



**COVID 19: A VIRUS WITH ENORMOUS CHALLENGES**

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**ABSTRACT**

*The fragmentation of any economy is largely depended on the soundness of banking industry and the growth of the bank dictates the future of any economy. Banks acts as catalyst of growth by providing equitable financial growth and support opportunity for all the citizens of country. There mode of transactions displays the future prospective of growth and their quality of transactions creates customer efficiency and it acts as agent of Government in ensuring quality services are reached to the end customer in effective manner. This paper is an attempt to understand the various issues faced by the banking industry and the challenges faced by the banking industry in the changing environment in the market. The study further states the future expected trend of the banking industry and this paper further discuss the various suggestions for overcoming those challenges.*

**Keywords:** ‘covid 19, ‘pandemic

**Introduction**

Banks are regarded as one of the major role players in fragmenting the growth of any country’s economy and its functioning and operational efficiency dictates the prosperity of growth for any country. In the recent period of time it can be observed that banking sector is growing at an rapid pace and the major decision taken by the Government (Central and State) have a significant impact on whole countries prosperity. The pandemic (N-Cov) has changed the whole banking scenario and banks are striving their level best to create value amidst of this pandemic to the various stakeholders associated with the business. The recent pandemic have huge impact on the banks which can be evident from the fact that after the pandemic the RBI announced various policies so as to infuse liquidity among the strained economy which was

already suffering from high inflation in pre covid period and afterwards the lockdown forcing various industries to their lowest performance ever. The demand and supply side of the market was hitted badly and the lack of purchasing power and illiquidity on the respective side creating the damage for the whole economy in long run. To ensure this the RBI and Central Government jointly initiated many initiatives in the form of reducing interest rates, loan mortarium, reduction in repo, reverse repo rate, reduction in CRR rate and financing the working capital for shorter period of time. This all provision undertaken by both the agenices are welcome gestures to revive the economy but in the process the pressure provided to banks in the form of loan mortarium or reduction in interest rates will hit their respective revenue generation sources and at the same time will pay a huge hand in

increasing the NPA's which already sky rocketing for various commercial banks. The major changes undertaken by the bankers bank will have long lasting impact on banks and it will eclipse the traditional model of banking where the banking was undertaking majorly in the physical form. Though the impact of corona virus will take years together to heal but definitely it will change the form of banking which was once trusted as one of the best. The major changes will create rapid challenges for the banking sector and these challenges will create platform for the best in the market to prosper and fragment in the respective market. The impact of this changes will be in the form strategic operational plan where the employees mode of working will be effected and with physically distancing norms on the plan it will create lot of changes in the physical environment in the banking industry.

### **Current Environment of Banking Industry**

Before the beginning of corona virus, one word which was buzzing in the banking industry was digital transformation and the best in business were unable to dealt with this challenges. This change was unable to cope by the existing banks as Fintech and Bitech companies have entered in the market and made the banking transactions very convenient in its own way. After the Covid 19 pandemic the role of digital transformation will enhance further and it will create the challenges for the best of the bankers. As less customer movement is expected in near future, major banking transactions will be undertaken using digital

mode and banking companies have to reach out individual customer by using these digital platform. Further with the enhancement of these digital platform the role of cyber security will increase which will further call for huge investment in Information Technology of the banking companies. These high cost of investment for banks will be futile for the banking companies as investment in Information technology will be huge and in the amidst of pandemic where the non performing asset are indicated to be increased, it become significant for the banks to keep their credit risk as less as possible. This will require a stricter and through outlook of companies financing policies which had to take rampant burden due to the loan amortization plans undertaken by the banks. This will increase the credit risk for the banks and with the Shri K.V Kamath stating in his report that the pandemic has affected the best of the business, this will be an hectic challenges for the banks to make sure they dealt with this expected increment of credit risk. In the amidst of this, the RBI decision to reduce interest rates like repo rate, reverse repo rate, cash reserve ratio etc are the indicators that bankers should be ready for providing more finance in reduced cost of capital to various customers which will further hamper the source of income for the banks. In this regard it has to be mentioned that RBI has undertaken best step to infuse the capital in the banking industry by reducing the rates but that step would have radical impact on source of revenue for banking company. As commercial banks have to pass those benefit to the customers. Apart from the recent guidelines of RBI on stricter norms for administration have further

created hurdles for the commercial banks to perform in effective manner. Apart from that the inflation index in the country is on the rising trend from pre covid period and post covid also it is expected to be on the rise as many people have lost their job and unemployment is on rise. The government part as infusion of money in the market as a fiscal policy measure ,it becomes imperative for the commercial banks to analyze the micro and macro variables while framing there financing decisions and has made sure that the act of balancing the economy is well coordinated between central bank and central government. Another important consideration is that now commercial bank apart from concentrating on there individual performance excellence also have to concentrate on framing the policies which are helpful for the overall societal development in the form of relaxing the norms of financing and thus infusing the capital in the hands of normal people at less rate of interest and further the impact of investment being on the global scale ,the inflow of money from investors and business community will be on reduced scale. As per Kamath committee there have 19 sectors which have been identified by the Committee and best of the best companies are affected from that.

