of banks are:

1. Keep cash safe for customers.
2. Offer customers interest on deposits, serving to guard against cash losing price against inflation.
3. Lending cash to companies, customers, and home buyers.
4. Offering monetary recommendation and connected monetary services, like insurance.

Banks certainly have their hands full in light of the novel corona virus occurrence (COVID-19). Borrowers and businesses face job losses, slowed sales, and declining profits because the virus continues to unfold around the world. Banking customers have already begun seeking monetary relief, and regulators in India are encouraging banks to assist them.

In addition 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. Several banks are already getting down to encourage remote operating of some staff members.

By implementing completely digitized and remote client transactions, banks will make sure that every day and exceptional processes are alloted out with restricting disruption. For example, the World Health Organization(WHO) has suggested people to use contact less payment and avoid handling banknotes as the coronavirus might still survive on banknotes for days, fast unfolding of the disease.

Evaluation of the role and motive of banking

- Loans are essentials to modify companies to take a position and expand. However, banks don't seem to be the sole supply of finance. Companies might turn to private investors, stock exchange, government grants or personal savings.
- In times of recession or shortage of funds, banks might not be willing to lend when companies need it most.
- Bank loaning is profitable for banks and may incur consequential prices for the firm. Consumers would like banks to pay bills electronically.
- Bank loans and mortgages offer a chance to buy expensive things, and pay back over a long period -e.g. house, car.
- Low-income customers might feel they can't afford insurance payments and place themselves in risk.

History of Banking service in India

Modern banking in India started in the later half of the 18th century. The first bank of India was the “Bank of Hindustan”, established in 1770 and was located in the then Indian capital, Calcutta. However, this bank failed to work and ceased in 1832 [2].
The largest and the oldest bank which is still there is the State Bank of India(S.B.I). It originated and started working as the Bank of Calcutta in mid-June 1806. In 1809, it was renamed as the Bank of Bengal. This was one of the three banks founded by a presidency government, the other two were the Bank of Bombay in 1840 and the Bank of Madras in 1843. These three presidency banks were merged in 1921 to form the Imperial Bank of India, which upon India's independence, became the State Bank of India in 1955.

The banking sector development can be divided into three phases:

Phase I: The Early Phase which was from 1770 to 1969.
Phase II: The Nationalisation Phase which lasted from 1969 to 1991.
Phase III: The Liberalisation or the Banking Sector Reforms Phase which began in 1991 and continues to flourish till date.

During the Pre Independence period over 600 banks had been registered in the country, but only a few managed to survive.

Banking Regulation in India

The banking system in India is regulated by the Reserve Bank of India (RBI), through the provisions of the Banking Regulation Act, 1949.
The BR Act provides a framework for supervision and regulation of all banks. It also gives the RBI the power to grant licences to banks and regulate their business operation. FEMA is the primary exchange control legislation in India. FEMA and the rules made thereunder regulate cross-border activities of banks.

Fig1. Reserve Bank of India [5]

Some important aspects of the regulations that govern banking in this country, as well as RBI circulars that relate to banking in India, is explored below.

The key regulator for the banking system in India is the Reserve Bank of India (RBI). The RBI is the central bank of India and the primary regulatory authority for banking. An entity intending to carry out banking business in India must obtain a licence from the RBI. The RBI has powers to regulate the financial sector, including prescribing norms for setting up and licensing banks; corporate governance; prudential norms; and conditions for structuring products and services.
India has several other financial sector regulators, including the:

(i) National Housing Board (NHB), which is the regulatory authority for HFCs in India
(ii) Securities Exchange Board of India (SEBI), which is the regulatory authority for the securities market in India
(iii) Insurance Regulatory and Development Authority of India (IRDAI), which regulates the insurance sector.

The key statutes and regulations that govern the banking industry in India are

1. Reserve Bank of India Act, 1934 (RBI Act): The RBI Act was enacted to establish and set out the functions of the RBI. The RBI Act empowers the RBI to issue rules, regulations, directions and guidelines on a wide range of issues relating to the banking and the financial sector.
2. Banking Regulation Act, 1949 (BR Act): The BR Act provides a framework for the supervision and regulation of all banks. It also gives the RBI the power to grant licences to banks and regulate their business operation. The BR Act also sets out details of the various businesses that a bank in India is permitted to engage in.
3. Foreign Exchange Management Act, 1999 and the rules and regulations issued thereunder (FEMA): The FEMA is the primary legislation in India which regulates cross-border transactions and related activities. FEMA and the rules made thereunder are administered by the RBI.

