

Impact of COVID 19 on the banking sector

Dr. Meenu Baliyan, Muskan Goel

IMSEC Ghaziabad, India

Abstract: COVID-19 adversely affected the Indian Economy as well as human lives. Almost all the sectors have been affected. This paper aims to investigate the COVID-19 pandemic's effect on the banking sector. Because of the lockdown, there were no sources of income. That's why people demanded advances and on the other hand, they were not able to pay the loans. To overcome this situation, the Reserve bank of India and the central Government have taken many measures to provide relief to the people. This Research Paper shows the relationship between NPAs, Advances, and Profitability due to COVID-19 and also the impact of measures taken by RBI and the government in the Indian Banking sector.

Keywords: Covid-19, Banking Sector, Pandemic, Indian Banking, Reserve Bank of India.

I. INTRODUCTION

In January 2020, coronavirus emerged in India and hit millions of lives with thousands of deaths across the world. To fight COVID-19, the Indian Government announced complete lockdown in the country starting on March 24, 2020 and the same was extended to 3rd May, 2020. A similar action has been taken by many governments around the world. However, this kind of measures taken by the Indian Government to control the spread of covid-19 pandemic impacted the GDP of the country in a disruptive way.

One of the most important sectors of the Indian economy is the banking sector which is responsible for all the financial activities going on in the country and working as a supporting hand to all of the industries in terms of financing, credit, transactions, collection and payment and so on. Covid-19 has caused so much effect in the performance of the Indian banking sector in terms of NPAs, Profitability, advances etc. Indian banks have faced a difficulty during the pandemic period and it has changed the profitability of the Indian banks.

They have faced many challenges and the changes they made have impacted on their financial statements. One of the core impacts was because of the increase in NPAs, non-repayment of loans and demand of credit. And these have caused the banks to reduce their profitability from the year 2019 onwards. To check the impact of COVID-19 on Indian Banks, various policy measures were taken by Reserve Bank of India and Indian Government at centre level and state level. Some experts believe that Banking sector mainly in India may take a long time to recover from the impact of this pandemic.

Indian Banking sector

A bank is an institution which has a primary function to accept deposits and lend money to needful individuals, businesses, and governments. When any individual deposits money in the bank,

it doesn't matter what the amount is, the individual knows that the money will be safe in the bank as compared to anywhere else. Besides this, banks provide numerous services such as loan facilities, fixed deposit schemes, debit & credit card facilities, etc.

In India, currently, there are a total of 33 banks, of which 12 are public sector banks and the rest 21 are private sector banks. The banks have a dominant position in India's economy and it is a major contributor to employment in India. Unfortunately, many of the performance indicators of India's banks have faced negative situations since the last five years. This situation holds true in case of PSBs as they seem more inefficient compared to their peer groups.

To get a better picture of the impact of covid-19 on Indian banks, one must be aware of the factors that affect the profitability of a bank.

II. LITERATURE REVIEW

Ambrish Kumar Mishra, Archana Patel and Sarika Jain (Feb, 2021) carried out a research study titled "Impact of Covid-19 Outbreak on Performance of Indian Banking Sector" demonstrates repercussions of the Covid-19 in the performance of the Indian banking sector by creating and evaluating the largest comprehensive knowledge base called ontology (Covid19-IBO) in order to get semantic information, in continuation of the same they address few important research questions with respect to Indian economy.

Vikas Kumar and Sanjeev Kumar (Jan, 2021) carried out a research study titled "Impact of Covid_19 on Indian Economy with Special Reference to Banking Sector: An Indian Perspective" demonstrates overview of the impact of COVID-19 situation on Indian economy and its banking sector and also analyses the various policy measures taken by Reserve Bank of India and Indian Government at center level and state level to improve the current economic situation of the country.

Ashly Lynn Joseph and Dr. M. Prakash (Jul, 2014) carried out a research study titled "A Study on Analyzing the Trend of NPA Level in Private Sector Banks and Public Sector Banks" demonstrates trends of NPA in banking industry, the factors that mainly contribute to NPA raising in the banking industry and also provides some suggestions how to overcome this burden of NPA on banking industry.