### **Expected Future Trend of the Banking Companies**

Though banking industry has grown throw immense pressure in the recent period due to the need of balancing their service approach and commercial expectations, it looks like this changes will have long lasting impact on

the banking industry and will overall change the traditional model of banking companies. Next few years on the line the focus will more shift towards digitalizing the banking services with the competition from various Fintech companies growing at rapid pace. In this regard it can be understood that apart from operational issues like changing the employee's role, social distancing norms, change in shifts e.t.c will be on the cards but the most important will be the functional changes which the banking companies has to bear in the form of investment in IT sector, compliance with the recent central bank guidelines, the economic resurgence in the form of Atamanirbhara Bharat and catering the high inflation rates with reduced bank interest rate hampering the growth of the Banks. Hence banks have to lay down individual customer centric polices and have to create online platforms for the interactions with customers and employees. Another significant change which will challenge the banks is that majority of the customer will get habitat of using digital technology ,hence physical development of bank and branches is not a welcome lead. In near future also banks should more concentrate on digitalization than increasing the branches in the market.

### **Changing Roles of Banks and Implications**

Banks are regarded as fuel for economic development and their role in long run decides the faith of the country. Banking business creates space for growth of individuals, business organization and most importantly to the downtrodden part of the society by providing them personal loans

through which they can increase their viability. In the process banks generate profit which is of course an essential purpose of banking for banking companies. But the new debate which has started is that whether the banks are commercial entities whose purpose is to create profit for their investors or it can be regarded as a service entity whose role is to create economic stabilization by creating opportunity for equitable growth for all. Before the occurrence of the corona virus it was predicted by many agencies that the bad debts among the banks will be high as economic indicators were showing a downward trend in majority sectors. But after the Covid, the scenario has become worst to worst. The downfalling of economic activity with many MSMEs, retail investors and normal wage earners losing their jobs and the economy seems to be in more disgraceful conditions and the recent guidelines of Central banks have further created heavy pressure on commercial banks. In this regard the infusion of capital from the central bank and the central government have increased the purchasing power of sectors, but it will take some time for the society as a whole to come back to normalcy. Till that time banks have to pass over the benefit provided by the central bank to commercial banks in the form of reducing the rate of interest and other provisions which will enhance the bad debts and NPA of the banks. The post COVID-19 era will create a lot of long-lasting challenges for the banks and further stricter provisions of the central bank and government will hit the autonomy of bank functioning in a negative manner. Further it can be predicted that the central bank will extend the moratorium scheme as the second wave of Corona Virus is expected to create

more damage for the banks. In the recent report by Standard and Poor entitled "The Stress Fractures in Indian financial institutions" it is predicted that there will be a rise in NPL in the banking sector which will go up to 10-11 per cent of gross loans in the 12-18 months from 8 per cent on 30th June 2020. As per the report it is predicted that it will take a minimum of 2023 to come out of this, but till that infusion of liquidity in banks and as well as normal public is the real question of the hour. At this hour the management of demand and supply variables have to be taken care of. The demand of money is further going to increase in the future period and whereas the bankers should be able to create those additional reserves among themselves to match the global crisis. The average return on asset is estimated to increase in June and September as many of the banks have been instructed to declare that any asset can't be declared as Non performing asset until the further guidelines from RBI. But the major impact of the pandemic can be felt in the year 2021 where it is expected that majority of banks can find it very hard to recover their asset as the today's liberal credit policy is going to damage tomorrow's expected return on investment. Further in the year of 2021 there is expected rise on asset return as for other years the predicted return on asset can further increase with the return of normalcy in the future period of time.

(Refer Fig 1)

The dejected condition of the banks before the pandemic can be observed where it can be seen that in the year 2018 and 2019 the banks were getting negative return on their asset and many banking companies were facing

high NPAs. Now after the pandemic, the monetary policies of RBI have created further damage on the part of the banks, hence the policies need's to be taken at most care.

