International Journal of Economic Perspectives,17(03) 150-161 UGC CARE
Retrieved from https://ijeponline.com/index.php/journal

IMPACT OF COVID-19 ON BANKING SECTOR AND ATM MANAGEMENT'S SERVICES

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Abstract: The COVID-19 pandemic could be one of the most serious challenges faced by the financial services industry in nearly a century. 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 clean up 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.

In the times of COVID-19 banking sector has faced many challenges. This pandemic has made banking system inoperative for borrowers and business units. This pandemic results in major decline in profits of business units, loss of the job of individuals, decline in sales and many more problems. For banking sector, it is more difficult to tackle the situation such as shortage of employees, digital way of banking, making customers more aware about products and deals etc. Pandemic creates requirement of finance by the general public which leads to increase in loans and borrowings in banks. It was an ethical duty of banks to protect their employees and customers from this virus spread.

This paper will focus on the changes made in the existing policies as well as new policies which are introduced due COVID-19. This paper will also try to generalise the impact of pandemic on banking sector of India. After that it will propose some useful suggestion for banking sector to deals with this situation. The Indian banking system has added various measures to make banking sector highly operative and effective during pandemic, the study also explains these various measures.

Keywords: Banking sector, COVID-19, Economy, Banks

Corresponding author: IMPACT OF COVID-19 ON BANKING SECTOR AND ATM MANAGEMENT'S SERVICES
Submitted: 27 Jan 2023, Revised: 09 Feb 2023, Accepted: 18 Feb 2023, Published: March 2023

Introduction:

We all are concerned with this pandemic which is the biggest health and economic crisis that the world has ever seen since 1930's. Chief of International monetary fund Kristalina Georgieva on April 9, 2020 said that this raging pandemic is going to be the worst global fallout of an economy which will have a negative impact on per capita GDP of nearly 170 countries or more.

The lockdown has stopped all the economic activities of nearly all the sectors. This halt has affected firms and households in which firms that was in direct contact with customers such as hospitality and transport were losing their source of revenue and the people working indifferent sectors were also losing their jobs.

COVID-19 has made significant behavioural and structural changes in the lifestyle of people by social distancing, revitalizing economy and by making increase in the regulatory and government intervention. Due to these changes physical operations are effected, influenced assets quality as well as liquidity, there was severe pressure on digital platform and channels which have also challenged financial institutions. As this disruption which is brought by this pandemic has severely impacted all the businesses i.e., banking, financial services and insurance (BFSI).

