Impact Analysis in Banking, Insurance and Financial services industry due to COVID-19 Pandemic

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Abstract

COVID-19 affects various industries and economies across the globe. India is one of the countries severely affected and in 3rd place globally. BSFI sector, which is one of the cores for the Indian economy, also affected poorly due to COVID-19. In this paper, we discuss various factors such as lockdown approach, moratorium, different impacts in banking, financial services and insurance sector. Further, we have given some recommendations to mitigate the situation so that the financial services can continue with the less negative impact which will help for better services to the customer and minimal revenue loss to the financial organisations.

***Keywords**:* BSFI, Banking, Non-Banking, Insurance, COVID-19.

Introduction

Coronavirus[1] disease (COVID-19) is an infectious disease caused by a newly discovered coronavirus. Majority of the people infected with the COVID-19 virus may experience mild to moderate respiratory illness and recover without any special treatment. Aged people and others who are underlying medical problems like cardio issues, diabetes, lung disease, and cancer are more likely to develop severe illness. The best-suggested way to prevent this disease is to maintain the social distancing and follow the advisories such as wash the hands frequently, sanitising by using alcohol-based liquid and should not touch the face. The COVID-19 virus spreads through droplets of saliva or discharge from the nose when an infected person coughs or sneezes, and it may affect others, so it is critical to follow the practice respiratory etiquettes as advised by WHO. There are 13,825,924 confirmed[2] cases, 589,432 death cases across 216 countries, regions and territories affected by COVID-19 as per WHO as on 16 July 2020. India affected with 1,004,383 confirmed cases, 25,605 death cases and ranked 3rd globally, as of 16 July 2020. Maharashtra, Tamil Nadu, Delhi, Karnataka and Gujarat are the most affected states. Mizoram[3], Sikkim, Andaman and Nicobar, Daman and Diu and Lakshadweep are the least affected state or union territories in India.

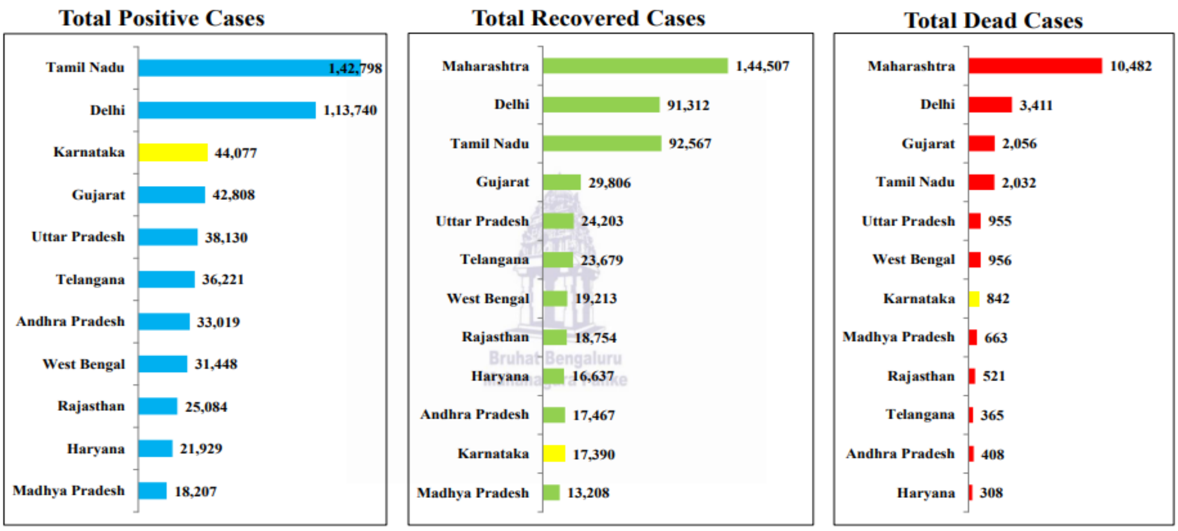

Figure 1. Top 10 COVID-19 affected stated in India[4]

Lockdown

To control the spread of COVID-19 and to ensure the social distancing, the pilot phase lockdown was announced in India on 22 March 2020 (Sunday). The official lockdown 1.0 announced from 24 March 2020. Later it was extended five times. After that, the rights are given to the state government by the Government of India, by considering the COVID-19 situation based on the severity in the respective states. Schools have been closed by the second week of March 2020. Due to the lockdown, educational institution, IT organisations, manufacturing industries, private and government offices were closed. People movement from one place to another place was strictly monitored and advised to ensure social distancing.

