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Impact of COVID-19 on banking sector in India -A review on various literature

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ABSTRACT

Covid-1P (epidemic) spread across the country (or across the continent) could be one of the most serious challenges facing the financial services industry in almost a century. The impact of Covid-19 on banks will be adversely affected by declining demand, low yields and shutdown of production. The situation is exacerbated by staff shortages, digital inadequate maturity, and pressure on existing infrastructure as companies struggle to cope with the impact of Covid-1 financial on financial services. Borrowers and businesses are losing jobs, reducing sales and declining profits as the virus spreads around the world. Banking customers start expecting financial benefits. One obvious way in which epidemics affect economic systems is because of their huge financial costs. Banks need to plan to manage the direct financial impact of the corona virus, to protect employees and consumers from its spread. Most banks already do something

In this paper, we aim to show the impact of Covid-1 of on the banking and financial sector (epidemic). According to the Bank of India, the possibility of an outbreak of the corona virus in India has been threatening to clean up its financial system for many years. Banks sit at the center of the economy and provide funding to corporates and individuals.

Introduction

The outbreak of the corona virus Covid-19 out has significantly disrupted the functioning of many commercial units. The impact on the banking and financial sector in terms of non-performing assets and low financial activity will only be known when the situation returns to normal. At the same time, there are some areas that have had a positive impact, such as information technology and digital business, Given the outbreak of the e-commerce business, pharmaceuticals and life sciences business, healthcare business and insurance business Covid-19 out, it is challenging at this moment to estimate the full scope and duration of its business and financial impact. In this situation the elements are presented with challenges while preparing their financial statements and reporting their results.

Due to this epidemic, the financial market is up to 22 trillion rupees per month. Investor sentiment is always low, and it also becomes clear to banks around the world how difficult it is to have good assets and maintain good ones. Earnings. Debt repayment, especially in Europe, could keep banks dry due to shutdowns and declining incomes.

Europe can already be seen as an emerging giant center as China begins to recover from this economic shock. Italy, the world's second-largest healthcare provider after being infected with the corona virus, has been hit by a socio-economic crisis. The situation continues to worsen even after the total lockdown and complete closure of the border. The Fitch rating agency has already warned the Italian banking system of a system to deal with COVID19 with '.

Non-performing assets of banks in the country by 2020 per cent increase and credit ratio is expected to increase by 1 basis0 basis point.

Research methodology

The research is based on secondary information. The Reserve Bank of India website, Reserve Bank of India Manual, RBI has collected information for research on their manuscripts, books, internet, magazines and guide information given in newspapers.

Objectives

1. To study the effect of COVID-19 in Indian Banking Sector.
2. Study and analyse various literature

Literature review

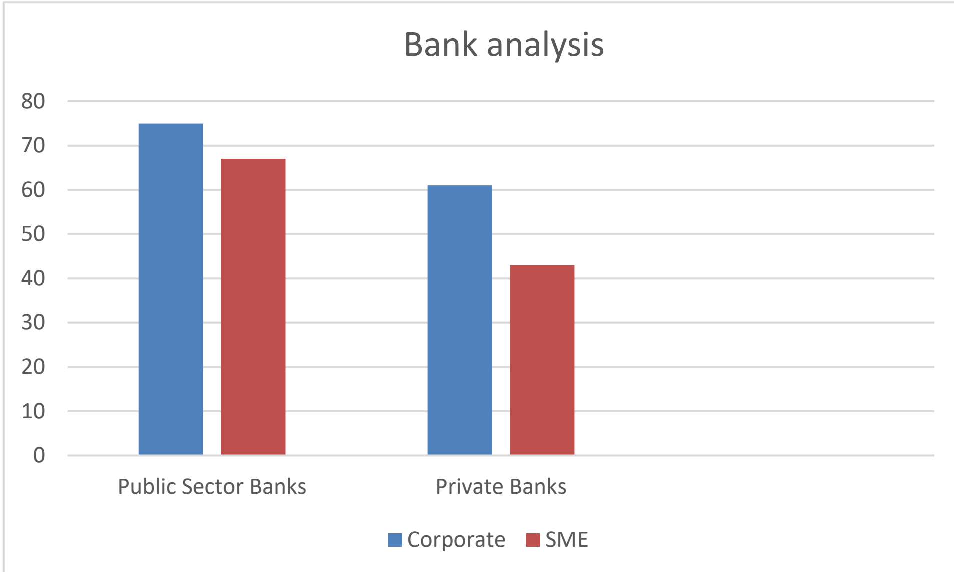
1) Fitch Ratings-Mumbai-April-April 2021: India's second wave of Covid-19 infections will threaten India's fragile financial recovery and threaten banks, Fitch Ratings has said. Fitch expects the medium-term environment for the Indian banking sector to deteriorate in 2021, but further measures need to be taken to address the spread of the virus and its impact on business and economic activities.Active covid-19 infections are on the rise in India; The number of new transition days exceeded 100,000 in early April 2021, up from 9,300 in mid-February 2021.