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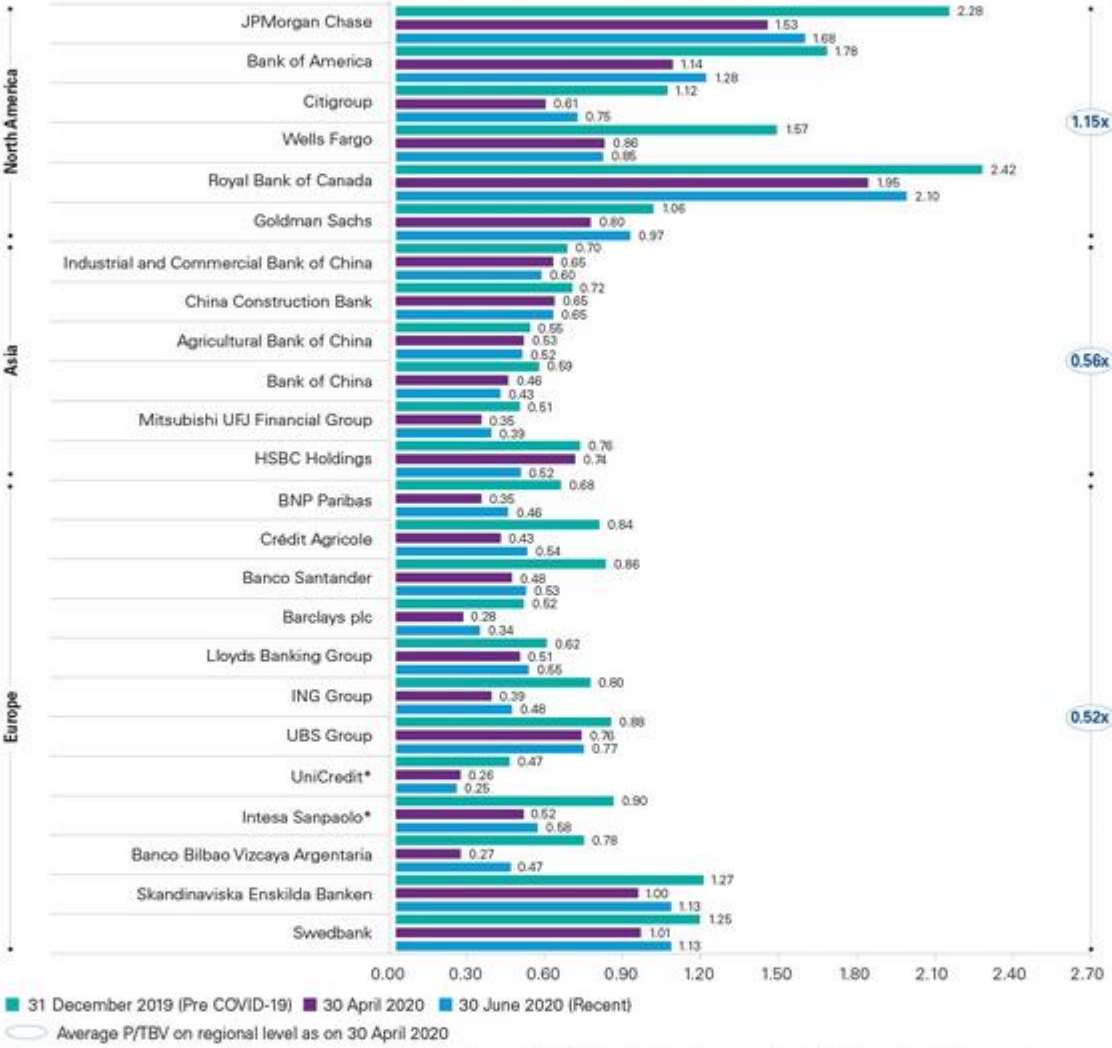

*Intesa Sanpaolo and Unicredit's price-to-tangible book value for pre COVID-19 period has been considered for November 2019 as no data was available for December 2019. Also, for June 2020, no data is available for Unicredit, hence data for May 2020 has been considered.
Impact on banking M&A 2020

The Indian economy was not in good condition before pandemic and this has made the system worse. Thus we can say that coronavirus has made the money dirty because coins and notes can carry virus and fear of infection have driven a new wave i.e. digitalisation in every sector. The mode of delivery of finance and financial product in changing rapidly and penetrating financial structure in India will be new boom.

The report of Reserve bank of India has clearly addressed that restructuring of loan is going to be risk averse because this sector was already faced big losses earlier due to the previous restructuring. RBI will address all these challenges of pandemic by making certain policies and taking several measures which is mentioned in this paper.