Moratorium

Due to the COVID-19 lockdown, educational institutions, Industries have been closed. The automotive industry is wholly affected, as there is no sale. State and central government employees were/are getting the salary. Some of the employees were partially getting the pay, and few organisations are fully impacted as there is no business. The small and medium scale manufacturing industries are also affected as there is no production and hence, they announced layoff with no pay. RBI had taken various initiatives to ensure financial stability in the country. The moratorium is one of the efforts by the RBI. A moratorium scheme is where the borrower is not required to make any repayment. It is a waiting period before which repayment by way of EMIs begins. However, the moratorium what we talk in India is related to COVID-19. On 27 March 2020, the RBI announced[5] and permitted all commercial banks (including regional rural banks, small finance banks and local area banks), co-operative banks, all-India Financial Institutions, and NBFCs (including housing finance companies and micro-finance institutions) to allow a moratorium of 3 months on payment of EMIs for the loans outstanding as on 1 March 2020. By considering the severity of COVID-19, RBI has decided to permit banks to extend the moratorium by another three months, i.e., from 1 June 2020 to 31 August 2020.

Accordingly, the repayment schedule and all subsequent due dates, as also the tenor for such loans, maybe shifted across the board by another three months.

BSFI (Banking, Financial Services and Insurance industry)

Banking, Financial Services and Insurance industry are called as BFSI Sector. Primarily, it represents a significant percentage of the Indian economy comprising all Banking, Insurance, and Non-Banking Financial Institutions. Non-Banking Financial Institutions is known as the NBFCs. Also, the BFSI industry broadly refers to financial service firms such as Broking and Asset Management. BSFI is an industry term for organisations that provides various range of products and services. Banking may include core banking, retail, private, corporate, investment and card services.

Figure 2. Banking, financial services and Insurance sector in India[6]

Banking

Reserve bank of India is the Central Bank of India which is holding regulatory powers to supervise the functioning of the domestic banking industry. It authorises the flow of currency, reducing or increasing the same to keep inflation in check. Scheduled Commercial Banks classified into three types 1. Public Sector Banks (PSB) - State Bank of India, Bank of Baroda, and Indian banks are a few examples. 2.Private Sector Banks - Where private shareholders control the majority stake or equity. As of now, the Indian economy houses 22 active Private Sector Banks. Examples include HDFC Bank, ICICI Bank and Kotak Mahindra bank. 3. Foreign Banks - Headquarters of these banks are outside India. Host-countries savour a dual benefit as foreign banks accelerate dealings in international transactions along with increasing the employment scope in the banking sector. Current, there are a total of 45 foreign banks in India. Citibank, Standard Chartered Bank and HSBC are some of the examples.

