

IMPACT OF COVID-19 ON FINANCIAL PERFORMANCE OF BANKING SECTOR IN INDIA (WITH SPECIAL REFERENCE TO NPA)

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Abstract:

COVID-19 pandemic was one of the most severe issue faced by Indian economy which, has an adverse effect on the business of banks. COVID-19 can be anticipated as a black swan occasion for the overall monetary framework. India recorded the primary occurrence of the sickness on January 30, 2020. As COVID-19(corona virus) is an unprecedented event which badly impact our economy vis-a-vis the financial performance of banking sector. Disruptions of economic activity due to corona virus has resulted slowdown in India's economic growth. During the nationwide lockdown in India, banking sector is declared as an emergency service, because banks are main wheel of economy. Due to coronavirus people are unable to maintain their financial situation as it is affecting business activities of banks (as less investment, less loan disbursement, less deposits, unpaid installment of loans) which is becoming difficult for banks to maintain their financial position. Increase in NPA and declines in revenue will impact bank's profitability, which will lead to a deterioration of capitalization along with banks assets quality. Corona virus has an adverse impact on the asset quality of banks which, is one of the most important indicators of their financial health. The objective of this paper is to reveal the impact of COVID-19 on financial performance of banking sector.

Keywords: COVID-19, banking sector, lockdown, capitalization, profitability, revenue.

Introduction:

COVID -19 is detecting as an infectious virus which spreads through the touch and surfaces which is resulted into different severe health issues. Coronavirus (COVID-19) is a large family of viruses that causes illness, which ranges from common cold to more severe diseases. The corona virus is a new kind of virus that has not been ever identified in human so far. The first

case of COVID-19 was found in Wuhan city of china in December 2019. WHO (world health organization) declared coronavirus outbreak a public health emergency of international concern on 30 January 2020 and a pandemic on 11 march 2020. Coronavirus is badly impacting each sector of our economy. Banking sector is a foundation of the financial health of our economy. Banking sector is playing an important role in this crucial time. Banks are the key factor to provide various services to the customers to fulfill their requirement in this difficult situation. In this COVID-19 Situation, Banks were declared as an emergency services through which customers are able to withdraw cash and use their online platform for various digital Transactions. The economic slowdown across the world is adversely affecting the financial health of companies, which is continuously becoming difficult for them to meet their obligation towards banks and resulting in the higher NPA level of banks. COVID-19 has affected the income of customers which is becoming a difficulty for them to pay their installment on time, that is affecting the profitability and assets quality of banks resulted into high NPA level. Increasing level of NPA is becoming the concerning issues for the financial stability of banks. Banks are the main source for successful implementation of various programs announced by the government to provide financial help to the weaker section of society i.e., Direct cash Transfer, COVID loans, Swanidhi Scheme, Loan Moratorium etc. While, it is difficult to quantify the impact of COVID-19 on banking sector but according to some reports we can estimate the impact of it on banking sector. According to the reports there is high impact of COVID-19 on banks performance and Banks Asset quality also got deteriorated. According to the Reserve Bank of India's (RBI's) Financial stability Report (FSR) of December 2020, Banks Gross Non-Performing Assets (GNPAs) may rise to 13.5 percent, nearly double the 7.5 percent in the same period of 2019-20.

Review of Literature:

S.no .	Author name	Title	Objective	Methodology	Conclusion	Research gap
1	Meher,Bharat kumar (2017) ⁵	Impact of demonetization on NPA position of Indian banks	1) To study the pre- and post-demonetization impact on the balance sheet of RBI. 2) To study the positive and negative impact of demonetization related to NPAs of Indian	* Secondary data * Analytical study	According to the study it is concluded that demonetization has both negative and positive impact on NPA position of banks. In short-term demonetization worked effectively, but for long-term	The study focused only on the present scenario of demonetization, but does not consider future impact of it.

			3) To analyze the short term & long-term impact of demonetization on future NPA position.		there is a need to adopt more preventive strategies to control NPAs.	
2	Yadav,krishan kumar (2017)	Problem of NPA in Indian banking: An analysis of post reform period	1) To analyze the NPA OF Indian banking reforms. 2) To analyze the most significant factors contributing towards NPA. 3) To study the measure required for management of NPAs.	*Secondary data *Percentage analysis	The study reveals the impact of banking reforms towards NPA of Indian banks, which is mainly focused on top public sector banks. The study suggests preventive and curative actions to minimize NPA level.	The study is focused only on the top public sector banks in India.
3	Rathore, D.S. et al. (2016) ¹²	Non-Performing Assets of Indian banking system and its impact on economy.	1) To study the status of NPA of Indian scheduled commercial banks in India. 2) To know the recovery of NPAs through various channels. 3) To make appropriate suggestions to avoid future NPA and to manage existing NPAs in banks.	* Secondary data * Correlation	The study explains the reason of rising NPAs and their impact on economy. The study reveals that there is positive relationship b/w NPAs and profit.	The study considered only public sector scheduled commercial banks.

4	Miyam, Mohammad (2017) ⁷	A Comparative Statistical Approach Towards NPA of Public Sector and Private Sector Banks in India.	<p>1) To analyze the trend of NPA of public sector and private sector banks with the sample of various ratios of SBI, PNB, HDFC, ICICI BANKS.</p> <p>2) To assess the comparative study of NPA of public sector & private sector bank.</p> <p>3) To evaluate the performance of public & private sector banks via NPA analysis.</p>	<p>* Secondary data</p> <p>* Coefficient of variance</p> <p>* Co. of correlation</p> <p>* T-test</p> <p>* Descriptive research</p> <p>* CAGR</p>	The study analyzes the factors of NPA occurrence and return on assets. comparative analysis is made for evaluate the performance of public & private sector banks.	The study considered only 2 public and 2 private sector banks for analysis.
5	Thomas, Robin & Vyas, R.K (2016) ¹⁴	Debt recovery strategy in Indian banks.	<p>1) To study the factors contributing towards NPAs.</p> <p>2) To study the measure available for recovery of loans.</p> <p>3) To suggest a preemptive strategy to prevent loans slippages.</p> <p>4) To evaluate the performance of recovery</p>	<p>*Descriptive study</p> <p>*Correlation</p>	The study considers the various channels to control NPAs and provide a view to control NPAs as a preemptive & corrective strategy. The author explained 5-E framework EWS as preemptive strategy.	The study did not apply any data analytical tool to represent the current NPA situation.