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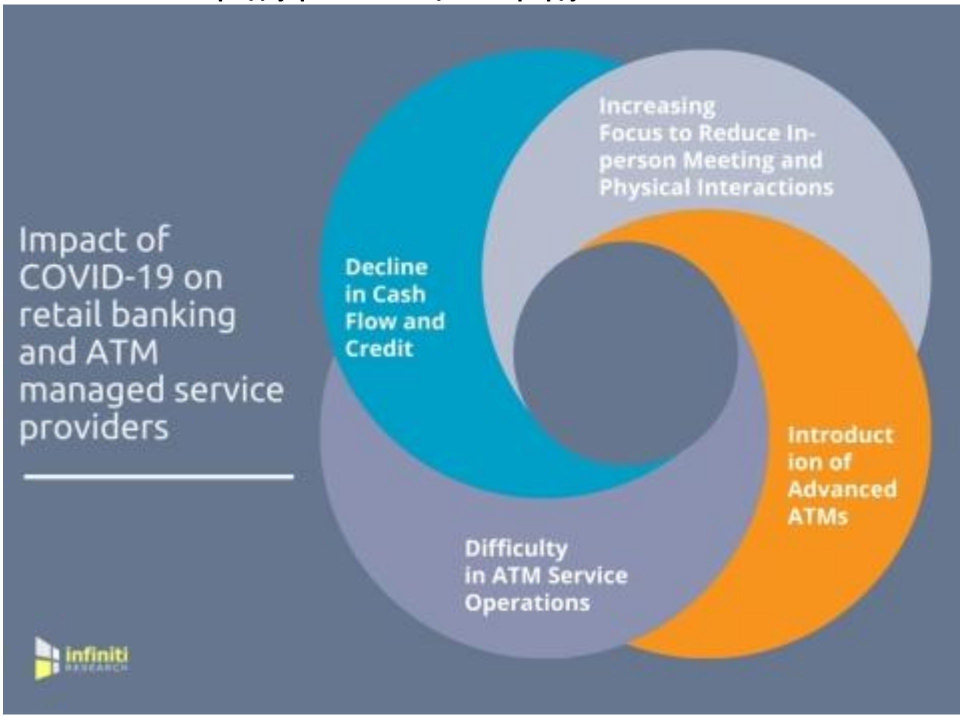

COVID-19 has generated significant instability and high volatility in global capital markets. The financial sector has been one of the most affected, with bank valuations dropping in all countries around the world (P/NAV multiple experienced a severe downfall from 1.00x on 31 December 2019 to 0.69x on 30 April 2020).

Credit growth in almost every sector decelerated in March 2020 from a year ago as the country went into a nationwide lockdown due to the coronavirus (Covid-19) crisis, data released from the RBI showed.

On a year on year basis, credit growth in the banking system decelerated to 7.6 per cent in March 2020 from 12.3 per cent in March 2019. Credit growth to agriculture and allied activities decelerated to 5.2 per cent from 7.9 per cent in March 2019, and credit growth in industry decelerated to 1.4 per cent in March 2020 from 6.9 per cent a year ago.

Within industry, credit growth accelerated in beverage & tobacco, mining & quarrying, petroleum, coal product & nuclear fuels, cement & cement products and vehicles, vehicle parts & transport equipment. However, credit growth contracted in chemical & chemical products, all engineering, glass & glassware, gems & jewellery and infrastructure decelerated.

The deceleration was also witnessed in the services sector, which saw a sharp contraction to 8.5 per cent in March 2020 from 17.8 per cent a year ago. Growth in personal loans decelerated marginally to 15.7 per cent in March 2020 vis-à-vis 16.4 per cent in the same period last year.

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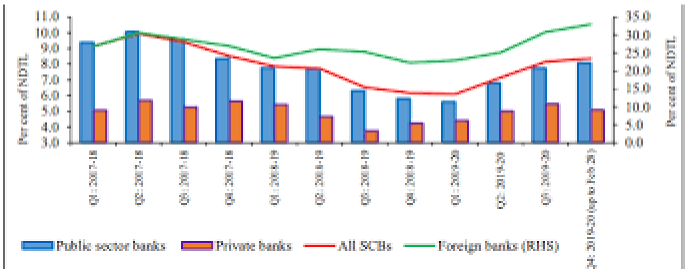
Products	Lockdown 1	Lockdown 2	Lockdown 3	Lockdown 4
Savings deposits	499606	244679	-89720	137796
Current deposits	-62757	24616	-53002	65687
Term deposits	175812	146583	22845	59134
TOTAL DEPOSITS	483767	362989	-102534	238512
Cash credit, overdraft	-9190	-114170	-38735	43420
Term loans	62304	4565	-16440	7488
TOTAL ADVANCES	55503	-125491	-60588	52703



Note: Excess SLR is the average of all reporting Fridays in a quarter; **Source**: RBI.

How does pandemic affects banking sector?