### Major Suggestions

In the amidst of Pandemic it is very important for the banks to maintain a healthy liquidity and at the same time the accumulation of reserves needs to be increased, as in the further years the increment of bad debts will increase. Further there needs to be high focused on technology building blocks rather than high investment in physical infrastructure. Monetary policies of banks will take sufficient time to yield return for banks, hence it will good to search for other financial sources as it will reduce the burden for the banking companies. The new guidelines on pandemic has restricted the entry of customers into banks, hence changing the banking structure from traditional to a new strategic way is the need of the hour. Apart from that many Fintech companies' entry for payment process is going to make the banking firms feel the pressure which will stimulate the banks to go for technology building services. In this regard banks should be able to adjust their post Covid banking services to meet the individual needs of customers. After the pandemic the customer needs for banking services and expectations for digital services will change and this changes will remain for long period, hence at this juncture it is important for the banks to understand this changes and act accordingly. Though the support of central bank is there, but

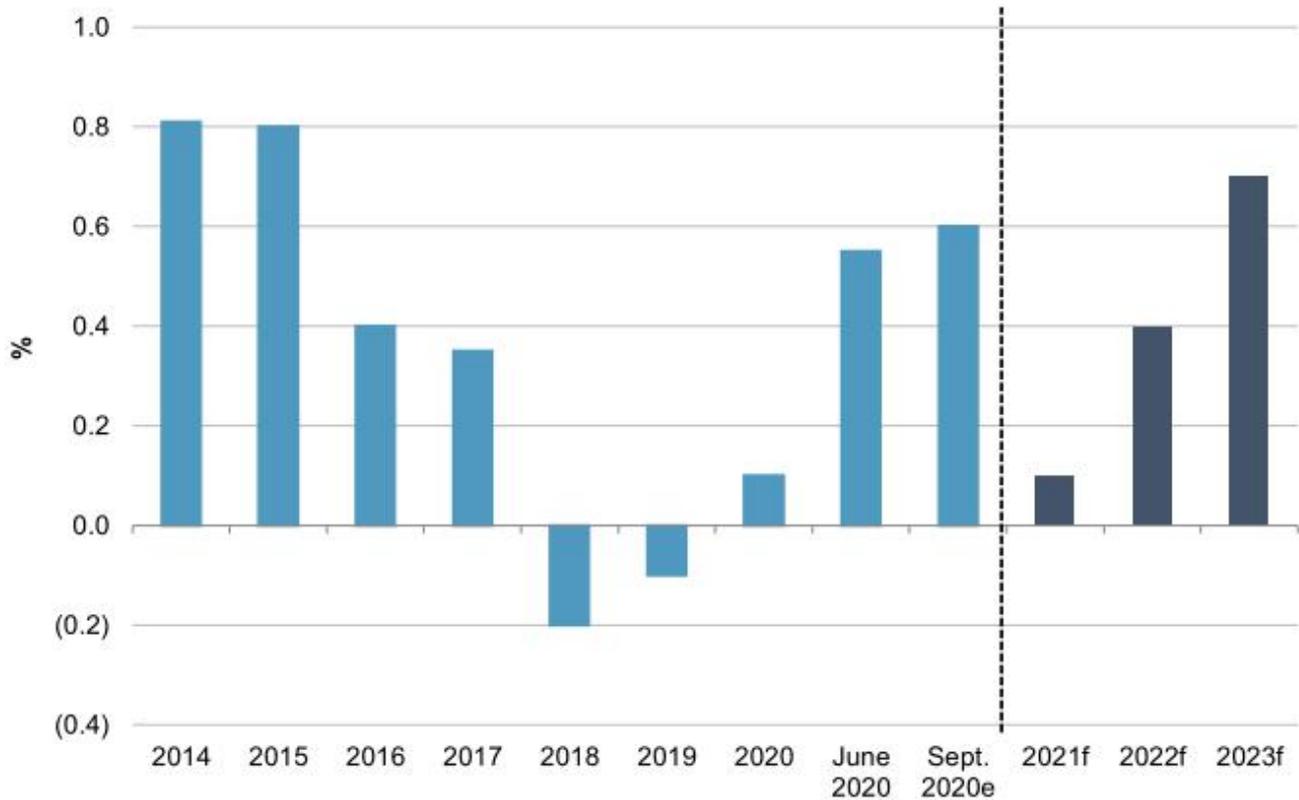
increasing non performing assets can't be neglected, hence policies should be framed to ensure that there is a balance between current financial support and future risk elements. In the Kamath Committee report it has been observed that best of the best companies are impacted by the pandemic and hence it becomes necessity for the banking firms to ensure they support the respective industry but at the same time be reasonable while giving credit to the companies, a through financial checking with previous financial records has to be taken into consideration before laying down credit policies for the banking firm. Though central bank have reduced the interest rate as monetary policy, but the main stream is that the banking firms should consider there financial strength before passing the same to the end customers. Hence to put forth it can be said that in the banking sector there needs to be a balanced approach followed by the bank as too much liberalization is also not good for the banks in the long run. Hence balanced approach is the need of the hour.

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### Banks' ROAA Likely To Remain Anemic Despite Rebound In 1H21

Systemwide return on average assets (%)



Indian fiscal years end on March 31. f--Forecast. Data annualized for June and September. e--Estimate. Source: RBI, S&P Global Ratings Estimates.

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**Figure 1. Banks' ROAA**