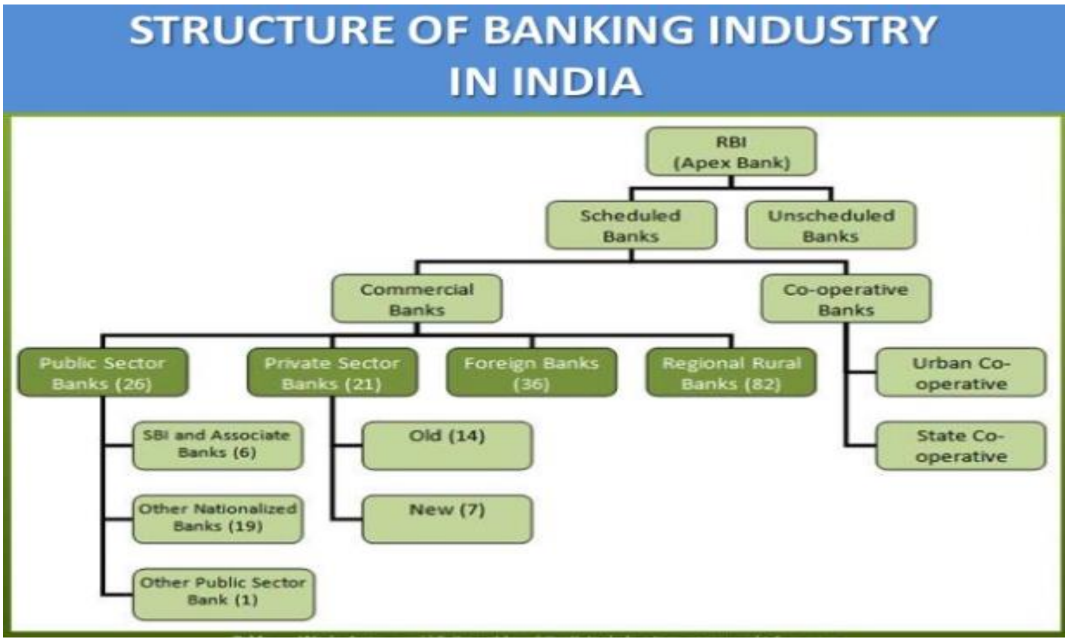

Figure 3. Structure of the Banking Industry in India[7]

Regional Rural Banks (RRB) - The primary objective of RRBs is to help the rural regions ; however, this is not to be confused with a statutory restriction to expand. RRBs may or may not have branches in urban district centres. Karnataka Vikas Gramin Bank is an example for Regional Rural Banks. Cooperative Banks - Aim of these banks are to promote social welfare; hence the schemes are targeted towards under-privileged or financially under-serviced sections of the society. They function on a no-profit no-loss basis and are further divided into the following types: State Co-operative Banks (SCBs), Primary Credit Society (PCS) and Urban Co-operative Bank (UCB). Specialized Bank[8] is limited to a particular industry. They are of three types: Export-Import Bank of India (EXIM Bank)which is assisting the export and import sector of India, Small Industries Development Bank of India (SIDBI) is operating in small-scale industries can get loans on easy terms through SIDBI and National Bank of Agriculture and Rural Development (NABARD) which is meant for the financial help to the agricultural sector of India. Development Banks are also referred to as development finance institutions or a development finance company. They provide capital assistance for economic development projects. India includes Industrial Finance Corporation of India (IFCI), and State Finance Corporations (SFC) are the examples for Development banks. Small Finance Bank (SFB) is meant for the overlooked sections of the society by other banks such as micro industries, unorganised sectors, small or marginal farmers, etc. The function of Payments Bank includes issuing debit/ATM cards, current/savings account, and offer mobile banking and financial services to customers. Examples include Airtel Payments Bank, Jio Payments Bank, and Paytm Payments Bank[8].

Insurance

The Indian[9] Insurance industry is divided into two major categories, i e Life Insurance and Non-life Insurance. The Non-life Insurance sector is also known as General Insurance. Both the Life Insurance and the Non-life Insurance is governed by the Insurance Regulatory and

Development Authority of India (IRDAI). The role of IRDAI is to regulate and monitor the entire insurance sector in India and the superior body of all the insurance consumer rights. Due to this reason, all the insurers have to abide by the rules and regulations of the IRDAI. The Insurance[9] sector in India consists of a total of 57 insurance companies, out of which 24 companies are the life insurance providers, and the remaining 33 are non-life insurers. There are seven public sector companies in the Indian Insurance industries. Life insurance companies offer coverage to the life of the individuals. The non-life insurance companies offer coverage such as travel, health, car and bikes, and home insurance. Addition to this, the non-life insurance companies also provide the coverage for industry, crop insurance for our farmers, gadget insurance for mobiles and pet insurance by the general insurance companies in India.

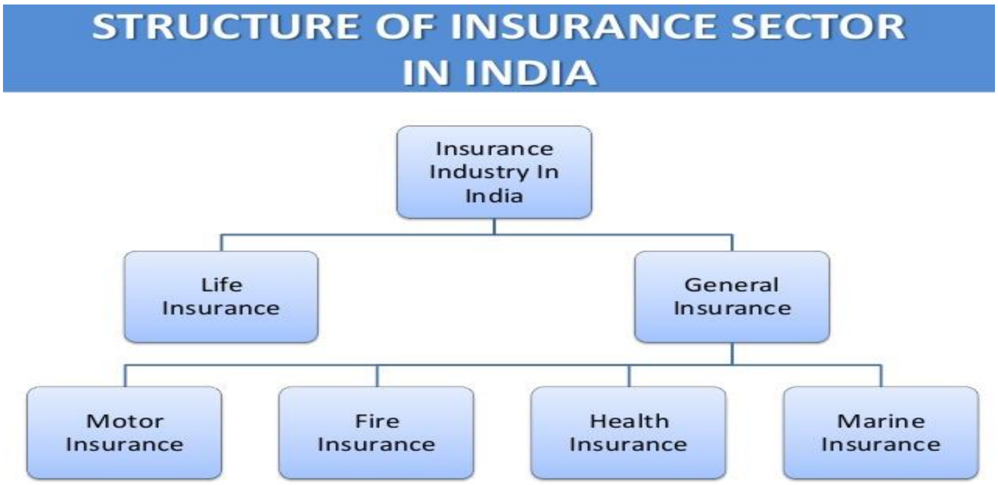

Figure 4. Structure of Insurance sector in India[10]