1. **Fund recovery from defaulters:** The banks are a safest source for raising credit and many of the customers raised fund from banks but the repayment does not take place on time during COVID-19 period previously. The collection ratio was around 90% but during this pandemic period declined upto is about 60%. There is a pressure on the banks but customers are not able to repay the debt on time due to lack of money flow in the economy.

2. **Decrement in the value of bonds and others securities:** In the pandemic period banks are negatively affected as the general public are not investing in the bonds and other financial instrument because all of them lost their value in this period and investing in these instruments may result into heavy losses for investors. Due to this whatever banks were earning previously are not able to earn and this result in further losses for banking sector. Derivatives positions are also affected due to this crisis and they also moved in some unexpected direction and trading becomes difficult.

3. **Branch closure:** Due to rapid spread of corona virus branches of almost banks are running with very less number of employees. So that the revenue of banks is affected and this is the reason for many banks to close their some of the branches. Also the activities like deposit, withdrawal, loans document collection and other banking operations are affected by this pandemic.

4. **Increase in credit demand:** During COVID period banks are facing the problem of fund which they used to provide to public and earn money in the form of interest. In this crucial period the demand for credit/ personal loan increased. The firms/ individuals require

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additional fund to meet their requirement as no other option left for them. So the banking sectors are unable to fulfil the credit demand for public.

5. **Disruption of workforce:** Banking sector experiencing shortage of workforce due to lockdowns. Banking staffs already perform many duties for their customers. As they cannot deny performing their duties but it is a considerable risk to the health if they come to the office due to pandemic. This leads a disruption of workforce in the banking sector.

6. **Increased cyber-crime:** In order to retain the customers banking sector has no other option left except digital way to communicate various services they are offering or to continue their engagement with the customer through mobile or internet. By using this digital solution for banking services, there are many hackers who can send fake SMS and emails to mislead innocent customers by collecting their personal details and use it in their favour.

7. **Problem of documentation:** Documents are needed for opening bank account, card issue, loan sanctioning and other financial services. All these services been critical to process. There are digital services take place in the country to safeguard the economy but the mentioned services cannot be fulfilled through digital services, so there is a need for physical verification and document collection this become a problem for banking sector.

8. **Decrement in agency function of the banks:** Banks earns fee income through their agency function also known as non- interest revenues. In the COVID period banks are unable to earn their non-interest income as there is a demand for services reduces. People are not interested in payment activities like premium payment, EMI payment, factoring etc. In this pandemic people are more focused on saving money they used to pay less because it will lower their economic income. Hence, banks are not able to earn their fee income in this pandemic.

9. **Customer relationship and commercial models:** The pandemic have impacted banks, banking system and on the bank customer relationship. Banks are one who are customer centric and are forced to use channels of communication. This phase is complex and bank need to address by demonstrating the real proximity with customers. As customers are not allowed to come in branches unless or until something major happens. They have to follow social distancing in the branches also just because of this it will take long hours to work done, and customers are preferring not to go at branch ultimately this lead to reduction in customer's relationships.

- **Policies by Reserve Bank of India:**

The Reserve Bank of India takes some measures to provide some relaxation to the financial institutions that are mentioned here briefly: -

1. Due to the pandemic RBI faces problems of maintaining CRR by all the banks so, RBI has reduced its cash reserve ratios (CRR) limit of all banks by 100 bps that is up to 3% net demand and time liability (NDTL) from 28th march 2020.

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2. The RBI reduces the requirement of minimum daily CRR maintenance from 90% to 80% with effect from 28th March 2020. And this facility is available up to 26th June 2020.

3. RBI has given permission to their banks to borrow overnight by decreasing the previous rate up to 2% into the SLR (Statutory Liquidity Ratio), under the Marginal Standing Facility (MSF). The above mentioned limit has been increased to 3% immediately. This measure was provided by RBI up to 30th June 2020.

4. The reserve Bank of India has extended their policies regarding rate corridor up to 65basis points. Under the LAF (liquidity adjustment facility) there is a change take place in reverse repo rate which results in decrement of 40 bps and increment in Market Standing Facility by 25 bps as compared to repo rate. For the consequent expanding the LAF corridor, the reverse repo rate reduces by 90 bps i.e. up to 4%. Increase in these rates, makes ease in the short- term volatility as well as bring stability in money market.