The aim of the banking industry is to give security and confidence within the economy. If banks were allowed to go bankrupt and customers lost savings; it might cause widespread monetary panic and lots of customers would withdraw their savings and hold it as cash. And due to this it would cause a shortage of funds for loaning. This is why Central banks act as lenders of expedient.
COVID-19 is without any doubt the biggest global events of our lifetimes, presenting challenges to several industries, governments and folks everywhere the globe. The

pandemic remains a health and humanitarian crisis, and the business and economic impact has been deep and much reaching. Monetary services companies, particularly have the chance to assist customers to navigate the present storm.

That said, most banks have addressed the immediate challenges of COVID-19, associated with protective workers and providing a lot of required services to customers.

Several banks have made investments in technology and digital transformation over the past couple of years. A lot of them, however, are still heavily reliant on face-to-face interactions, supported by paper processes. So, we expect to see renewed vigor in the Indian financial services industry with banks making a collective effort to up their digital game. This will be critical as COVID-19 is likely to have a prolonged impact, and banking touches every part of our economy.

Loan Policies During Covid-19

• Coronavirus will have a durable effect on numerous enterprises including banks. Post-emergency, computerized development, and COVID-19 flexibility will decide the methodology of banking players with three fragments arising:

(i) Banks that are as of now future-prepared with really advanced financial abilities and cost versatility.

(ii) Banks that are advanced slowpokes and that need to advance and recharge because of disappointing COVID-19 strength, and

(iii) In conclusion banks that will battle to get by because of being advanced slouches with inferior money related and operational versatility.

• The government and the Reserve Bank of India have come out with a monetary upgrade and various alleviation measures to shield the economy from the unfriendly effect of the continuous Covid-19 emergency. Presently, these involve an enormous number of declarations that will legitimately or by implication advantage the ordinary citizens.

• India facilitated some loaning rules in the salvage bundle it reported in May 2020 during covid period to enable all the more independent companies to hold over the emergency set off by the pandemic. The public authority has expanded the furthest reaches of credits remarkable as of Feb. 29 to Rs 50 crore from Rs 25 crore, as indicated by Debashish Panda, the ministry of finance’s secretary for banking.

• India's government in May revealed a Rs 21 lakh crore bundle to help the economy, including facilitating admittance to credit for private ventures and offering modest advances to laborers and farmers.

• India in May reported a bundle offering delicate credits worth Rs 3 lakh crore to private ventures and said the advances will be ensured by the public authority.

Loan Moratorium Extension

To facilitate the advance reimbursement commitment in the midst of the lockdown and the financial log jam, the RBI has additionally expanded the ban time frame on all advance EMIs and credit cards by an additional three months, i.e., till August 31, 2020. Along these lines, the all-out ban time frame will be currently for a half year. Individuals who can't clear their obligations attributable to the Covid-19 mishap and related issues can select this reimbursement suspension without defaulting. The non-installment of EMIs during the ban time frame will likewise not sway their CIBIL scores. Banks have just educated their clients about the cycle regarding selecting the ban. While a few banks are consequently passing the ban office to borrowers who can't pay their current advance EMIs or credit cards, others have approached their clients to decide on it physically.

Notwithstanding, it's basic to get that on the off chance that you pick this office, premium will keep on getting gathered on your remarkable duty during the ban which could add several EMIs to your advance, along these lines expanding your credit trouble impressively. Along these lines, in the event that you don't have a significant liquidity issue, you'll be all around encouraged to proceed with your advance reimbursements without the assistance of the ban, particularly in the event that you've recently started reimbursing a drawn-out advance like a home advance.

Also, regardless of whether you do, guarantee you have a strong arrangement to reimburse this aggregated interest not long after the ban closes with the assistance of prepayments. Finally, make an honest effort not to profit from this office for Mastercard levy as those include financing costs in the scope of 36-42% p.a.