			channels for loan recovery.			
6	Kiran, prasanth k. (2016) ³	Effect of NPA on the profitability of banks- A selective study	1) To examine the relationship b/w NPAs and the profitability of banks. 2) To compare the performance of banks.	*Descriptive study *Correlation *Regression	The study has been done on selective public sector banks to find effect of NPAs on the profitability of banks. It is found that banks have negative correlation with profit except SBI, which have high NPAs but the same time earns high profit.	The study considers only 5 top and 5 least public sector banks for comparison.
7	Trilavat, parashbhai Ravikumar (2015) ¹⁵	How Basel norms can help in solving the NPAs problem of Indian public sector banks.	1) To study the measure of Basel norms 2) To evaluate the impact of Basel norms in solving NPAs.	* Secondary data * Coefficient of variance * Co. of correlation	The study comprises different risk, which is nature of banking business. To reduce these risk, Basel 2nd & 3 rd norms introduced, which directly effects the profitability & capital requirement of banks. The study considers the impact of Basel norms on NPAs problem.	The study is focused only on the public sector banks.

8	Mishra, M. Ujjwal (2017) ⁶	A study of NPAs and its impact on banking sector	1) To understand the concept of NPAs. 2) To understand the NPAs sector wise. 3) To understand the recovery through various channels. 4) To know the impact of NPAs on Indian banking sector.	*Secondary data *Ratio analysis	The study reveals that Banks have an increasing trend of NPA. To control it there is need to be proactive in decision Making. For the Recovery of Bad debt, there should be a well-Structured Legal Framework. Bank of Maharashtra should strictly Follow all the Norms.	The study is Based Only on a Single Bank (Bank of Maharashtra)
9	Dey, surojit (2018) ¹	Recovery mechanism of NPAs in Indian commercial banks: An empirical study	1) To analyze various recovery channels. 2) To analyze the effectiveness of recovery process for recovery of NPAs.	*ANNOVA *Secondary data *Empirical study	The study is based on recovery of NPAs through various channels and their effect. It is concluded that existing recovery channels are not sufficient to reduce NPAs level.	The study is focused only on selected recover channel.
10	Naveenan, R.V (2016) ⁸	Warning signals-A tool to control Non-Performing Assets	1) To study the warning signals that may help the bankers in controlling NPAs. 2) To know the effectiveness of these warning signals.	*Primary data *Simple random sampling *Mean *S. D *Friedman test *Descriptive study.	The study comprises various early warning signals in identifying NPAs, which will helpful for bankers to take appropriate decision and to control NPAs level. The study	The paper considered only few public sector banks for study.

					shows the effectiveness of warning signals.	
11	Kumar Sangeeta (2020) ⁴	Impact of Banking NPA on Economic Health of India	<p>1) The Major objective of the Study is to Examine & Evaluate the Performance of the Scheduled Commercial Bank in Indian Reference with the Problems of NPA</p> <p>2) To Identify the Impact of NPA on Profitability</p> <p>3) To Offer the Recommendations to the Policy Makers & Regulators.</p> <p>4) To Make appropriate suggestions to avoid Future NPA's and to Manage Existing NPA in Banks.</p>	*Secondary Data *Regression	The study Explains the Effect of NPA on Banks as well as on Health of Economy through the Comparison of Gross NPA and Profitability of Banks and GDP Growth. There should Be a proper Model to overcome the NPA Problem	The Study Considered Only Top-Level Banks.
12	Prasanth S. and Sudhamati S. (2020) ⁹	The Impact of Corona Virus on NPA and GDP of Indian Economy.	<p>1) To Study of Current situation of COVID-19.</p> <p>2) To Study the Impact of COVID-19 on NPA and</p>	*Secondary Data *Regression	The Present Paper Made an Attempt To analyze the Current Situation of COVID Pandemic in India and its impact on NPA of Banks	The Data which is Given in this article is not sufficient to analyze the

			Profitability of Banks 3) To analyze the Impact of COVID-19 On Growing Indian Economy.		and Growth of Indian Economy.	Situation with Regards to NPA.
13	T.S, Roopa (2020) ¹³	Impact of NPAs on the financial performance of banks	1) To study the causes and effect of NPAs on the profitability of the banks. 2) To study the steps taken for the management and recovery of NPAs. 3) To study to what extent these steps have helped in downsizing and avoiding NPAs. 4) To offer some suggestion to overcome the problem of NPAs.	*Descriptive study *Secondary data *Correlation *Regression	The study revealed that higher level of NPAs is due to inappropriate structure of loan disbursement, which is affecting the profitability, liquidity of banks as well growth of economy. There is need of diversified the strategy to speed up recovery of loan.	The study considered only 7 private sector banks to analyze the impact of NPAs on banks.
14	Ramteke, Anil M. (2020) ¹¹	Crisis in MSME sector: Non-Performing Assets	1) To study the causes of NPAs in the MSME sector. 2) To study the impact of SARFAESI act in reducing the problem of MSME sector.	*Secondary data *Correlation	The study tries to analyze the causes of increasing NPAs in MSME. It explains several recovery measures as a tool to control NPAs level as well as	The paper is focused only on the MSME sector of the whole banking sector.

			<p>3) To study and analyze MSME sector and their impact on the liquidity of banks.</p> <p>4) To make appropriate suggestion on the basis of analysis regarding reducing of MSME sector.</p>		provide framework to manage the assets quality.	
15	Khandekar, Suresh Sandip & Kelkar, Rohini' (2020) ²	Study of health of co-operative banks with respect to PMC bank: the biggest lesson for Indian banking sector	<p>1) To study the performance of PMC bank in last 10 years.</p> <p>2) To find out the reason for the crises of PMC bank.</p> <p>3) To suggest the measure such incidence in co-operative banking sector.</p>	<p>*Analytical study</p> <p>*Secondary data</p> <p>*Correlation</p> <p>*ARIMA forecast model</p>	<p>The study made an attempt to analyze the issues of PMC bank. The study explains the actual situation of bank due to fake accounts and less return on investment, which was knowingly done by board to protect their market value. It resulted in high NPAs and worst health of PMC bank.</p>	The study considered only PMC bank to explain the performance of co-operative banks.