Financial Services (Non-Banking Financial Companies)

Non-Banking Financial Companies[11] (NBFC) is established to provide financial services and banking facilities without meeting the legal definition of a Bank. The NBFC also covered under the Banking regulations laid down by the RBI and offer banking services like loans, credit facilities, TFCs, retirement planning, investing and stocking in the money market. However, they are restricted to take any deposits from the general public. The NBFC organisations are playing a vital role in the economy, offering their services in both urban and rural areas. NBFCs also provide a wide range of financial advice like chit-reserves and advances. Hence it has become a significant part of our nation's GDP (Gross Domestic Product) and NBFCs alone count for a 12.5% rise in the GDP of our country. Usually, people prefer NBFCs compare than banks as they find NBFCs are safe, efficient and secure access with financial requirements such as various loan products available, and it is flexible with better transparency. There are a massive number of NBFCs operating in our country. Power Finance Corporation Limited, Shriram Transport Finance Company Limited, Bajaj Finance Limited, Mahindra & Mahindra Financial Services Limited, Muthoot Finance Ltd, HDB Finance Services, Cholamandalam Investment and Finance Company Limited, Tata Capital Financial Services Ltd, L & T Finance Limited and Aditya Birla Finance Limited are the top 10 NBFCs in India.

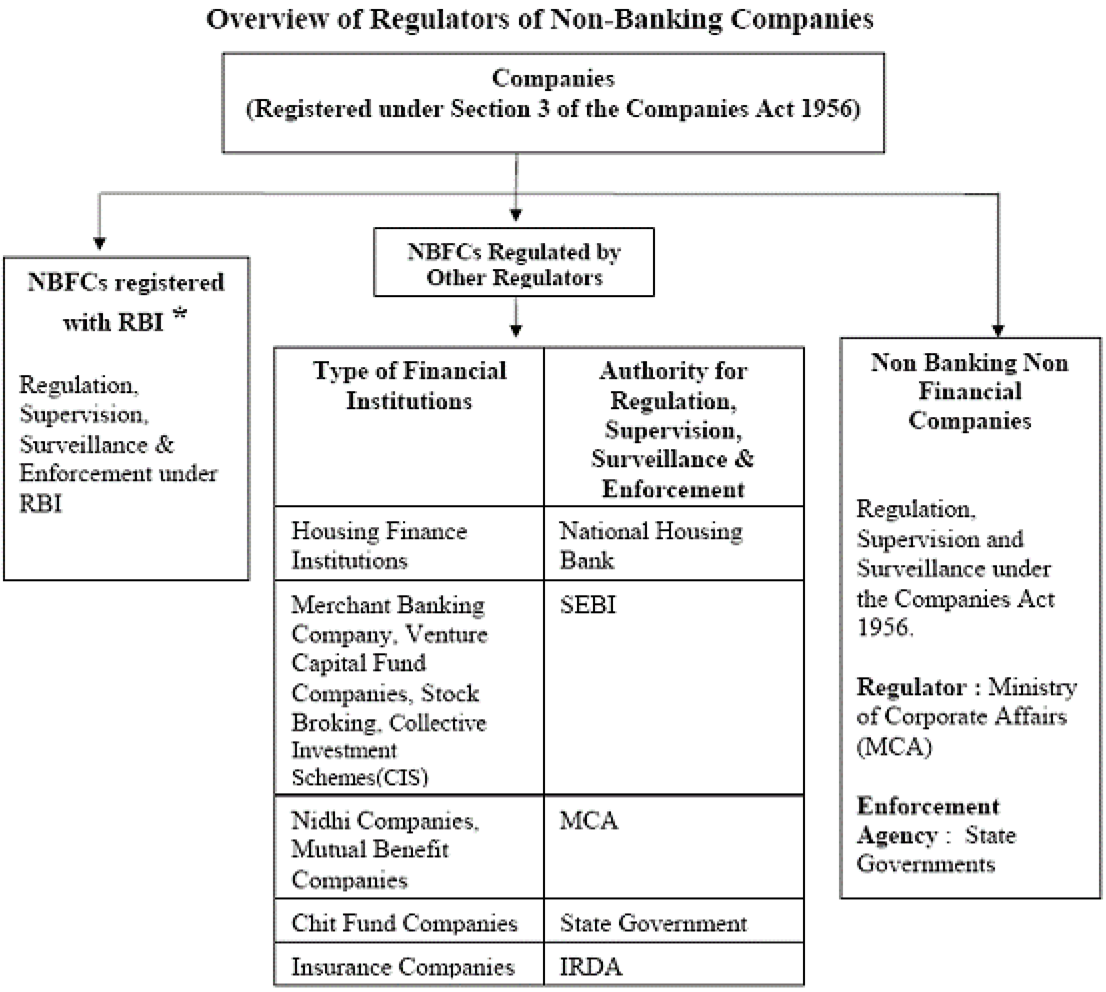

Figure 5. Overview of regulators of Non-Banking companies[12]

Figure 6. Non-Banking Financial Company – An Overview[13]

Impact to BSFI Sector

EMI and Usage of Moratorium

People who are affected with the job loss or less salary are forced to use the moratorium option given by the Banks as per RBI direction. About 35% of the borrowers have availed moratorium in banking and financial industry. It is not good for this industry since money is locked for six months which will affect the liquidity and fund flow of the banks. Due to the non-performing assets (NPA), the bank's fund issuing capacity has a dependency on loan EMI collections.

Fund recovery from Defaulters

Loan EMI Collection from the customer is poorly impacted both in the banking and non-banking sector. Before COVID-19, the collection ratio was around 90% from default customer. During COVID-19, the collection ration is about 60%. Though there are efforts from the bank side, customers are not able to pay due to lack of money flow because of COVID-19 pandemic.

Impact on Personal Loan

Mortgage and home loans have a financial guarantee. In case of non-payment of EMI, then the banks have the means to collect the money by using the property. But in case of personal loans which does not have assurance for recovery is risky for the banks. A risky investment like the personal loan is on hold by most of the banks and finance companies. Also, most of the banks have increased the rate of interest for personal loans. For financial improvement, the reserve bank of India has reduced the repo rate, which is leading to a lower interest rate for home loans. One way it is a forced method for the banks to increase the ROI for personal loans to mitigate the revenue loss in other areas.