Rescheduling of Payments - Term Loans and Working Capital Facilities

The RBI, through a notice dated March 27, 2020, revealed a measure by allowing every business bank, co-usable banks, AIFIs, and NBFCs to concede a ban of a quarter of a year on all term advances just as on working capital offices on the installment of all portions exceptional as on March 1, 2020. Considering the expansion of the lockdown and proceeding with disturbances because of COVID-19, RBI has chosen to allow loaning foundations to expand the ban on term advance portions by an additional three months, i.e., from June 1, 2020, to August 31, 2020, vide warning dated May 23, 2020.

In like manner, the reimbursement plan and the lingering tenor might be moved no matter how you look at it by an additional three months. Nonetheless, the premium would keep on accruing on the remarkable bit of the term credits during the ban time frame. This measure will be very useful in bringing down the weight for different areas including the designers as they will have the option to zero in on quicker execution of activities and for the individuals who are paying EMIs or utilizing Visas.
Banks are likewise being urged to keep credits worth Rs 60,000 crore prepare

Delay MSME loan repayments or extend the period

As the RBI siphons in more money into the banking sector, conceding or mitigating the MSMEs of credit reimbursements could come as a welcome move. Most organizations are searching for budgetary help from the public authority and doing this can assist them with adapting to income issues. Loosening up terrible credit standards could likewise be a sparing move for this area.

• Public moneylender, Indian Bank has reported 5 crisis emergency loans during the lockdown time of the Covid pandemic to guarantee the spread of Covid is contained.

The 5 crisis emergency loans are for their corporate customers, MSMEs, SHGs, Retail borrowers, and Pensioners.

IND-COVID Emergency Credit Line (IBCECL) for Corporate:

Extra financing will be given up to 10% of the working capital cutoff points with a limit of Rs 100 crore. This advance office will be appropriate for enormous corporates and medium undertakings for a time of three years with an underlying ban of as long as a half year and an extra fixed loan fee of 1 year MCLR, accordingly, all different charges will be deferred off.

IND-MSE COVID Emergency Loan—(INDMSE-CEL) for MSME:

An extra subsidizing of 10% of FBWC limits with max Rs 50 lakhs will be made accessible for all MSMEs for a very long time tenor to guarantee MSMEs are not inferred off liquidity during these difficult occasions.

SHG-COVID - Sahaya LOAN for Self Help Groups:

Servicing more than 1.68 lakh SHGs including 22 lakh ladies recipients and to assist them with going through the emergency every part will be qualified to benefit a delicate advance of Rs 5000 which amounts to Rs 1 lakh for each SHG. Credit length would be for three years with a 6-month moratorium.

IND-COVID Emergency Salary Loan for Retail borrowers:

Salaried representatives will be given a loan to a sum comparable to multiple times of the most recent month to month net compensation – subject to a maximum of Rs 2 lakh. All charges and concessional interest will be deferred off, credits are for pressing clinical and different consumptions.

IND COVID- Emergency Pension Loan for Pensioners:

Fifteen times of monthly pension with a limit of Rs 2 lakh will be permitted with 60 months reimbursement with concessional interest and charges to be deferred off.

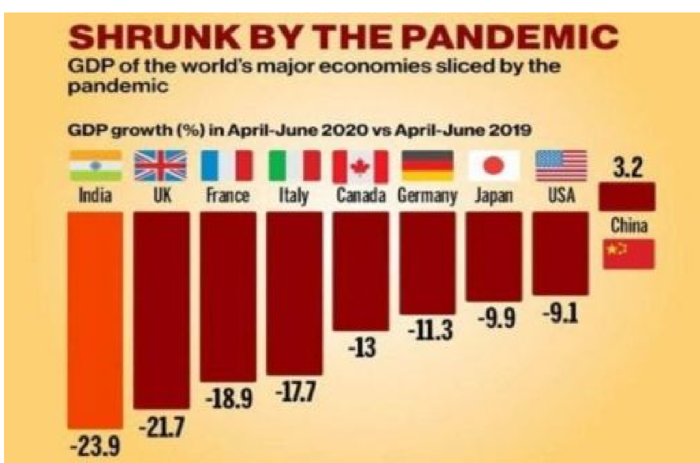
• The Reserve Bank of India (RBI) has given rules for recast or goal of credits taken by singular borrowers who are confronting monetary challenges because of the Coronavirus pandemic. Banks need to define their own approaches on the recast of such credits based on these rules. The rules explain what sort of close to home credits are covered and the kinds of goal designs that can be offered to the borrowers by banks.