Dr. Jitender Singh and Dr. B. S. Bodla (2020) carried out a research study titled "Covid-19 Pandemic and Lockdown Impact on India's Banking Sector: A Systematic Literature Review" demonstrates the impact of this pandemic on Banks and NBFCs due to lockdown which has resulted into closure of

all commercial organizations, educational institutions, public and private offices, suspension of means of transportation, etc. by considering views expressed by several groups including economists, financial institutions like IMF, World Bank and consulting firms.

Dr. Nilam Panchal studied that the impact of covid-19 pandemic on the profitability of the bank and collect the data from different banks i.e. Axis bank, SBI bank, Bank of broda and HDFC bank and show their NPAs and total advances in cr. Author use statistical tools like correlation.

Dr. Priyanka Bhobade, Dr. D.Y. Patil Vidyapeeth's and Prof. Anu Alex study about the change in RBI policy due to COVID-19 and discover that the government encouraging people to design innovative business model and Author also define the different RBI reforms.

Darjana, D., Wiryono, S. K., & Koesrindartoto, D. P. (2022) collect data of 10 year monthly data and data is collected from Indonesia Financial Statistics, released by the central bank, Bank Indonesia. And use the regression model as a statistical tool.

Rakesh Kumar, MD and CEO, TransUnion Cibil says, the ongoing COVID-19 pandemic poses a new threat to businesses, especially for small and medium enterprises. Out of the loans worth Rs 2.32 lakh crore of MSME are at a risk, Rs 13,500 crore of micro enterprises may become NPA, in the coming 12 months, as they fall in the risk category of 7 to 10, which is the highest risk category according to TransUnion Cibil, a credit Information firm (quoted in Financial Express Online, April 27, 2020). Thus, banks and NBFCs are going to be ultimately affected if the huge part of loans of micro enterprises turns bad.

Dr. Priyanka Bobade Global Business School & Research Centre, Tathwade, Pune study about the Change in RBI policy due to COVID-19 and to find out a solution for the Indian Banking system to face COVID-19 Pandemic.

III. RESEARCH METHODOLOGY

Objectives of the study:

- To find the impact of the covid-19 pandemic on the profitability of the bank.
- To establish the relationship among the NPAs, advances and Net profit during the pandemic period.

Data collection:

- The study is planned to be carried out with the help of secondary data.

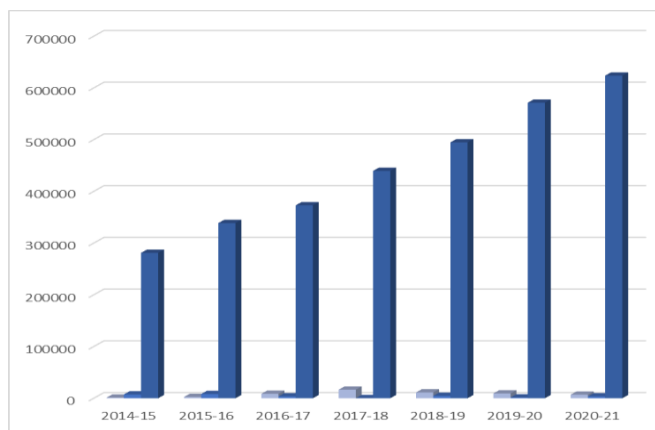
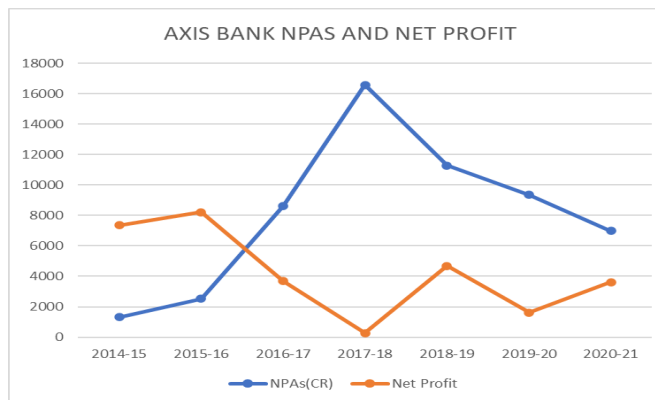
Sources of Data:

- Bank's annual reports
- Magazines, newspaper, articles, and journals
- Literature review