Branch closure

Due to various restrictions and availability of the employees, branches that are running with the low number of employees have closed. Due to this, the revenue and operations of the banks were impacted. In addition to this, daily activities such as deposit, withdrawal, pledges, loans, document collections, verifications and other miscellaneous banking operations are affected.

Impact on Salary

There are many private-sector financial institutions have reduced the salary to a certain level. Though the salary reduction is not the same to all the employees, they have decided to reduce based on the position and package. To compensate for the revenue loss, banks have to make this approach; however, indeed, employees and family is affected financially.

Credit Reliability

Customers credit reliability is an essential topic in the loan process which helps to access the applicant's revenue, capability, behavioural references and creditworthiness of the applicant. This credit reliability is not just applicable for individuals and also for business and organisations. Due to the lockdown, the number of COVID-19 cases, closure of offices and industries, there is an uncertainty in the banking industry which is leading to doubt the Customers credit reliability.

Travel issues

Meeting customers is vital in banking operations, which helps to discuss with the customer to address their queries appropriately. Due to COVID-19 lockdown and safety measures, bank officers are not able to meet the meet their customers, partners, vendors and teams in person which is leading to trust issues. Customers are hesitating or scared to go for any financial products without seeing or discussing the officers in person. Primarily, this happens with the people who follow conventional practices.

Insurance

In the BFSI sector, Insurance is the only sector which is affected positively by COVID-19. Insurance companies are gaining profits and attracting more customers during this COVID-19 situation. Though there is no proper treatment for COVID-19, if someone goes to the hospital and needs a ventilator, then the bill would be huge. People are scared and wanted to prevent the financial crisis in case if they affect by Coronavirus. So, as a precaution measure, people have started investing in the life insurance, term insurance and other insurance schemes that are meant for COVID-19 coverage.

Workforce disruptions

Most of us experiencing and realising the shortage of workforce in the banks due to lockdowns and sickness. Banking staffs to wear multiple hats to address diverse customer needs. Due to the uncertainty because of COVID-19 pandemic, the efforts are being taken by the banking staff leads to fear and mental weariness. Banking staff can't say no to office as it is a matter of employment, another side, it is a considerable risk to the health if they come to the office.