GDP Losses During Corona Times

Gross domestic product (GDP) is the standard measure of the value added created through the production of goods and services in a country during a certain period. As such, it also measures the income earned from that production, or the total amount spent on final goods and services (less imports).

- The GDP for the first quarter, April-June fell by 23.9%, an effect of the lockdown, the biggest decline in four decades, the country has ever seen.
- Compared to India, the countries which were worst hit, USA and China's GDP contracted by 9.1% and 17% respectively.

GDP Loss for various countries

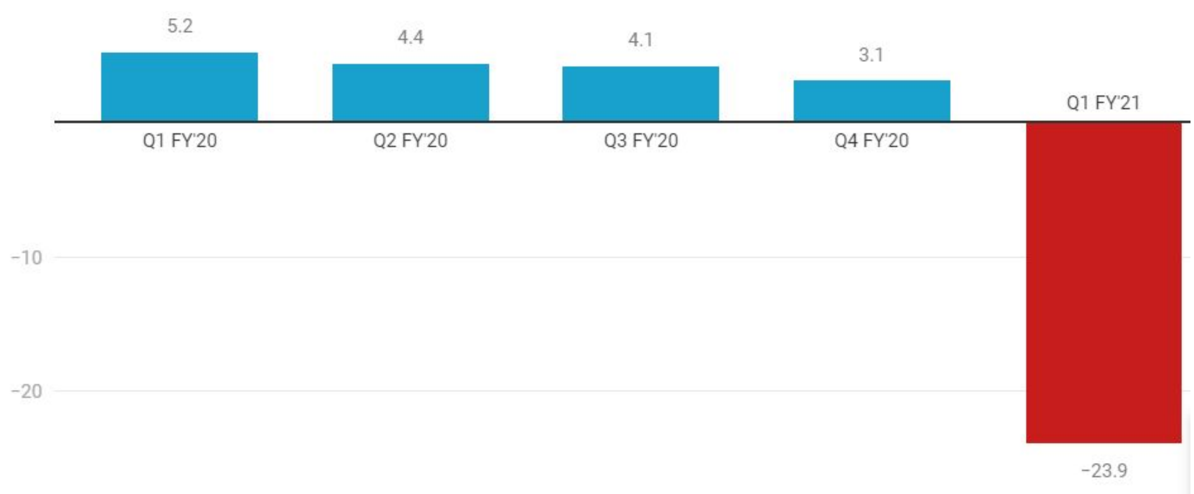


For the Indian economy, private consumption and investment are the two biggest engines for growth. During the first quarter of 2020, private consumption — accounting for 59% of India's GDP — declined by 27%, while investments by private businesses fell by 47%. India's net exports turned positive due to sharp compression in imports.

The government tried increasing the spending by 16%, but it was not adequate to compensate for the decline suffered by other engines of growth. Except for agriculture, all the major sectors of the economy were badly hit. Significantly, labour-intensive sectors such as construction, real estate, retail trade, transport and manufacturing contracted sharply during this quarter.

To arrest the spread of coronavirus almost all the economies were under strict lockdown which influenced almost every sector and hence GDP.

Quarter wise GDP Loss for India



Source of Data - MOSPI

Other factors influencing GDP

- The demonetisation of 2016 when the government announced the removal of 500 and 1000 Rs. notes. The story is not ended here, the other step of CGST implementation then came into the scene which destroyed all the local market demand and supply badly. These two steps are like Arrowhead in the dark.

- Demonetization and GST have a harsh effect on the local market especially the unorganized market which contributes almost 90 percent to the total employment of our economy.

The Impact

The GDP downfall takes us somewhere **back to 45 years** which puts our country in a difficult situation. The 5 trillion economy dream of PM Modi will have to wait for 5-6 years more.

