Impact of Covid-19 on Banks in Punjab

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ABSTRACT

Banks acts as a backbone for the economic growth and development of the economy. In the view of Covid-19 paradigm, Banks are giving their uninterrupted services risking their lives to meet the financial requirements of people. The role of banks during Covid-19 paradigm has not been recognised at a desirable level. The research paper attempted to identify operational and technical challenges faced by the banks and problems faced by customers during the period. The impact of Covid-19 on overall banking environment has also been ascertained. The results depicted that there is uncertainty regarding duration and depth of the deadly disease and crisis but after effects of COVID-19 will be a major economic policy challenge for the next few years. Digital empowerment in the banks is on trend but still many branches remained away from the shadow of the digital umbrella. So, from that point of view, banks will need to get used to this environment which would require more digitization and technology being integrated in their business models. With the accelerated scale of banking collaborations with Fin techs, there is a need to equip the bank staff with appropriate training.

Keywords: *Covid-19, impact on banks, challenges*

INTRODUCTION

The banks are the lifelines of the economy and play a catalytic role in activating and sustaining economic growth. Covid- 19 pandemic continue to shatter the world economies by increase in death tolls to around 312K (as of May 17, 2020), massive unemployment and

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liquidity crunch caused by lack of economic activity. During this paradigm, the integral role of banks has come under the spotlight as banks are involved in coordinating the provision of financial administration to the poor. Banks are providing four essential services including cash deposits and withdrawals, cash deposition, remittances and government transactions while other non- essential services are suspended due to limited staff in lockdown. Banks are also working to facilitate emergency credit, keeping in mind the slumps and downturn throughout lockdown (Indian Express). Digital India assisted the nation in this downturn with majority of banking customers deploying online banking services and visiting the bank branches less frequently. But even in this digital age, approximately 13 crore families which are living below poverty line in India have to resort to bank branches for their financial needs which leads to a huge rush in branches now-a-days. Meanwhile, the announcement of the central govt to credit Rs. 500 per month for next 3 months to around 20 crore Women Jan Dhan account holders as a part of direct cash transfer (The Economic Times) and Punjab Government's initiative to credit Rs. 3000 to registered workers has been taken care by the bankers working on the frontline. This money has been digitally credited to the accounts of the beneficiaries. The bankers at the frontline during the pandemic with a large number of customers are confronting with ample of challenges risking their lives to fight the pandemic and to keep the essential services operational. This will bring the challenge for the bankers on account of logistics with a strict need of social distancing. One another source of concern for the banks in Punjab is harvesting seasons and many bank customers are asking for payment disbursals. The rescheduling of payments as directed by RBI and accrued interest to be recovered after the completion of moratorium period i.e. 31st May bring the expected rise in number of NPA's. The likely reason of expectation is the liquidity crunch faced by the borrowers which can lead to likely default due to loss of revenue of micro small and medium scale enterprises and self-owned businesses during this period. An increase in defaults by firms will trigger the wave of bankruptcies and likely to cause issues relating to liquidity and capital adequacy. Another challenge faced by the banks is their inability to provide personalized services to their customers especially in private sector banks which leads to reduction in their primary deposits through which banks create credit. As per Saswata Guha, the head of financial institutions at Fitch Ratings in India, Financial Sector expect a sharp slowdown in credit growth and deterioration of asset quality across all private banks. In order to steer through these exceptional times, the Banking and Financial Service Industry needs to focus on liquidity, credit risk, well-being of its employees along with the quality of financial reporting and disclosures.

RESEARCH METHODOLOGY

Banks play an important role in the growth and development of a nation. In this hardship of Covid-19, various parties involving doctors, policemen, sanitary workers as well as bankers are playing a significant role to fight against the pandemic and providing the essential services to the people across India. In the time where everything is shutdown, bankers are the one who are risking their lives to serve community in situation of economic slump. The role of banks in reviving the economy during this pandemic is not recognized at a desirable level. The research paper attempts to determine and analyze the problems encountered by the banks during the lockdown period. This is the empirical research based on the primary data collected from 57 bank employees of private as well as public sector banks of Punjab. The sample size involves data collection from 31 private bank employees and 26 public bank employees. Convenient Sampling technique is deployed for the collection of data by the way of questionnaire.

OBJECTIVES

- To identify the operational and technical challenges faced by the banks of Punjab during Covid-19
- To analyze the perception of bank employees relating to problems encountered by the customers during Covid-19
- To ascertain the overall impact of the pandemic on overall banking environment
- To suggest post- lockdown strategies to revive the banking sector.

LIMITATIONS OF STUDY

- Bank employees are reluctant to provide information due to high workload in banks these days.
- Sample size is small to find out other statistical relationships of data
- There is non-availability of literature related to the area of study.

ANALYSIS

COVID-19 is an unfolding event bringing uncertainty to every aspect of the society.

Safety of the people is the utmost priority along with the continuity of business and providing consistent and transparent financial reporting to stakeholders. The challenges encountered by the bank employees during the period of lockdown are mainly on account of operational difficulties and technical defects. Operational challenges involve challenges encountered by the employees while providing banking services to the customers like multiplicity of transactions and Technical challenges relates to the technical discrepancies on account of increased usage of electronic payment mechanisms by majority of customers.