Call volume surge

Though there are IVRS in place, and it is evident that the automated systems can't handle everything, and human intervention is needed for a few things. Current and traditional call managing infrastructure is not adequate to deal with the surge in call volumes driven by fear. Uncertainty Customers' desire to talk to human agents as there is greater comfort in talking to human beings during uncertain times and these calls jump to human after IVRS response.

Vendor Service

There are many functions in the banks which are outsourced to the vendors or third parties. Due to COVID-19 uncertainty, the vendors are not able to provide the services like dispatching letter, sending replacement credit and debit cards, customer verification and so on. This inability of vendors to provide services are affecting the bank's reputation and customer satisfaction.

Documents collection

Documents for bank accounts, cards, loans and other financial services are critical to process the request. Example: in case of Demat account opening, the POA document collection is essential to continue with the trading. Though the digital banking service is in place, however, this type of requirement can't be fulfilled through digital services, and it needs manual verification and documents collection.

Increased cyber-crimes

Banks are not able to operate the services entirely. They are forced to continue the engagement with the customers and to communicate various things about the services they offer and option they can avail through mobile or Internet, in order to retain the customers. Not every customer is capable of understanding the advisories from the banks and classify, which are risk areas. By using this, there are so many thieves in the internet world to send SMS or emails to the customers so that they can control the bank account or credit cards for misuse.

Less profitability

COVID-19 situation indicates the low profitability for the financial sector based on the Return on Assets (RoA) ratio. It looks like RoA to be reduced by 50-90 basis points in the fiscal year 2021.

People's hesitation on Financial products

There is uncertainty when the COVID-19 situation will come down. The Citizens of India affected by employment and revenue. Even the people who are not affected financially are hesitating or scared to go for any further investments such as buying lands and constructing homes. People who have decided to build a house in the year 2020-21, now they kept the plan on hold. Due to this type of issues, the number of loan processing is less for the banks.

Net Interest Margin

Net interest margin is a measurement comparing the net interest income a financial organisation produces from certain financial products , with the outgoing interest it pays holders of savings accounts and certificates of deposit. Expressed in percentage, the Net interest margin is a profitability indicator of a bank. This metric helps prospective investors determine whether or not to invest in a given financial services firm. COVID-19 is also impacted the Net Interest Margin (NIM) of the financial sector. Addition to NIM and the CASA ratio, banks are likely to be adversely affected by the increased cost of deposits and lower interest income. However, with the RBI lowering its reverse repo rates, banks can improve the retail asset business in the financial year 2020-21.

Suggestions

1. Banks to create a more convenient way of the working environment for banking employees.
2. Customer centricity can be improved through customised offerings.
3. Banks to identify the business continuity plans for uninterrupted service to the customers.
4. Define the risk assessment for each operation and offers.
5. Reskill the employees to work in the new normal scenario.
6. Banks can work with the residential association to explore their retail offerings.

7. Number of ATMs can be increased with cash/cheque deposit facility to compensate for the in-person services at branch.
8. Establish the critical response team for receiving feedback and addressing the customer's major query.
9. Nodal officers for each bank can be increased so that escalated cases can be handled effectively.
10. Banks to partner with the organisations, state and central governments to implement their financial strategy.
11. Digital customer care service should be capable of handling queries with increased efficiency and addressing customer's question effectively.
12. Banks to identify the required paper documents for certain financial products and provide an option in the digital mode so that some of the financial offerings can continue.

Conclusion

It is evident that most of the Non-IT sectors, IT sectors, educational sector and financial sectors impacted due to the sudden COVID-19 pandemic. While every industry is struggling to manage, as an alternative, they are planning for continuous improvement through various initiatives. BFSI sector is critical as they serve and contribute to the economy of the country by participating in the service to the people. After privatisation and digitalisation, there was a massive change in the way the BFSI sector operates, and it is entirely different from conventional banking practices. Now, COVID-19 came up and impacting the BFSI industry with a lot of uncertainty. There is no prediction when the situation can be controlled. By considering that fact, it is critical to review, understand and find the ways to continue with the better and uninterrupted financial services to the customers which can be considered as the new normal scenario for BFSI sector. It is understandable that COVID-19 gives multiple issues in the banking and financial sector, however, it is crucial to learn what can be rectified as a mitigation process so that we can convert the bitter experiences to the step stones.

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