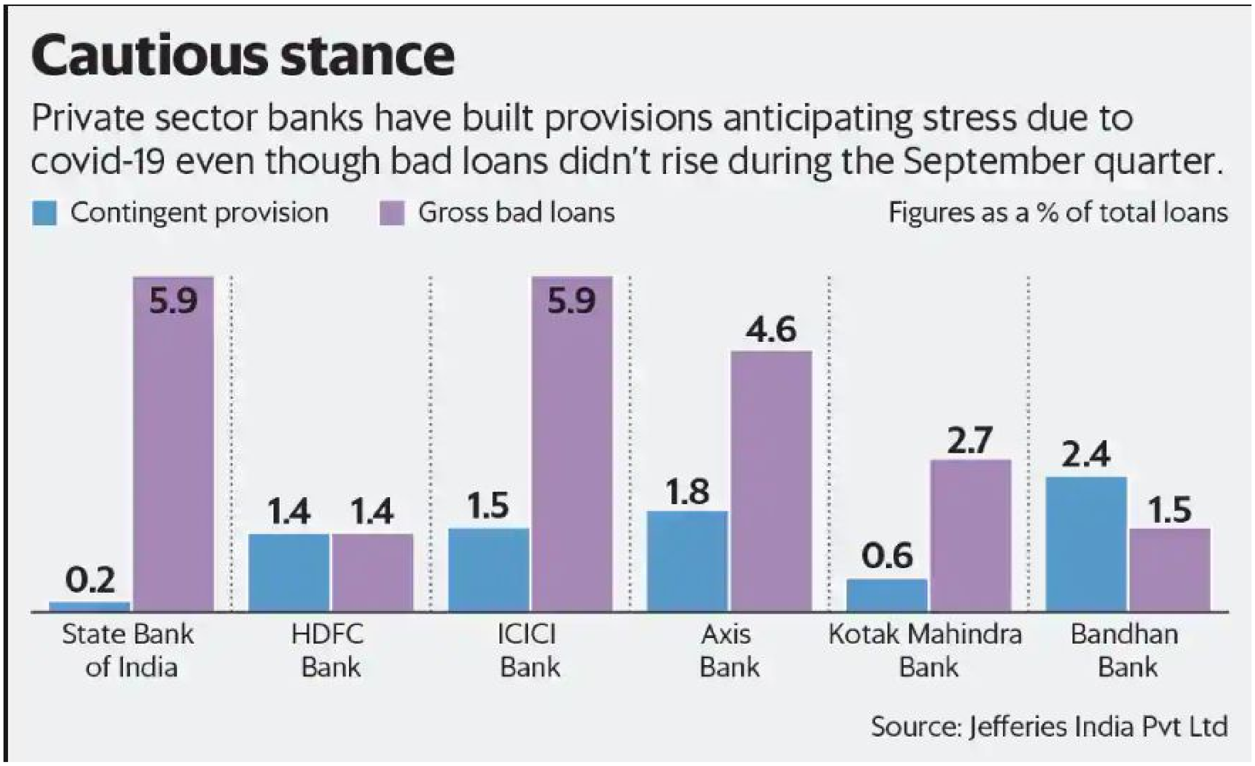
Stress on the Banking Sector

- In RBI's financial Stability Report[9], it mentioned that the gross non-performing assets could rise to 14.7% under severe conditions by March 2021.
- While the repayment moratorium is offering some relief, lenders may find a wave of loans turning bad once the relief ends in August, according to the central bank.
- The loans turning bad in the September quarter are on a standstill due to the Supreme Court's order and the ruling shrouds 26kcr bad loans[17, Report by Mint]
- RBI governor Shaktikanta Das has advised banks and other financial institutions to proactively raise and conserve capital to be able to beat the stress.

Finance Minister's Stress on Bank's importance

- Banks are the catalyst for the economic resurrection- FM, Nirmala Sitharam (Sept 2020)
- Asking banks to reach more customers, not just the smartphone ones but also feature phones ones.
- Make profits by lending money, that is their core business, but also do business welfare.
- Implementation of government schemes at the grassroot level.

● Duty of every employee to know the government schemes which are being passed down to citizens through them.



Contribution to GDP by Banking sector

● Low rate of borrowing, MSME's taking more loans, instead of raising capital using debt funds or equities.

● Transferring of money to Jan Dhan accounts by the Central government and some state governments, increasing money income of the people by directly providing them with money.

● Supreme Court provided relief to borrowers by charging no penalty or interest on the unpaid EMI's and extended the moratorium period from August 31 to September 28.

● Tie up of various banks with big e-commerce websites to provide discounts using their credit or debit cards.

Survey- Talking with the Bank Managers (A Reality Check)

Bank credit growth to decline to ~2-3% over fiscal 2021. The Novel Coronavirus (Covid-19) pandemic-triggered nationwide lockdown is expected to take a toll on overall banking credit growth. The pandemic comes as a last straw on an already slowing economy, with fiscal 2020 seeing decadal low growth in gross domestic product (GDP), low private consumption, cautious lending by banks, poor capital expenditure (capex), and in turn, weak banking credit growth.