2) Fitch has projected India's real GDP growth rate to be 12%% for the fiscal year ending March 2022 (FY22). This includes the expectation of a slowdown in 2Q21 due to outbreaks in new corona virus cases, but the increased rate of infection indicates a new risk to predict. Infections More than 0% of new infections are in the six major states and about 45% of the total banking sector loans are loans.

Further disruption of economic activity in these states could be a major blow to the fragile business sentiment, although tough action like India-India in 2020 is unlikely. Against this backdrop, the operating environment of banks will likely remain challenging. This second qualification will lead to a sluggish recovery in customer and corporate confidence and reduce the likelihood of new business for banks (9 MFY21 credit growth: + 4.5% Fitch estimates). There is also concern about asset quality as the financial results of the banks do not affect the first wave and the place of the 2020 lockdown.

We consider micro, small and medium enterprises (MSMEs) and retail loans to be the highest risk. Retail loans are performing better than we expected, but if renewal restrictions are pushed further on personal income and savings, tensions may increase.

MSMEs, however, benefited from state-guaranteed refining schemes that avoided the hassle of creating stress.
Private banks are more vulnerable to retail investment but also have good earning potential (average pre-provisioning operating profit (PPOP): 85.8585% of loans), contingency reserves (1.2% of loans) and principal (CET 1: 115). ..9)%) In contrast, state-owned banks are more vulnerable to bear the strain on their departments because of their current weak asset quality and greater participation in aid measures their limited loss-absorbing buffer
4) The extension of the MSME refinancing plan by June0, 2021 will alleviate short-term pain, but Fitch estimates that the exposure to the sector's tense MSMEs will increase expos..5% of debt (M MFY21).
A report by the Reserve Bank of India states that the outbreak has "affected good companies" and is otherwise viable before business can begin.
Even before the launch of Covid-19 out, the Indian economy was not in a good position, which only made the situation worse. An expert committee of the Reserve Bank of India (RBI), chaired by former ICICI Bank chairman KV Kamath, said in a report on the framework of the resolution.
The report states that before the outbreak of the epidemic, "good companies have been affected" and businesses have been made otherwise viable. Experts believe that banks may be more risk averse than restructuring loans this time around, as they have already suffered huge losses in previous restructuring efforts.
5) The epidemic has a debt of Rs 15.5 lakh crore per sector of Nine sectors coming from all countries. The biggest impact of retail and wholesale trade has been due to debt of Rs 5 lakh crore. The epidemic has also affected 11 regions across the country (or across the continent). These sectors have a debt of Rs 22.2 lakh crore. In these sectors, non-banking financial companies (NBFCs) have the highest amount of Rs 7 ... 8 lakh crore. Agriculture and allied products make up the largest silver lining in India's debt landscape. The sector has a debt of Rs 9.8 lakh crore. (Epidemic) (Epidemic) It was stress free before all the illnesses happened and still is.Companies stretched up to half do not meet restructuring criteria
6) The Kamath Committee has specified sector-specific ratios on five key parameters - gross net cost arrears, total interest-bearing debt, tax, depreciation and debt relief (EBITDA), current ratio (current assets divided by current liabilities), debt service coverage ratio and Average debt service coverage ratio to determine whether debt will be eligible for restructuring. Nomura analysis of 17,19 companies in 2 sectors shows that -0-50% of them are backward
Huge write-offs from previous restructuring may make banks more risky
The Nomura report expects risk-adversity among banks to increase, given the bad experience of previous restructuring cycles. "We think banks will be more prudent in restructuring this cycle than in previous restructuring cycles, where the final slippage / write-offs in the corporate sector are as high as -0-7575%," the report said. That’s bad news for the industry.
Banks do not have a good experience of previous restructuring
Corporate Small and Medium Enterprises and Other Writing / Downgrade from 2012-1-13 to 201-20-201 Write as% of Cumulative Reconstructed Book for 2012-2012



Covid-19 and Bank Capital

Compared to the global financial crisis of 2008, the world was facing the crisis of Covid-19 crisis. The latter provide a motivation for a really strong capital buffer. The Covid-19 crisis has led to significant changes in the cost of capital of banks and is a challenge for both banks and prudent executives.