IV. DATA INTERPRETATION & ANALYSIS

1. Axis Bank

YEAR	NPAs(CR)	Net Profit	Total Advances
2014-15	1316.71	7357.82	281083.03
2015-16	2522.14	8223.66	338774
2016-17	8626.55	3679.28	373069
2017-18	16591.71	275.68	439650
2018-19	11275.6	4676.61	494798
2019-20	9360.41	1627.22	571424
2020-21	6993.52	3614	623720



Interpretation:

In the above chart, NPAs for the year 2014-15 is Rs. 1316.71 CR and Net Profit for the year is Rs 7357.82 CR. In the subsequent year, the net profit and NPAs of the bank both rose i.e., Rs 7357.82 CR, Rs 1316.71 CR and 6993.52 respectively. The reason behind the same is the net profit of the bank is much higher than the NPAs of the bank. Thus, there is nominal or no effect of NPAs is seen on the bank profit in the year 2014-15 and 2015-16.

In the year 2016-17, the net profit of the bank decreased to Rs 3679.28 CR and NPAs of the bank surpassed the net profit of the bank. The NPAs have increased to Rs 8626.55 CR. Thus, it is clearly seen that the sudden increase of the NPAs of the bank has majorly impacted the profitability of the bank in the year 2016-17. The reason for the sudden increase in the NPAs in the

year 2016-17 is that there was higher liquidity and very less corporate credit demand. Still the company managed to increase the loan advances in the year 2016-17 but all the benefits were eaten up by the increase in the NPAs.

In the year 2017-18, the NPAs of the bank doubled compared to 2016-17. This again majorly impacted the profitability of the bank for the year. The profit of the bank reduced to Rs 275.68 CR. In the year 2020-21, the NPAs got reduced and net profit increased. Thus, it is clearly seen that there is an inversely proportional relationship between NPAs and net profit of the bank.

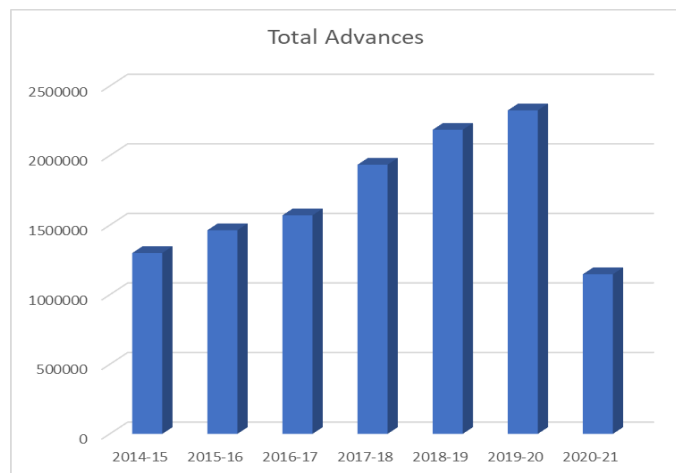
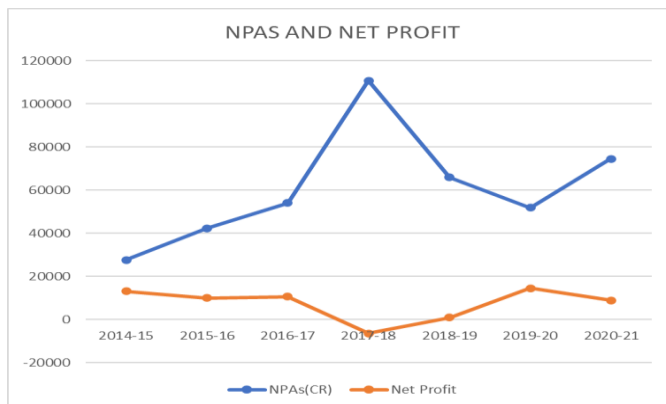
Pandemic effect:

In the year 2019-20, Net profit and NPAs, both are decreasing.

1. NPAs are decreasing
2. Loan disbursement is also increasing

2. State Bank of India

YEAR	NPAs(CR)	Net Profit	Total Advances
2014-15	27590.58	13101.9	1300026.39
2015-16	42365.78	9950.65	1463700.42
2016-17	54065.61	10484.1	1571078.38
2017-18	110854.7	-6547.45	1934880.19
2018-19	65894.74	862.23	2185876.92
2019-20	51871.3	14488.11	2325289.56
2020-21	74,482	8834.3	1147652



Interpretation:

From the above charts, it is clearly seen that from the year 2014-15 to 2020-21 NPAs are higher than the Profit in state bank of India. Reason behind this can be the sharp rise in total advances every year.