5. RBI reduced its policy repo rate under the liquidity adjustment facility (LAF) up to 75bps that is 5.15% to 4.40% immediately. Also the MSF rate and bank rate decline from 5.40% to 4.65%.

6. RBI announces that the lenders could give a moratorium of three months on their term loans which is outstanding on 1st march 2020 to give relief for the middle class. These changes are applicable on all commercial banks, RRBs and also on NBFCs which includes housing finance and microfinance.

7. The Reserve Bank of India also undertakes Long Term Repo Operation (LTRO) which allows further liquidity with the banks. This can be done in the form of commercial paper, non- convertible debenture and also in the Investment grade corporate bonds.

8. For the borrowers, Lenders are allowed to lend money after recalculating their drawing power by decrement in profit margins. This process is not going to decline the result in asset classification.

9. There is also a three-month interest moratorium permitted by all lending institutions in concerned of working capitalinterest says RBI.

10. There is deferment in NSFR (Net Stable Funding Ratio) funding risk by banks to invest their money in the stable sources of funding which was supposed to be implementing by 1st April 2020 later postponed up to October 1, 2020.

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- **Measures taken by RBI to tackle second wave of COVID:**

In the concern of Measures, the RBI eased their lending and reconstructing norms for stakeholder, small business entrepreneurs and MSMEs, as they are highly affected by second wave of COVID. Also priority sector facilities are providedfor the vaccine manufacturers and to the companies who provides medical supplies to the hospitals during his pandemic. Here are some other measures mentioned below:

1. **Term liquidity facility:** For easily availability of health services the RBI governor Mr. Shaktikanta Das announces Term Liquidity Facility of Rs. 50,000 crores. This scheme is generally enforced to provide monetary support to the entities which are engaged in the business of producing vaccines, to help the importers as well as suppliers of vaccines related items also gives priority to the dealers of medical instruments or technologies, to the hospitals and medical dispensaries, labs, oxygen manufacturers, to the suppliers and importer of drugs and medicines for COVID patients and for their treatment too. Under this scheme all those banks are incentivized who gives credit to those mentioned above which will result in extension in these sectors. The loans which are provided under this scheme are considered as a priority sector up to the repayment and maturity date whichever is earlier. This scheme is valid till 31st march 2022.
2. **Special long-term repo operations (SLTRO) for small finance banks (SFBs):** This scheme is enforced specially for lending the micro, unorganized and small industries. The RBI governor said that to conduct special three-year long term repo operations of Rs. 10,000 crores for SFBs. This facility is available till 31st October 2021 and also this will help them with lending up to Rs. 10 lakhs per borrower.
3. **Prioritise lending by SFBs to micro-finance institutions (MFIs)**: According to RBI decision SFBs will lend MFIs as a priority sector lending. This classification is done with a view point of MFIs as they faced liquidity problems during this pandemic. SFBs are allowed to provide fund to small MFIs whose asset size is up to Rs. 500 crores. This scheme is valid till 31st march 2022.
4. **Credit to MSME entrepreneurs:** For the extensive flow of credit to the borrowers of MSMEs RBI proposed this scheme. This scheme is firstly introduced in February 2021 which allows schedule commercial banks to cut credit disbursed to new MSME borrowers from NDTL to calculate cash reserve ratio. This exemption is allowed up to 25 lakhs and this scheme was valid till 1st October 2021 and currently extended till 31st December 2021.
5. **Resolution 2.0 for individuals, small businesses:** The novel coronavirus in India has led disruption in economic activity and create a mess for borrowers which include

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individuals, MSMEs, small businesses. Only those are eligible to be considered under this resolution 2.0 framework scheme who did not avail restructuring under earlier framework as on 31st march 2021 they will be allowed exposer upto 25 crore. This scheme can be invoked upto 30th September 2021 and must be implemented within 90 days after the invocation.