Research Gap

It has been observed from the above literature that no study was conducted on Non-performing assets (NPA) performance of banks.

Objectives

Following are the main objectives of the study:

1. To study the performance of banking sector during COVID-19 in India.
2. To analyze the impact of COVID-19 on Indian banking sector.
3. To assess the impact of COVID-19 on banking sector of India.

Hypothesis

H₀₁: There is no significant relation of COVID-19 on Indian banking sector.

Research Methodology:

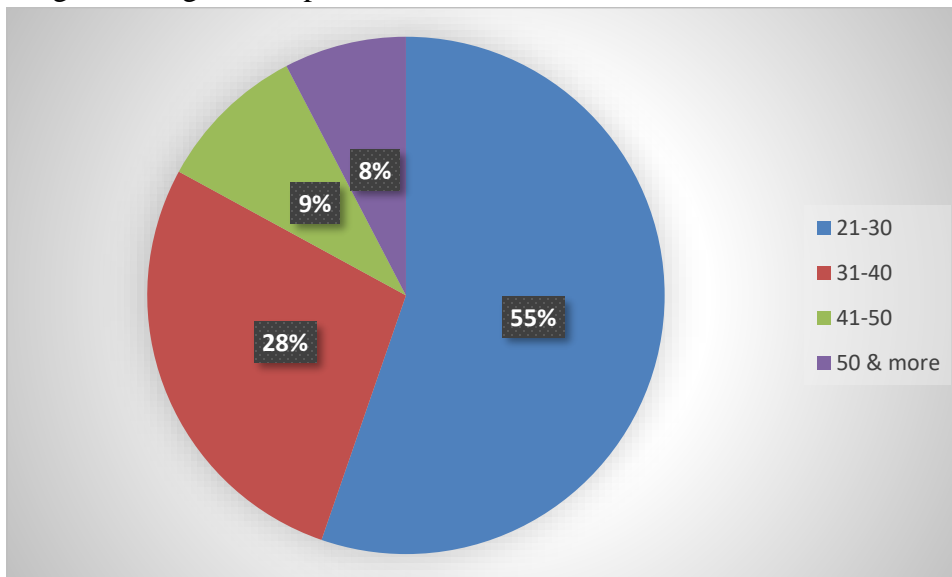
The study is descriptive in nature.

Universe	:	Employees of Public sector and Private sector banks
Sampling	:	Convenience sampling method
Data collection	:	Structured questionnaire through online
Tools	:	Measures of Central Tendency and dispersion using MS Excel

Data analysis and interpretation:

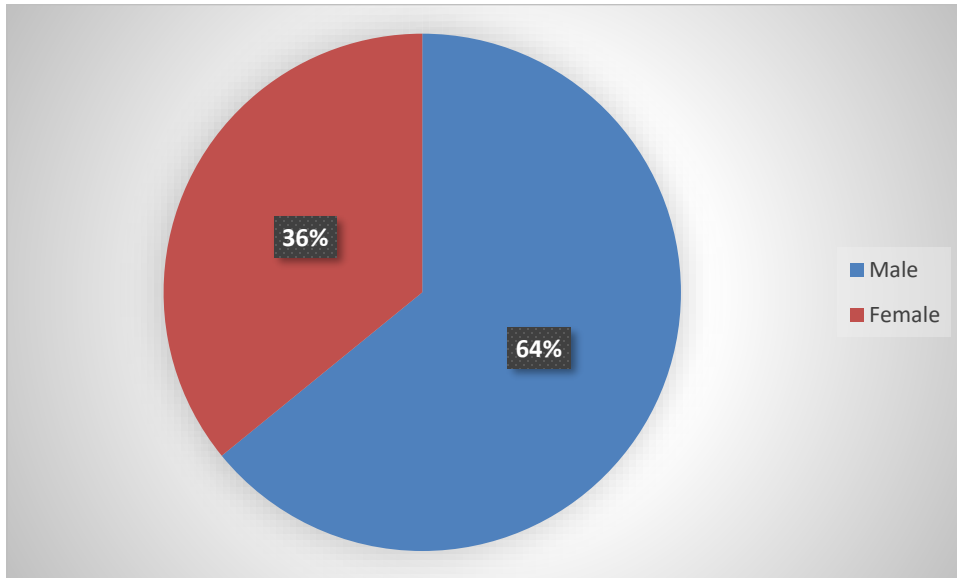
The data analysis and interpretation are shown as below:

Diagram: 1 Age of Respondents



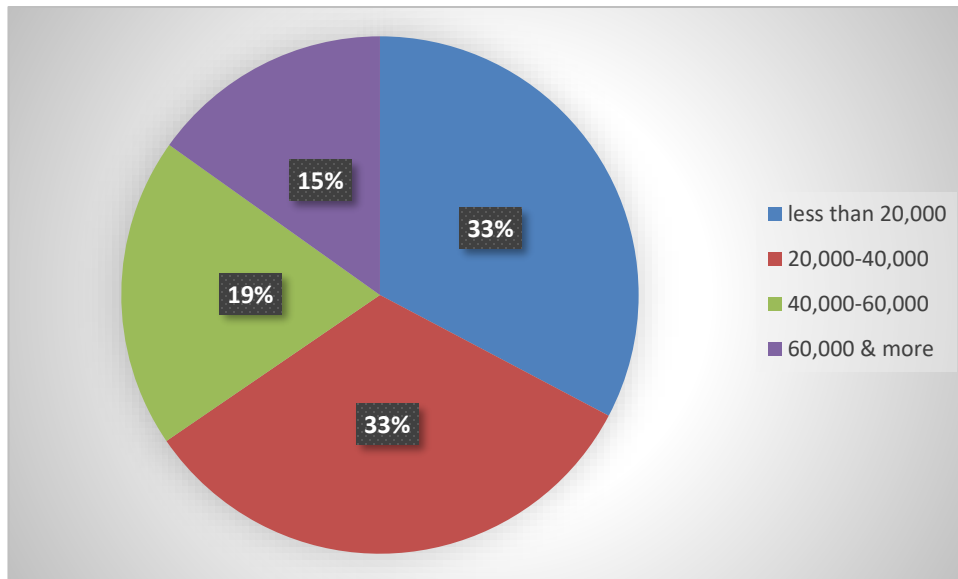
This chart shows the age of 170 respondent from which 94(55.30%) respondent belongs to 21-30 age group, 47(27.60%) respondent belongs to 31-40 age group, 16(9.40%) respondent belongs to 41-50 age group, 13(7.60%) respondent belongs to 50 & more age group.