In the year 2018-19, NPAs of the bank are decreasing compared to the previous year and also Profitability has increased to 862.23 crores from -6547.45 crores. Reason behind such a growth was:

1. Government Investments
2. Demand from Personal loan segment
3. Better Risk management

From the above data of NPAs and Advances it is clearly seen that in the year 2017-18, NPA ratio was 5.72% while in the year 2018-19, it decreased to 3.01% which led to greater Profitability.

Pandemic effect:

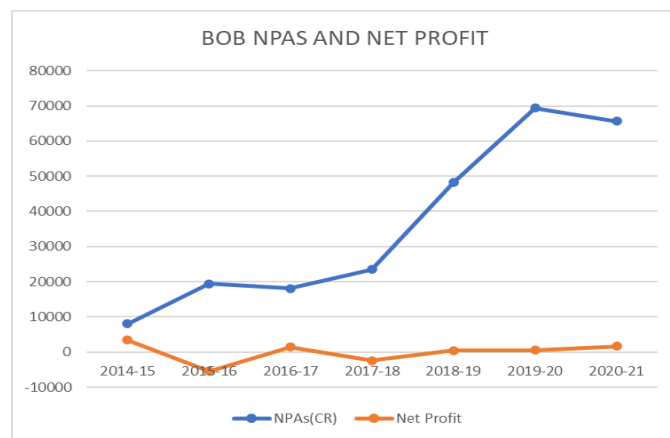
After 2018-19, a similar position was found in the year 2020-21 in spite of facing Covid-19 Pandemic. Reasons are:

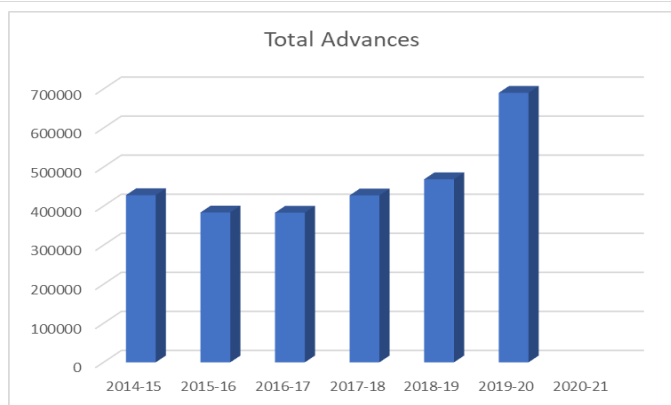
1. Digital Payments
2. Increased Interest Income due to rise in Advances
3. Corporate credit demand
4. MSME lending

So we can say that, demand for the advances was high in the year 2019-20 due to the financial crisis in covid-19 pandemic which led to a source of income for SBI in terms of Interest on loans and also because of decrease in NPAs, profitability was increased.

3. Bank of Baroda

YEAR	NPAs(CR)	Net Profit	Total Advances
2014-15	8069.49	3398.44	428065.14
2015-16	19406.46	-5395.54	383770.18
2016-17	18080.18	1383.14	383259.22
2017-18	23482.65	-2431.81	427431.83
2018-19	48232.76	433.52	468818.74
2019-20	69381.43	546.19	690120.73
2020-21	65698	1679	734033





Interpretation:

In the above chart, NPAs for the year 2014-15 is Rs. 8069.49CR and Net Profit for the year is Rs. 3398.44 CR. In the subsequent year, NPAs have increased drastically with Rs. 19406.46 and on the other hand because of the rise in NPAs, Net Profit has decreased and made a loss of Rs. 5395.54 CR.

In the year 2016-17, BOB revived its profit of Rs. 1383.14 CR succeeded in decreasing its NPAs which was 18080.18 CR. Though there is not much difference in NPAs and advances compared to previous year, then also they made Profit. Sources of the Profit can be corporate financial services, international operations, retail financial services, business financial services, global treasury and rural financial services.