Banks didn’t get any profits in 1st and 2nd quarter of this year (2020). And so were helped by SEBI and RBI for smoothing the economic transactions and liquidity of money in the market.

Banks are also providing funds to MSMEs, farms and retail sectors to ensure some economic activity which showed up suddenly declined due to lockdown and in expectations of getting returns.

Industries are in the breathing phase as in the first two quarters no manufacturing and production took place. Also companies had to pay for the rent, electricity, employee salaries, etc. Some companies ran short of money but they already had many loans from banks so they were not ready to take loans further and started firing employees to cut costs which led to an increase in unemployment seen mainly in May 2020.

But according to APANA Bank of Maharashtra, there are no transactions going on between B2B only some transactions were seen during Diwali this year which was also due to impulsive buying in B2C sector. This was because of the offers which were provided to customers as the banks had tie ups with the companies for clearing the stocks and pending orders.

Nowadays, banks are also calling their customers to take loans without any papers or guarantees due to moratorium on repayment of loans. But because of job insecurities people are not ready to take loans or depositing money in FDs as they might need that money in near future.

Also According to various reports, loan seekers who work in such sectors as media, aviation and hospitality are having a hard time in getting loans. Even if they are getting a small sum of money and also at higher interest rates.

Banks want to lend to segments like food processing, agriculture and technology which will be able to go through the covid-19 shocks relatively unscathed because that will define their future ability to pay back.

Banks are expecting that by March 2021 the picture will get cleared when the balance sheet will come in front of them. Pandemic led economic downturn to result in lower credit growth, higher slippages and lower collections/resolutions which will in turn not only impact credit costs but also net interest income for the banking sector. Banking sector to slip back into negative profitability in fiscal 2021 after almost touching breakeven in fiscal 2020.

The RBI is also monitoring the situation as it evolves and intends to address the problems caused by this global pandemic.

It can be seen that there should be an increase in deadweight loss which has occurred due to market inefficiency in the banking sector. But banks and the government are trying to lower it by implementing changes in policies so that that loss can be compensated both for banks and its customers so that the economy could be restored back to normal.

Demand and Supply - A Mismatch

Covid-19 also gave large negative supply and demand shock, and combined with the lockout severely reduced short-term growth. As supply recovers, however, while commodity prices remain constrained, there is an opportunity to switch from the low credit and money growth that characterized India's post 2011 growth slowdown, to a credit-led recovery that also reduces persistent financial sector stress. It underlines the importance of domestic demand in insulating India from global shocks and likely prolonged shrinking of trade.

Since April 2020, not only has credit growth of banks slowed down, but more importantly, their asset quality has also deteriorated sharply.
Reduction in economic activity and increase in unemployment has even lowered the GDP. Banks which also had a significant share in GDP also faced problems due to lockdown and covid in making profits from lending money and also to ensure that their customers were getting proper service they needed to make necessary arrangements and have to make their employees work even during lockdown which needed assets. So the share of GDP of banks also got lowered due to covid.

Reserve Bank of Indian nation (RBI) Governor Shaktikanta Das has warned banks against turning into "overly risk-averse", which is able to be "self-defeating". Bankers have reacted by speech the important downside isn't risk aversion, however lack of demand for credit. each area unit right. combination deposits with banks have up over Rs fourteen lakh crore or eleven per cent year-on-year as on August fourteen(8/14), whereas the corresponding credit growth has been simply Rs five.35 lakh crore (5.5 per cent). Meanwhile, their investments in government securities have gone up by Rs 7.55 lakh crore (21.2 per cent).
That, clear, indicates banks square measure in no mood to lend and like to park their cash in comparatively safe sovereign paper. However the actual fact that banks square measure currently additionally deploying Rs 6.3-6.4 lakh crore daily with the RBI's reverse repo window, that earns solely 3.35 per cent annually, shows the extent of surplus liquidity within the system and few takers for his or her funds. In alternative words, there's a drag of each "supply" of credit by banks and no "demand" from borrowers, be it cash-strapped companies or insecure households.