Diagram: 2 Gender of respondents



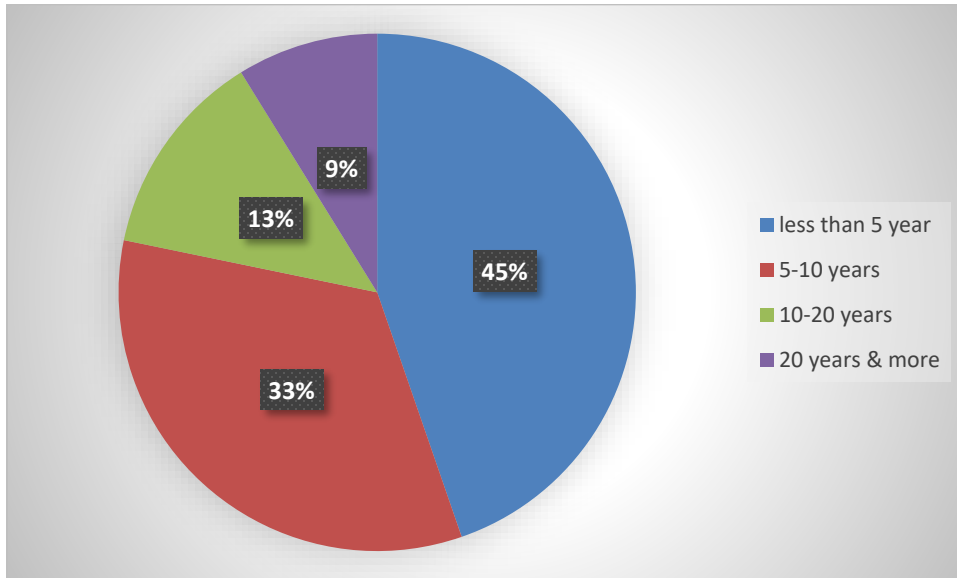
This chart represents the gender of 170 respondent from which 109(64.10%) respondent belongs to male category and 61(35.90%) respondent belongs to female category.

Diagram: 3 Income of Respondents



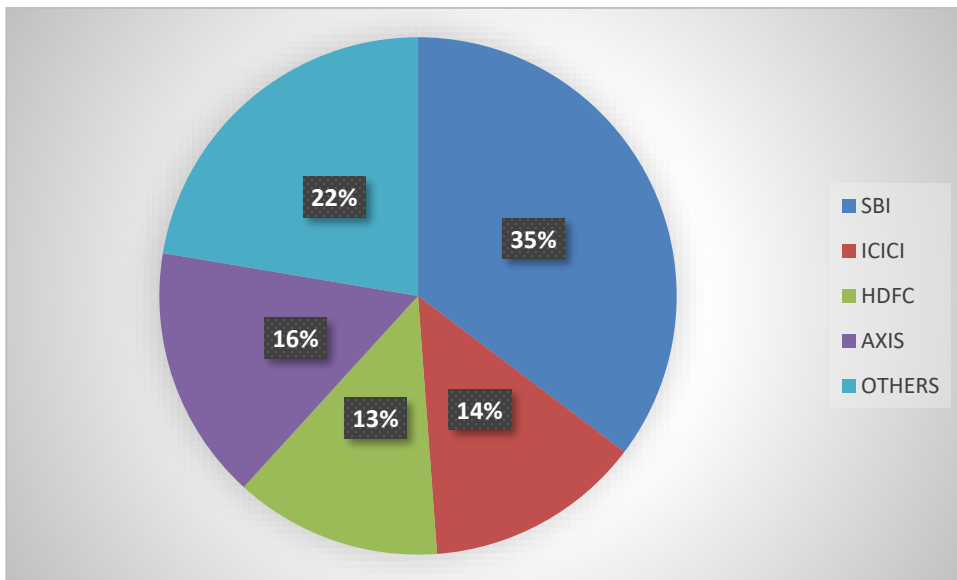
This chart depicts the income of 170 respondent from which 54(32.70%) respondent belongs to less than 20,000 income per month, 54(32.70%) respondent belongs to 20,000-40,000 income per month, 32(19.40%) respondent belongs to 40,000-60,000 income per month, 25(15.20%) respondent belongs to 60,000 & more income group per month.