DESCRIPTIVE STATISTICS

The sample size of 57 bank employees consists of 43.9 percent of females and 56.1 percent of males. The data is collected from two private sector banks namely HDFC Bank and Axis Bank and two public sector banks namely Punjab National Bank and State Bank of India. The sample consists of data collected from 31 private sector employees and 26 public sector employees. Various challenges identified by the bankers are as follows:-

OPERATIONAL CHALLENGES

- The frequency of number of transactions has increased manifold during the period of lockdown. The likely reasons as identified by the bank employees are cash crunch faced by the customers who are not using online payment methods and harvesting season.
- Majority of the bank employees have identified that around half of the customers are not maintaining discipline in the bank which involves social distancing norms and taking various safety measures.
- 56.1 percent of the sample employees are working in the cities different from their city of home town which is another challenge faced by the employees due to non-availability of transportation facility.

TECHNICAL CHALLENGES

The risk of the global pandemic leads the bank customers to visit branches less frequently and resort to electronic methods for availing banking services. Various public sector banks lacks technological infrastructure and heavy traffic on the online banking systems slow down the server of the payment mechanism process which leads the customers

to face difficulty while availing e- banking services. Banks are constantly doing efforts to strengthen the technical infrastructure but are lagging behind in technological innovations. Various banks are providing cardless ATM withdrawals like HDFC bank, Canara Bank, State Bank of India in order to prevent the risk of spreading virus through surfaces but still many banks including Punjab National Bank, Bank of India are not deploying this facility which is another technical challenge faced by the bank and borne by the customers during lockdown. Even as banks urge people to use more digital payments, negligible digital payment infrastructure makes this impossible, leaving the rural population in the lurch.

CUSTOMER PROBLEMS PERCEIVED BY BANK EMPLOYEES

The common challenge faced by most of the banks is long resolution times. On one hand customers are on surge due to liquidity crunch and on another hand, RBI's regulation for the banks to work with least employees would bring up unnecessary delay in serving the customers.

- 54.38 percent of the sample employees believe that customers are facing unnecessary delay due to reduces staff and accelerated workload.
- Majority of the employees i.e. 61.4 percent believe that customers would not be provided with the personalized banking services which indirectly hampers their business especially for private sector banks.
- Another major customer's problem perceived by one third of sample bank employees is that customers are facing delay in sanctioning personal loan. The reason may be due to lack of economic activity and likely risk of loan to be converted into NPA.
- Even in the highly digitalized world, people are still striving for human interaction and real trust but bank employees won't be able to fulfill their requirements due to stringent distancing norms and avoidance of personal contact with the people especially in the place of crowd like banks.
- As a result of heavy workload felt by the bank employees during this period of lockdown, customers have to wait for long hours in queue for getting their work done. The majority of the customers include those who want to withdraw cash on account of pensions and amount credited by the government in Jan Dhan Accounts.

In the nutshell, customers are also confronting with the challenges while availing banking services from bank's side. The lack of awareness and trust of the customers

performing electronic transaction leave them with only option to visit branch and get their work done. This is one of the likely reasons behind the accelerated workload of the bankers.

OTHER CHALLENGES

An open ended question relating to challenges faced by employees despite the above said challenges was asked while gathering the data. In the stage of crisis, the banks were forcing their employees to achieve the targets of RD, account opening, GI etc. in the private sector. The pressure of sale on bank employees will bring them into a stressful situation thereby affecting them mentally. Handling operations along with sales pressure is challenging task for bank employees. Another major challenge is the long timings of the banks after customer service time which will bring the risk to the lives of bank employees.

IMPACT OF COVID-19 ON OVERALL BANKING ENVIRONMENT

The impact of pandemic has been borne by all the sectors of the economy in one way or other. The operational and technical challenges faced by both the employees as well as customers have brought a lacuna and lack of agility in the banking systems during the period of emergency. In the current scenario, the key challenge for the banking industry is the maintain equilibrium of safety and health of the employees with expectations of customers. Even before the COVID crisis, economy was still recovering from twin balance sheet crisis due to regulatory forbearance practiced in post global crisis period. Postponement of NPA recognition helps the banking industry to 'extend and pretend'. If the same has been allowed now during this crisis, this will lead to system wide crisis as it did in 2016-27 post asset quality review by RBI.

In order to analyze the impact of COVID, various statements in relation to change in overall banking environment are reviewed. The overall banking scenario changes may include change in the asset quality, likely expansion of NPA risk, shrinking the value of assets in balance sheet, loss of business during this crisis period and post- lockdown period. The design of the statements reviewed is as follows:

- The sale of loan products is on surge during lockdown period
- Banks are benefitted with RBI's repayment moratorium
- Asset quality of the banks is hampered during the crisis
- Bank foresee rise in the repayment defaults
- NPA's will reduce due to more timeframe available with the customers

- Discretionary spending of the customers has shown a downfall
- Value of Assets in the balance sheet will shrink

The impact of the pandemic on overall business environment is ascertained by using regression analysis. The variables used to analyze the impact of COVID in the form of operational and technical difficulties faced by the banks. Initially, the reliability of the questionnaires is ascertained with the help of Cronbach's Alpha.