The slowdown has continued intensely for 6 quarters. There's clearly a requirement component at play as a result of core inflation has fallen sharply in tandem with bicycles. If offer constraints had been accountable, output gaps wouldn't have unfolded, and core inflation wouldn't have folded. however why has demand slowed thus sharply? Is it that households became risk averse because the holdup has extended as a result of the consumption that drove recent growth that was driven by leverage? With consumption deceleration, and international uncertainty elevated, it's reprehensible why corporations would retrench.

Role of RBI in tackling this situation

A major reason why banks aren't creating contemporary loans is uncertainty over the fate of their existing loans. Following the COVID-19-induced imprisonment, borrowers were offered a moratorium on payment of any interest or principal amounts due between March 1 and August 31.RBI information shows around 1/2 the full outstanding bank loans being underneath moratorium as on Apr thirty. The prospect of many of those turning into non-performing assets (NPA) once the six-month compensation vacation ends may be a concern. The tally has done well to permit a one-time restructuring of all loans that weren't NPAs before March 1, whereas continued to treat these as commonplace assets. however the necessary issue is to change such restructuring to require place quickly while not imposing too several conditions. Give banks the freedom to decide on the borrowers whose loans are deserving of being restructured — remember, they weren't defaulters before the novel coronavirus struck — and ensure this is done transparently. Banks, ultimately, need to get back to the business of lending.

Creating conditions for banks to be in an exceedingly position to "supply" credit can, of course, not solve the matter of "demand". that may happen solely with economic activity revitalising, that the concern lies additional on the govt. than the run batted in. The economic machine nowadays has stalled as a result of nobody's extreme outlay. the govt. should pay — rather invest — to grease the wheels of commerce. Once the economy starts moving, it'll not Only revive credit demand, however additionally improve the money flows and debt sexual union skills of corporations. which would ease the terrorist organization issues of banks likewise.

The Impact of Corona Virus on Banking Sector and GDP

The Indian economy was expected to lose over ₹32,000 crore (US$4.5 billion) every day during the first 21-days of complete lockdown, which was declared following the coronavirus outbreak. Under complete lockdown, less than a quarter of India's $2.8 trillion economic movement was functional. Because of this the Indian economy shrank 23.9 per cent year-on-year in the first quarter (Q1) of 2020.

- Production of essentials was permitted during the lockdown, but fast-moving consumer goods (FMCG) firms faced a decline. Most people could not go to work, so roads were empty and offices and factories were shut. Government offices were also closed and only the essential administration and police were functional.
- As the lockdown was eased in stages from May, activity started to recover. But it still could not have been more than 40% of the level in May 2019. In June with Unlock 1, more activity was allowed but by all accounts many services were not allowed and this sector constitutes 55% of the GDP. So, the economy could not have been working at more than 60%.

70% of banking sector debt affected by Covid-19 impact.

Corona Measures taken by Banks

- Banks have started maintaining provisions for bad loans, in case it defaults.
- Common steps we’ve seen embrace establishing a central task force, curtailing travel, suspending large-scale gatherings, segregation teams , making arrangements for telecommuting , and refreshing external-vendor-interaction policies. On the far side these immediate and basic actions, banks ought to prioritize three measures tailored to the particular combination of biological and market stresses.

People will continue to need essential banking services through these hard times, the answer to this is digital banking as stressed upon by the Finance Minister and RBI Governor.

- Banks should continue its branch and ATM operations with the appropriate safeguards, while encouraging widespread use of remote services. This approach will account for needs and preferences across all consumer segments, including the older people that are both more vulnerable to COVID-19 and less likely to adopt digital channels.

- Majority of households and businesses will be negatively affected by the unprecedented nature and extent of the current health and safety measures. The stress will be especially acute for those who are already in debt. These individuals will likely need further support from banks to support day-today liquidity needs through credit.
- Among businesses, the impact will vary significantly by sector and by company. From a credit perspective, banks should rapidly identify the most affected sectors and customers to understand how they can be most supportive to their clients and community.

Conclusion (A stress on using Technology)

To ensure safety of people amidst the covid-19 outbreak, the Reserve Bank of India (RBI) governor, Shaktikanta Das, asked customers to use digital banking facilities as much as possible Das also added, "In the context of COVID 19, RBI and the government together are giving emphasis on encouraging digital payments. And over a period of time, several measures have already been taken to establish a safe, secure, stable and affordable retail payment system such as the National Electronic Fund Transfer (NEFT) and the Immediate Payment Service (IMPS)."

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