Diagram: 4 Experience of respondents



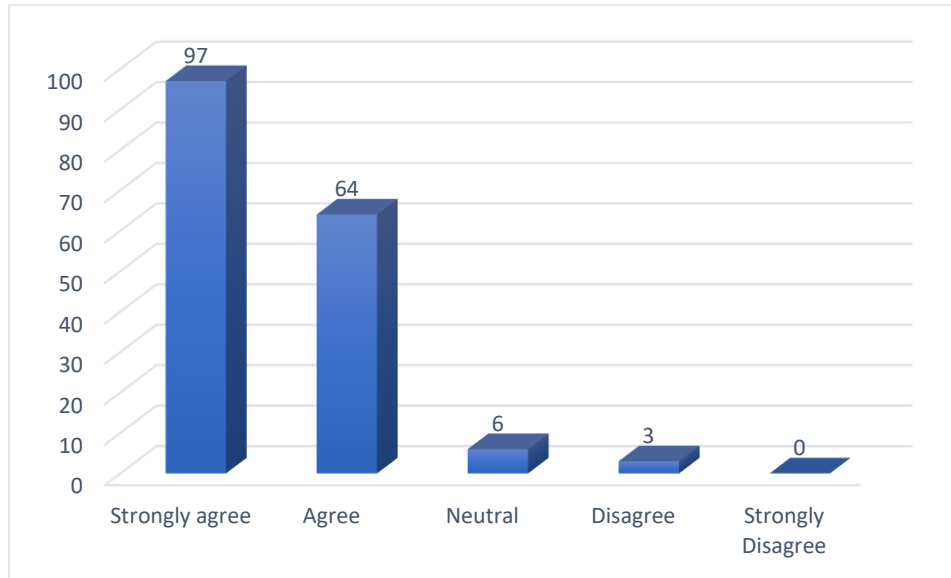
This chart reveals the working experience of 170 respondent from which 76(44.70%) respondents are those who have less than 5 years' experience, 57(33.50%) respondents are those who have 5-10 years' experience, 22(12.90%) respondents are those who have 10-20 years' experience, 15(8.80) respondent are those who have 20 & more years' experience.

Diagram: 5 Banks of respondents



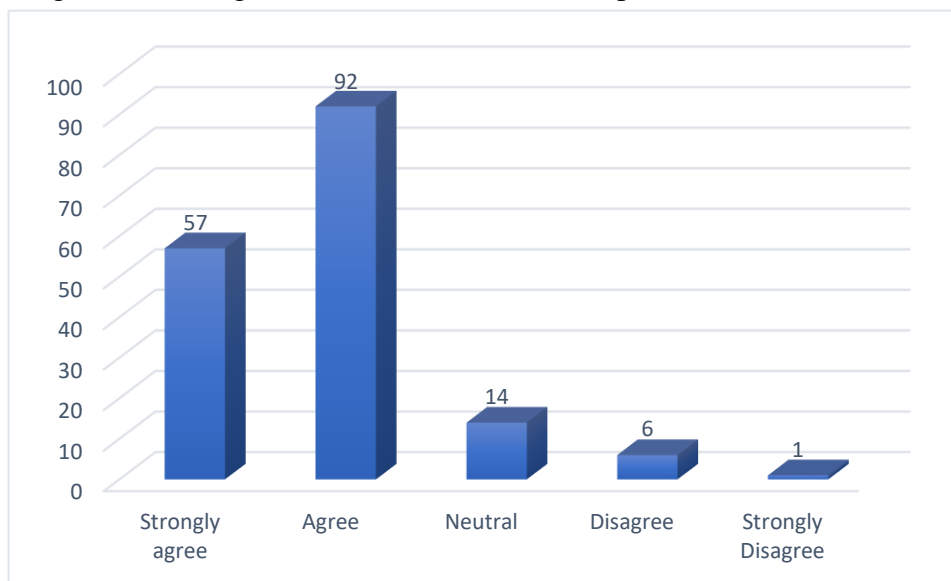
This chart manifests the banks name from which 170 respondents belong to. There is 60(35.30%) respondent who belongs to SBI bank, 23(13.50%) respondents belong to ICICI bank, 22(12.90) respondent belongs to HDFC bank, 27(15.90%) respondents belong to other banks.

Diagram: 6 Is there will be any impact of covid-19 on Indian Economy



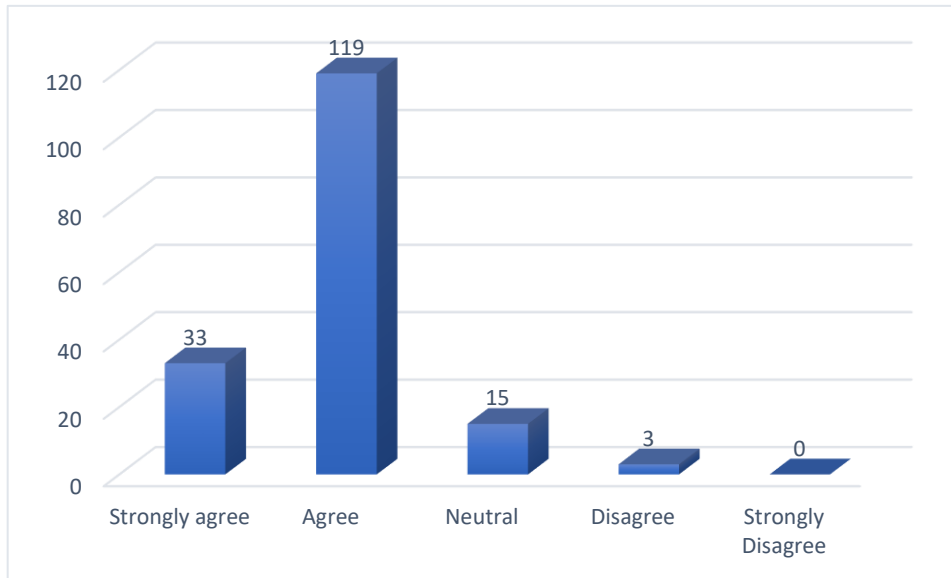
This chart depicts that out of 170 respondents, 97(57.10%) respondents are strongly agree that “COVID-19 has any impact on Indian economy”, while 64(37.60%) respondents are agree, 6(3.50%) respondents are neutral with this statement and 3(1.80%) respondents are disagree with this statement.

Diagram: 7 During the crisis of covid-19 the importance of banks has increased.