6. **Requirement of Rationalize KYC compliance:** In the view of the second wave of covid-19 RBI rationalized some of the compliance requirements for the banks and other institutions which includes:

- V-CIP (Video based customer identification process) is a new technical instrument which is used for maintaining KYC through video conferencing for the new customers like sole proprietorship firms, signatories thereof also the owners of legal entities. This will make improvement in periodic up gradation in KYC.
- RBI focuses on the Encouragement of use of KYC identifier for centralized KYC registry for V-CIP and also encourage the electronically submission of documents.
- RBI promotes the conversion from Aadhaar based KYC verification to non-face-to-face mode of KYC complaint account.
- There must be more customer-friendly option which includes the use of digital channels for periodic up gradation of KYC for their customers.
- Due to this current situation in our country advise is given by RBI to all the banks regarding customer account in which the periodic KYC updating is due, there will no restriction on it up to 31st December 2021 until and unless any emergencies situation occurs.

7. **Relaxation in overdraft facility for state governments:** There are certain relaxations provided by the RBI to the states, that relaxation given in the maximum number of days for the payment of overdraft is 50 days previously it was 36 days and number ofdays of consecutive days of overdraft is 21 days earlier it was 14 days. This scheme is available up to 30th September 2021.

Suggestions for banking sectors:

1. **Credit Management:** In this COVID period many consumers and businesses are run out of cash this leads into lower business revenues and employee layoff. This will cause in non-performing assets/loans, as borrowers are struggling to make payment of interest as well as principal payments. So the banks should take the following steps to mitigate the above mentioned problems are mentioned below: -

- The banks must extend their credit facility
- All government actions regarding banks for COVID must be supported.
- Banks should prepare for their future losses by maintaining sufficient reserves.
- They should focus on to digitalizing to manage the demand for refinancing.
- They must initiate their own credit for bearance and modification programmes.

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2. **Revenue compression:** Within a few weeks of the pandemic the market value in banking industry fell to the lower than the fall that occurs in 2008-09 recessions. This situation occurs because at that time market has factored in the short term revenue compression. To deal with such type of shortcoming banks must:-

- Cut their emergency interest rate to stimulate the economy, that will lead to net new lending to the public and also it will compress bank's net interest margin.
- Banks should anticipate a short-term drop in payments revenues.

3. **Customer service and advice provision:** This pandemic puts a major impact on customer services. In this pandemic customer's preferences are changing rapidly. Many banks were opened as a vital service. However, customers are advised to stay home and avoid gathering. So that customers are looking for technologies for fulfilling their need of financial life through online banking, bank's application, UPIs etc. All these facilities can be avail when:-

- Bank must educate and train their customers about digital banking.
- Banks should minimize the physical gathering to avoid infection risk.
- They should give personalize advice to their customer's query.
- And lastly, they must accelerate digital sales and services for their customers.

4. **Operating model adjustments, cost control and innovation:** In the COVID-19 crisis bank management needs to deals with business issues as well as above outlined issues for this they should respond with flexibility. The co-ordination is needed with investors, regulators, employees, stakeholders, customers group and all those who are directly or indirectly connected with the industry. For this-

- They must review their product expenditure carefully.
- They must be flexible with their vendors and suppliers.
- The banks should invest in things which will outlive the virus in future.

CONCLUSION:

Banking sector has responded to the immediate imperatives by facilitating continuity of the business. It has adopted a focused approach which involves integration of tactical initiatives which has addressed immediate concerns, thus strategic intervention is needed to recalibrate business models and to drive profitable growth will be critical in long run. To kick start the recovery banks should give immediate priority as well as focus on risk management and collections, proper use of technology should be adopted and recovery from team deployment. Various measures and suggestions are undertaken by the RBI and government but a chief economist has given their views that more spending is needed from government. In fact, major attention should be provided to the vulnerable sections and sectors i.e. poor people, MSMEs

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and non-essential sector they were the major hit during this crisis. Need of an hour is to use unique, inclusive and innovative measures to deal with this situation.

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