The fall in bank stock prices eased the crisis (BIS, 2020) and subsequent recovery as they generally fell below other world prices and below their own pre-crisis levels. Similarly, rates outside the European banks fell in price. Less profitable banks in Europe and Japan had lower ratios than in the pre-crisis period and deteriorated further thereafter. Although the US and European banks have recovered so quickly from the consistent convertible (Coco) bond of COVID-1 induced low (Chart 1.1), funding for such devices is still recovering and their pre-covid levels (BIS, op-cot) Is higher than.

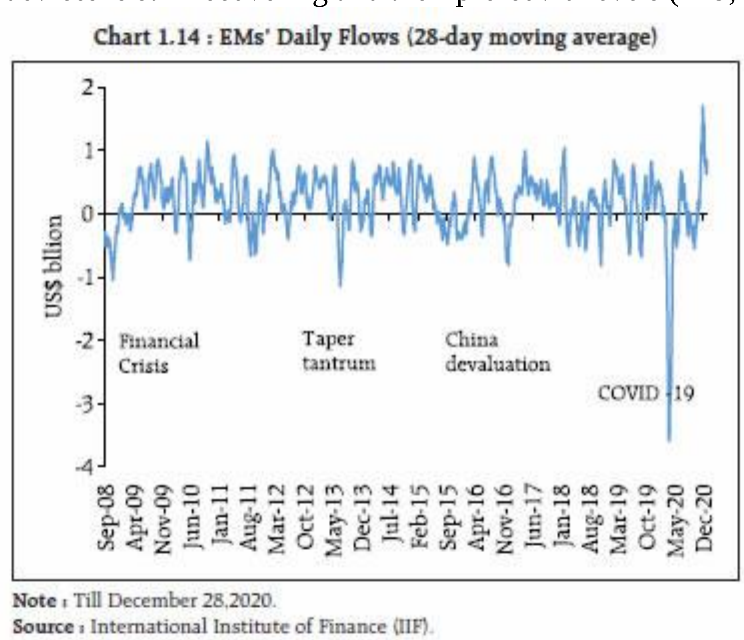
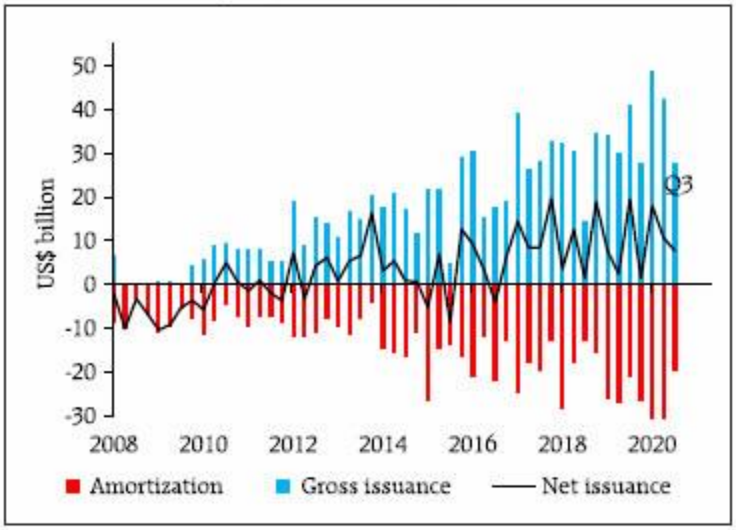


Chart 1.15 : Net Issuance of EM Bonds Abroad



Source: IIF, Bloomberg.

Chart 1.16 : Emerging Market Bond Returns (Annualised)

Note: Information has been obtained from sources believed to be reliable, but J.P. Morgan does not warrant its completeness or accuracy. The index is used with permission. The index may not be copied, used or distributed without J.P.Morgan's prior written approval. Courtesy J.P. Morgan Chase & Co., Copyright 2020.
Source: JP Morgan.

Conclusion

Financial institutions facilitate employees in a healthy environment and make it easier for employees to rehabilitate on new procedures. They are enhancing the customer-centric approach through digital channels. The RBI formulates policies to ensure business continuity, to adapt processes, to engage in partnerships and to enhance experience. Reproduce areas and customer segments based on growth and risk profiles.

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