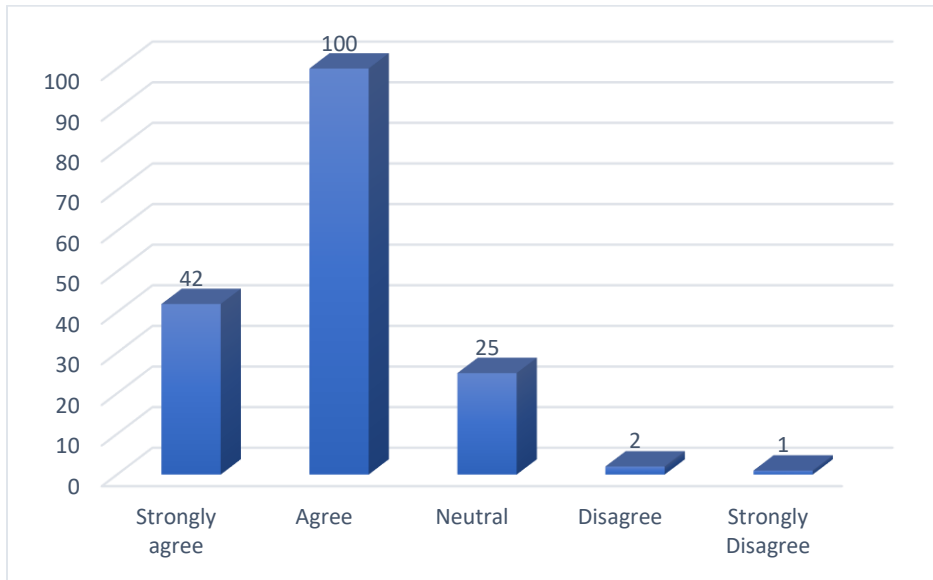
This chart shows that out of 170 respondent, 57(33.50%) respondents are strongly agreeing with this statement “During the crisis of COVID-19 the importance of banks has increased”, while 92(54.10%) respondents agree with above statement, 14(8.20%) respondents are in neutral while 6(3.50%) do not agree with above statement and 1(0.60%) respondent are strongly disagree with this statement.

Diagram: 8 Do you feel that various measures taken by RBI during lockdown will be helpful for banks?



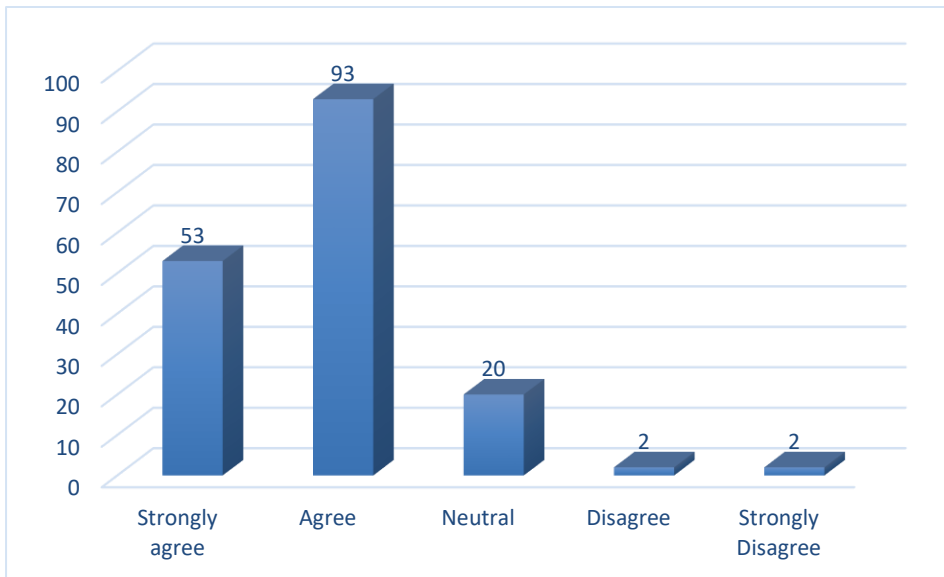
This chart represents that out of 170 respondents, 33(19.40%) respondents are strongly agree with above statement “Do you feel that various measures taken by RBI during lockdown will be helpful for banks”, while 119(70%) respondents are agree, 15(1.80%) respondents are in neutral, 3(1.80%) respondents are disagree with above statement.

Diagram: 9 Do you feel that the moratorium allowed by RBI will impact the assets quality of banks?



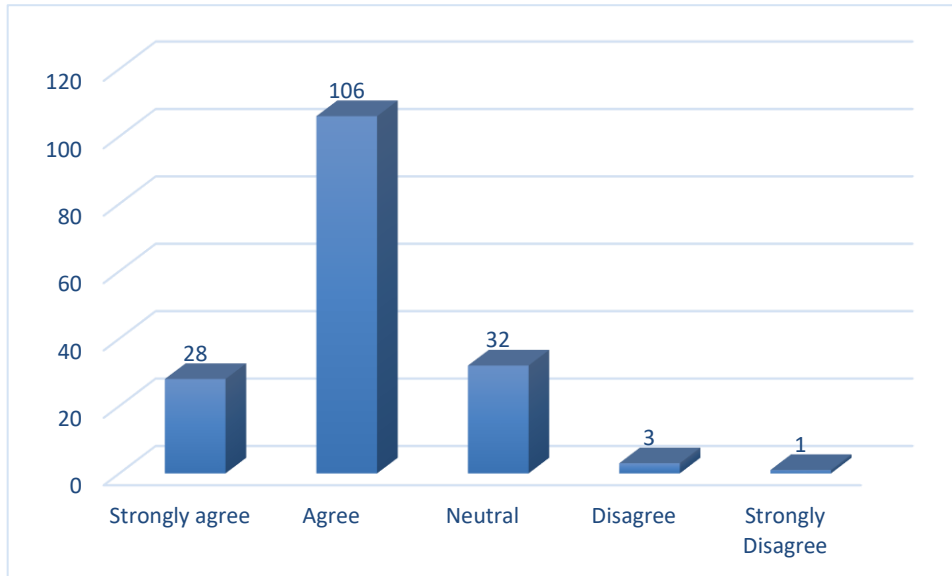
This chart reveals that from 170 respondents, 42(24.90%) are strongly agree, 100(59.20%) are agree, 25(14.80%) are in neutral, 2(1.20%) are disagree and 1(0.60%) respondent is strongly disagree with the statement “Do you feel that the moratorium allowed by RBI will impact the assets quality of banks”.