Again, in the year 2017-18, BOB failed to achieve profitability and made a loss of Rs. 2431.81 CR because of the drastic increase in NPAs of 23482.65 CR. So the inverse relationship between NPAs and Profitability can be seen in the year 2017-18.

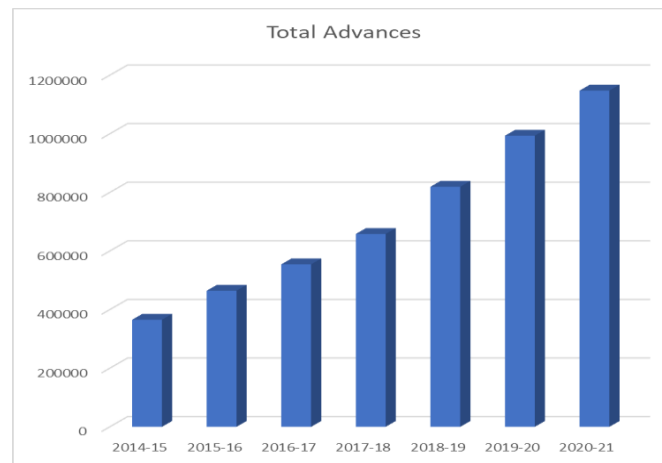
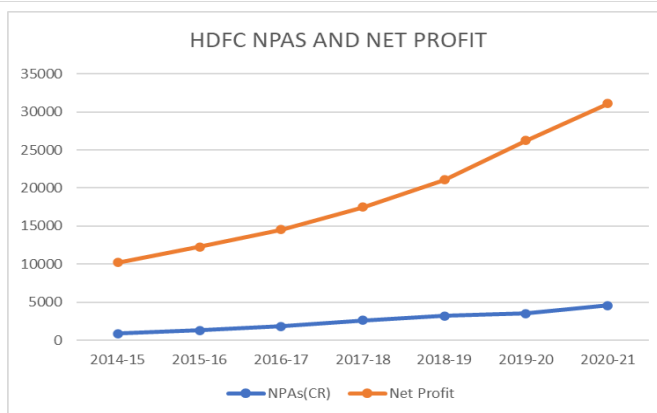
In the year 2018-19, NPAs of the bank almost doubled but then also Profit was increased compared to previous year. Reason behind profitability can be the income from other sources increased and it covered the loss of NPAs. But In the year 2020-21 NPAs slightly increased and net profit increased 3 times and total advances also increased.

Pandemic effect:

In the next year 2020-21, NPAs decreased to 65698 CR and Profit increased to 1679CR respectively. Reason can be the rise in Advances i.e., 734033 CR which led to increase in interest income and in turn increase in Profitability. Reason behind the increase in Advances can be the Covid-19 pandemic as people were in need of credit.

IV. HDFC

YEAR	NPAs(CR)	Net Profit	Total Advances
2014-15	896.28	10215.92	365495.03
2015-16	1320.37	12296.21	464593.96
2016-17	1843.99	14549.64	554568.2
2017-18	2601.02	17486.73	658333.09
2018-19	3214.52	21078.17	819401.22
2019-20	3542.36	26257.32	993702.88
2020-21	4,554.82	31,116.53	1147652



Interpretation:

HDFC Bank’s NPAs, Net profit as well as loan advances are increasing from 2014-15 to 2020-21. It is clearly seen that there is no effect of increased NPAs on net profit. The reason behind the same is the loan advances and net profit. Net profit is much higher than the NPAs of the companies.

Thus, NPAs have not affected the profitability of the business. Their loan advances have risen from Rs 265495.03 CR to Rs 1147652CR in seven years, which is approximately triple of the loan advances in 2014-15. The more the loan advances, the more the net profit will be. Thus, NPAs are not becoming a barrier to reduce the profitability of the bank.

Pandemic effect:

Total advances in the year 2020-21 has increased to Rs 1147652 CR, which is because of the moratorium given by the banks to the defaulters. Thus, their advances have increased and NPAs have not increased more than it would have been, due to the moratorium given. Also, their NPAs are very nominal compared to the net profits over 7 periods of time. Thus, there was an insignificant impact on the net profit of the bank, though the whole Indian economy was down.