Table 1- Reliability Statistics

Cronbach's Alpha	N of Items
.869	23

Source: - Primary data

Since the Cronbach's Alpha is greater than 0.6, it implies that the questionnaire is reliable and further regression analysis to analyze the impact of COVID on overall banking environment can be run using SPSS.

REGRESSION ANALYSIS

The regression analysis is used to ascertain the impact of pandemic on overall banking environment where the independent variables are operational and customer service challenges faced by the banks and dependent variable is overall banking environment. Table-2 signifies the correlation coefficient between variables and coefficient of determination.

Table-2 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.785a	.616	.602	.35018

Source- Primary Data

As the significance level as represented by Annova is less than 0.05, it implies that the relationship of the variables can be depicted in the form of regression Model.

Table-3 Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.608	.197		3.088	.003
	OP	.415	.060	.580	6.881	.000
	CS	.315	.052	.515	6.110	.000

Source: Primary Data

As depicted in the Table 3, Regression model can be in the form of:-

Overall banking Environment during COVID = 0.608+ 0.415 operational factors +.315 customer service factors + standard error (0.309)

It implies that overall banking environment during pandemic is influenced by operational difficulties and customer service challenges faced by the banks during the crisis.

SUGGESTIONS AND RECOMMENDATIONS

It is widely acknowledged that that scale of economic damage caused by COVID-19 is far greater than global financial crisis of 2008, globally as well as for India. The uncertainty regarding duration and depth of the deadly disease and crisis but one thing is clear that the after effects of COVID-19 will be a major economic policy challenge for the next few years. While some policy measures have been taken by Government and Reserve bank of India to strengthen the economic system, but they are interim measures and are not going to be adequate to support the economy. Predicting new normal is impossible in this kind of scenario. Keeping in view the current scenario of financial market conditions and continuous assessment of the situation, RBI has taken some initiatives to (i) maintain adequate liquidity in the system and its constituents in the face of COVID-19 related dislocations; (ii) facilitate and incentivize bank credit flows; (iii) ease financial stress; and (iv) enable the normal functioning of markets. The major policy measures are as follows:-

- Provision of refinancing facility of Rs. 50000 crore to NABARD, SIDBI, NHB to enable them to meet their sectoral credit needs.
- Fixed rate reverse repo rate under the liquidity adjustment facility (LAF) by 25 basis points from 4.0 per cent to 3.75 percent with immediate effect. The policy repo rate

remains unchanged at 4.40 per cent, and the marginal standing facility rate and the Bank Rate remain unchanged at 4.65 per cent.

- An increase in the ways and means advances (WMA) limit of states by 30 per cent.
- The Liquidity Coverage Ratio requirement for Scheduled Commercial Banks is being brought down from 100 per cent to 80 per cent with immediate effect. The requirement shall be gradually restored back in two phases – 90 percent by October 1, 2020 and 100 per cent by April 1, 2021.

The crisis has brought the role and importance of digitization in the wake of current requirement in today's ecosystem. Traditional banking has got an entirely different outlook during COVID-19 where people used to prefer personal and human interaction in order to avail financial product or service. The people's mindset of personal touch has been changed to a larger extent by shifting to digital platforms for their daily essential requirements given the emphasis on social distancing. There are various recommendations banks should follow to reduce the impact of COVID-19:-

- Strengthening the digital platforms by partnering with Fin techs more aggressively than what used to be. The partnership will reinforce the digital platforms of the banks by removing loopholes prevailing in the current system.
- Adoption of adequate safety standards and encouraging the Touchless process of banking by providing employees of all the banks with RFID tags.
- Sanitization of bank's entry gate, building, currency chest, office, ATM, parking and e-lobby etc on regular intervals.
- Banks should prefer giving electronic copy of transactions instead of manual forms.
- Thermal checkup of each and every person entering in the bank is practiced in order to avoid the risk of infection.

These are some recommendations required to survive in today's ecosystem. Banks should use them to the maximum extent possible for the health and security of stakeholders. The challenges caused by Covid-19 crisis will become opportunities in the long term by deploying various policy measures.

CONCLUSION

COVID-19 crisis followed by Curfew/lockdown in Punjab impart the new learning for banks to bring transformation in banking by resorting to complete digitization of banking services. Although various operational, technical and customer service challenges have been faced by the bank employees during the period, but the challenges were handled very actively by taking speedy and efficient measures. Digital empowerment in the banks is on trend but still many branches remained away from the shadow of the digital umbrella. So, from that point of view, banks will need to get used to this environment which would require more digitization and technology being integrated in their business models. They'll need to do is travel less and work more by deploying work from home approach. In this manner, a lot of time will be saved in terms of employees commuting and reduce informal communication of the employees and unnecessary lead time. With the accelerated scale of banking collaborations with Fin techs, there is a need to equip the bank staff with appropriate training. Usage of these recommendations will ultimately lead to successful business model for the banking industry and adequate safety of various stakeholders.

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