Diagram: 10 Due to the outbreak of covid-19 the NPA level of banks will rise from previous level?



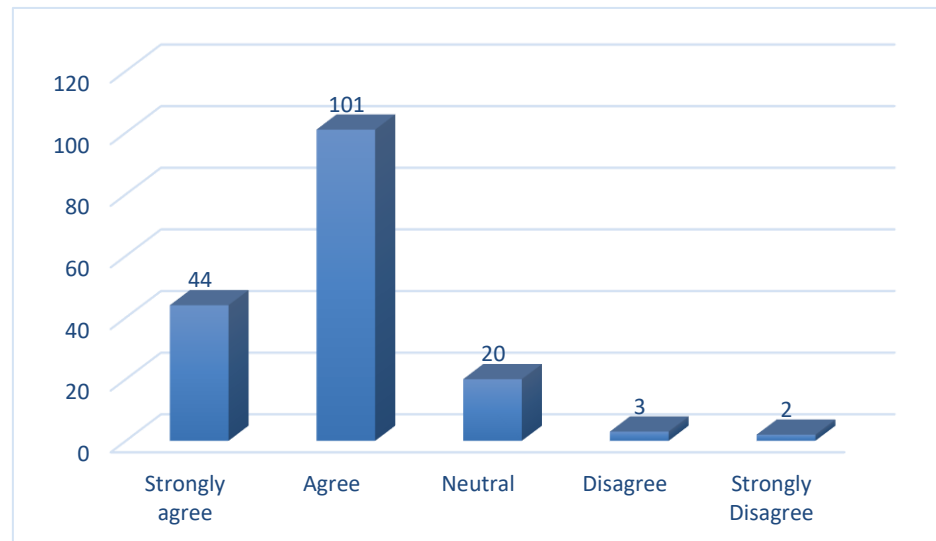
This chart exhibits that out of 170 respondents there are 53(31.40%) respondents who strongly agree with this statement “Due to the outbreak of COVID-19 the NPA level of banks will rise from previous level”, while 93(55%) are agree, 20(11.80%) are in neutral, 2(1.20%) are disagree and 2(1.20%) are strongly disagree with above statement.

Diagram: 11 RBI measures for increase liquidity through banking system will help in increasing credit growth in India?



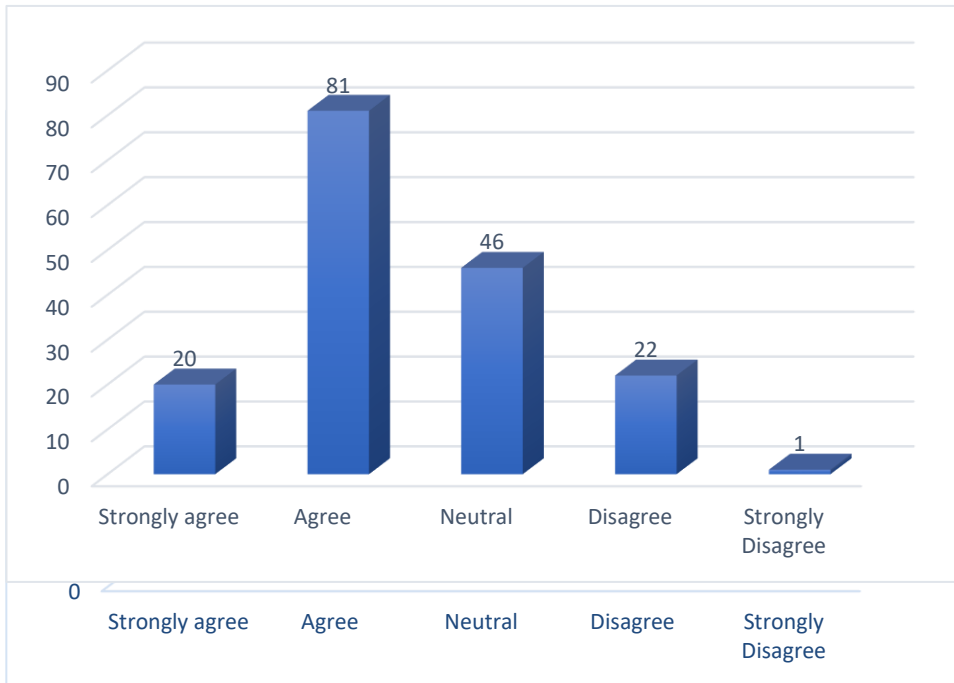
This chart shows that from 170 respondents, 28(16.60%) are strongly agree, 106(62.70%) are agree, 32(18.90%) are in neutral, 3(1.80%) are disagree and 1(0.60%) respondent is strongly disagreeing with the statement “RBI measures for increase liquidity through banking system will help in increasing growth in India”.

Diagram: 12 Do you feel that some more measures should be taken by RBI to improve the financial position of Banks?



This chart depicts that out of 170 respondents, 44(26%) respondents are strongly agreed, 101(59.80%) are agree, 20(11.80%) are in neutral, 3(1.80%) are disagree and 2(1.20%) are strongly agree with the statement “Do you feel that some more measures should be taken by RBI to improve the financial position of banks”.

Diagram: 13 After the covid-19 issue resolved, banks will be able to achieve their previous growth?