Correlation Analysis:

Correlation of	Axis	SBI	BOB	HDFC
Net profit & NPAs	-0.9	-0.9	0.04	0.97
Net profit & Total advances	-0.7	-0.3	0.23	1

Note:

- Ø If the correlation is less than 1 then there is reciprocal relation between the two variables.
- Ø If the correlation is near 0, then there is no relation between the two variables.
- Ø If the correlation lies between 0.1 to 0.5, then there is moderate impact of one variable on the other.
- Ø If the correlation is more than 0.5, then there is high impact of one variable on the other.

V. FINDINGS

Axis Bank:

The correlation between Net profit and NPAs comes to -0.90.

The correlation between the total advances and the Net profit comes to -0.7.

This shows that both the variables have reciprocal relation. The reciprocal relation is justified because the profit is very less compared to the NPAs of the bank. Thus, NPAs have a greater and negative impact on profitability of the business. Though the advances are increasing, the profitability is hampered because of NPAs.

SBI:

The correlation between Net profit and NPAs comes to -0.90.

The correlation between the total advances and the Net profit comes to -0.3.

The reason is justifiable for the above correlations. There is a reciprocal relationship between NPAs and Net profit. The reason is that SBI has higher NPAs than their Net profit. Their loan advances have increased in 2019-20. During the pandemic period, people were in need of credit demand. Also the moratorium given to the customers have led to decrease in NPAs. Thus, their profitability for the year 2019-20 has increased. But the profitability will hamper in the coming years as they will need to make higher provisions for the NPAs and this will reduce the profitability of the bank.

BOB:

The correlation between Net profit and NPAs comes to 0.04.

The correlation between the total advances and the Net profit comes to 0.23.

The correlation 0.04 shows that there is no relation between net profit and NPAs of the bank. The reason behind the same can be the high fluctuation in the Net profits. Net profits for the five years are fluctuating because there is unevenness in the loan advance. The loan advances have increased in the year 2019-

20. For liquidity purposes, BOB has invoked the Covid-19 restructuring schemes of the RBI for loans worth Rs 7800 CR in the year 2020.

HDFC:

The correlation between Net profit and NPAs comes to 0.97.

The correlation between the total advances and the Net profit comes to 1.

The correlation of Net profit and NPAs shows that there is positive relation between the two. This is because HDFC bank has much higher profitability than its NPAs are. Thus, the increasing NPAs does not have impact or negligible impact on the profitability of the bank. Their advances have increased 3 times from 2015 to 2020, the same as the Net profit.

VI. CONCLUSION

COVID-19 outbreak has hampered the Indian Banking operations and overall Banking sector. Not only the banking sector but it has severely affected every industry across the globe. As industries are attempting to recover, there is a need for some solid measures and strategic initiatives. Government is required to take decisions and actions to lessen uncertainty and financial stress in the economy. Continuous measures should be taken to enable the smooth functioning of both money and capital markets. COVID-19 breakdown has caused severe damage in the Banking sector. Actual NPAs will remain suppressed till the extended moratorium period gets over. According to S & P Global rating, the Indian Banking sector will be slower to recover and it will happen only beyond 2023. The path to recovery will be more painful for emerging markets such as India. There is an expectation of an economic rebound in 2021 because of the release of vaccines.

BIBLIOGRAPHY

- [1] Mishra Ambrish Kumar, Archana Patel and Sarika Jain (Feb, 2021), "Impact of Covid-19 Outbreak on Performance of Indian Banking Sector by "Impact of Covid-19 on Indian Economy with Special Reference to Banking Sector: An Indian Perspective"
- [2] Dr. Nilam Panchal "Impact of Covid-19 Outbreak on Performance of Indian Banking Sector" AN EMPIRICAL ANALYSIS
- [3] <https://www.axisbank.com/shareholders-corner/shareholders-information/annual-reports>
- [4] <https://sbi.co.in/web/corporate-governance/annual-report>
- [5] <https://www.hdfcbank.com/personal/about-us/investor-relations/annual-reports>
- [6] <https://www.bankofbaroda.in/annual-report.htm>
- [7] https://timesofindia.indiatimes.com/blogs/economic-update/npas-and-its-effects-on-banks_profitability/
- [8] https://www.business-standard.com/article/finance/covid-19-indian-banking-system-to-be_amongst-the-last-to-recover-says-s-p-120092400319_1.html