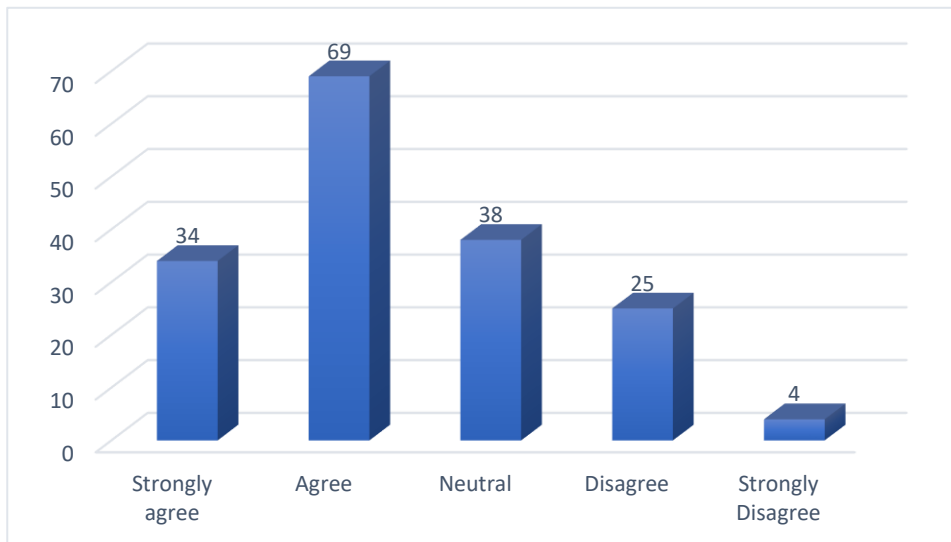
This chart shows that out of 170 respondents, 20(11.80%)

respondents are strongly agreed, 81(47.90%) are agree, 46(27.20%) are in neutral, 22(13%) are disagree and 1(0.60%) respondent is strongly disagreed with this statement “After the COVID-19 issue resolved, banks will be able to achieve their previous growth”.

Diagram: 14 Do you feel that outbreak of covid-19 will impact earning of people?

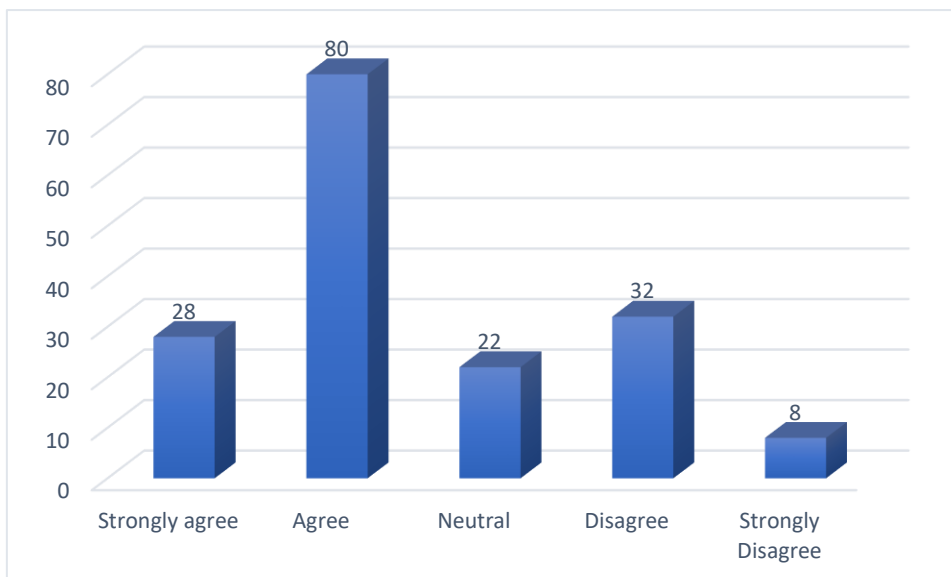
This chart exhibits that out of 170 respondents, 95(56.50%) respondents are strongly agreed, 62(36.90%) are agree, 8(4.80%) are in neutral, 3(1.80%) are disagree and 2(1.20%) are strongly disagree with this statement “Do you feel that outbreak of COVID-19 will impact the earning of people”.

Diagram: 15 After the moratorium allowed by RBI, borrowers will be able to pay their EMI (equated monthly instalment)?



This chart represents that out of 170 respondents there are 34(20.10%) respondents who strongly agree with this statement “After the moratorium allowed by RBI, borrowers will be able to pay their EMI (equated monthly instalment)”, while 69(40.80%) are agree, 38(22.50%) are in neutral, 25(14.80%) are disagree and 4(2.40%) are strongly disagree with above statement.

Diagram: 16 Do you think that, steps taken by government (i.e., Gareeb Kalyan yojana, P.M kissan Samman Nidhi yojana etc) will help people to pay their loan timely?



This chart reveals that out of 170 respondents there are 28(16.70%) respondents who strongly agree with this statement “Do you think that, steps taken by government (i.e., Gareeb Kalyan Yojana, P.M Kissan Samman Nidhi yojana etc.) will help people to pay their loan timely”, while 80(47.60%) are agree, 22(13.10%) are in neutral, 32(19%) are disagree and 8(4.80%) are strongly disagree with above statement.

Table: 1 Observations from Respondents about COVID-19

S.no	Questions	Percentage of responses
1	Is there will be any impact of covid-19 on Indian Economy?	95.00
2	During the crisis of covid-19 the importance of banks has increased?	88.00
3	Do you feel that various measures taken by RBI during lockdown will be helpful for banks?	89.00
4	Do you feel that the moratorium allowed by RBI will impact the assets quality of banks?	84.00
5	Due to the outbreak of covid-19 the NPA level of banks will rise from previous level?	86.00
6	RBI measures for increase liquidity through banking system will help in increasing credit growth in India?	79.00
7	Do you feel that some more measures should be taken by RBI to improve the financial position of Banks?	86.00
8	After the covid-19 issue resolved, banks will be able to achieve their previous growth?	60.00
9	Do you fell that outbreak of covid-19 will impact earning of people?	93.00
10	After the moratorium allowed by RBI, borrowers will be able to pay their EMI (equated monthly installment)?	61.00
11	Do you think that, steps taken by government (i.e., Gareeb Kalyan yojana, P.M kissan Samman Nidhi yojana etc) will help people to pay their loan timely?	64.00

Inference Drawn:

It has been drawn from the observation of respondents that COVID-19 have impacted on banking operations. During COVID-19 majority of respondent faced financial crisis and were unable to pay their debts. The respondents were engaged in various online banking activities and were involved through various IT modes. It has also been observed that financial burden of banks was increased during COVID-19, which caused the NPA. The policy of moratorium was also marked as additional financial burden on their customers, but overall, the banking sector was marked as win-win situation during corona period as per the respondents.

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