Indian Banking: The Post Covid-19 Scenario

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Abstract: *Covid-19 hit us suddenly and unexpectedly. It spread far and wide very quickly. The world was not prepared for it, and neither were the businesses. Prolonged lockdowns brought the economy to a standstill. Though it is not a banking crisis as such, it naturally affected the banks. Banks, being the forerunners of the economy, had to think fast and undertake major changes to carry on with their businesses and the services that they provide. This meant certain changes to the systems and procedures that were being normally followed. In order to support the sudden changes, technology adaptation was fast paced and technology solution providers came into the picture. The change that was going on at a certain pace was accelerated. The customers also had to somewhat begin adapting to these new modes of banking experience. The competition has now begun in the technological dynamism, amongst the banks. Will these changes be long lasting or will we return to pre pandemic era of banking, is for the future to tell? The changes are dynamic and, at the present moment looks like they are here to stay. This article looks into the changes that have been inflicted upon the banking industry in India due to Covid-19, and what probable changes are here to stay.*

Key Words: *Covid-19, Economy, India, Banking Sector, Changes, Technology Adoption.*

1. Introduction

Financial institutions throughout the world have always been at the forefront of change and adaptation due to challenges, competition and customer expectations. It is evident that the world has now been completely disrupted by Covid - 19 Pandemic and the Indian Banking System is no exception. It is essential for banks to remain operational during such crises in order to serve their customers. They have set in place various distancing norms to minimise the spread of the virus, but this comes at a huge cost, especially when revenue generation is low. Indian banking is still dependent mostly on physical channels for banking purposes and to making an overnight operational change is not an easy task. Observing the daily numbers of infected people it is likely that the pandemic will not go away any time soon. Thus, this is going to have a long-term impact on the banking system as well. The banking system is the engine of our economy and we cannot let it be slowed down as we begin to build a self-reliant India; as so strongly advocated by the government. With our economy being almost in recession, the positive side is that we are in a world of digital banking scenario. Fortunately, banks in India, primarily the private banks, have long since adapted to the digital world, thus, making them on par with transnational banks. However, public sector banks must brace themselves or face a natural death due to privatization. Though we speak highly of the Indian banks and the Indian Financial system, the question is: are we going to emerge as global giants post Covid - 19? Looking at the post financial meltdown of 2008, where we stood strong despite giants like Lehman Brothers, Washington Mutual and many others filing for bankruptcy (PTI, 2008), we can say a definite yes, but are we big enough to compete with giants from China, America and other developed nations?

One may think of certain predictions; for the Indian financial system relies a lot on them. The multimillionaires in our country do often go for it. But then, this time it is different, the future looks so unpredictable. It is a global issue and we are tied to the thread of Globalisation. Further, the scenario will have a short term or long-term behavioural implications for the customers. Many banks are heavily reliant on face–to- face interactions along with a high usage of papers. Thus, it is the need of the hour to venture for a fast and sustainable operational change in order to survive and be potentially competitive. Therefore, this paper is an effort to see the prospective future of the Indian banking system and it also tries to provide a way forward for continuing operations under continuously changing scenario. Banks need to have a responsive and scalable service channel to respond to customer queries.

The collapse of Lehman Brothers in 2008 led to the full-blown subprime crisis in the world. Many feared the disaster it would bring to the Indian Banking sector. "The Indian banking system is unlikely to be affected by the sub-prime lending crisis in the US, but banks may face problems on account of rising domestic property prices"- HDFC's Chairman Deepak Parekh (PTI, 2013). In an ever-interdependent financial world, the financial crisis of 2008 had a cascading effect throughout the world. However, the impact on India was less than expected. In his article "A crisis-proof banking sector", TT Ram Mohan writes, "The pessimists have been proved wrong about the Indian economy — the economy is projected to grow at more than 7% in 2009-10. They are going to be proved even more wrong about the banking sector. The Bankex has outperformed the Sensex during April-December 2009. It rose by 123% while the Sensex rose by 73%. In 2008-09, the Bankex had declined by 40%, a little more than the decline of 37% in the Sensex" (Mohan, 2010). The reasons for this could have been many like low interest payments, high fee income, high interest income or even a more monitored and regulated banking system. Unlike the US where credit was given to clients with poor credit histories, in India the system was more stringent. Further, the Reserve Bank of India had taken steps to insulate the Indian banking system from the crisis. The strong fundamentals of the Indian Banking System along with the guidance of the regulators and the Government also had a positive role to play during the crisis. Of course, the economic reforms of the 90s already had a positive impact on Indian financial health. Nevertheless, as a part of the global playing field, Indian Banking sector had a fair share of its difficulties due to the subprime crisis. An RBI report said, "Though initially it was believed that India was immune to the after-effects of the crisis, it is increasingly being realised that this is not so. Already industry sector is showing signs of fatigue. The threat of elevated fuel and food prices on the domestic inflation is real. Overall, the GDP growth is moderating. With all these developments, India may still achieve a growth rate of about 7.5% to 8% during 2008-09" (RBI, 2022). Though by way of expectation, the growth rate was a positive sign. The growth rate had been around 6.7. Thus, we may say that despite the global financial crisis India was poised for better growth.

This being the scenario in India, the question now arises as to where the Indian Banking Industry stands post covid pandemic. The pandemic has led to both structural and behavioural change. These changes have led to an impact on the economic activities and the asset quality of the banking sector across the board. We have been witnessing the fast-changing operational functioning of the banks and the adoption of technology in the last two plus years. The Traditional Banking model seems to be a thing of the past and the only way forward is innovation and the adoption of technology to keep pace with the competitors. Though digitisation was in the cards over the years, the pandemic has fast paced the deployment and implementation processes. Challenges have increased as asset quality has suffered a severe downturn due to the pandemic. Banks were hit hard due to the nationwide lockdown when the economic wheels came to a standstill. “As of end-August, around 40% of outstanding loans in the financial system availed of a moratorium” (Gopakumar, 2020). “The heartening news for Indian banks is that India has entered this crisis well-capitalized and “on the up”. Their provision coverage ratios improved to 65% in 2019-20, compared to 41% in 2016-17, and RoE has turned positive to 2.5% after two years of negative readings” (Lal et al., 2020).

2. Literature Review

COVID-19 pandemic might influence the banking sector in several ways. For instance, Aldasoro and Ehlers (2018) mention that the worldwide banking sector holds large-scale US$ denominated borrowings to financial investments, international trade, and an assorted set of dollar sets. Financial crises squeeze the monetary sector that provides loans, inferring risks for the worldwide financial system (Mirza et al., 2020). The banking system in emerging countries is more affected by the decline in the movement of these funds. Bahaj and Reis (2020) reported that in response to COVID-19, central banks expanded the current swap lines and generated new lines to reduce the costs of dollar financing. Sensible regulatory measures in the banking sector, for instance, easing capital buffers and relaxing the handling of non-performing loans, have been identified as ways to alleviate the COVID-19 negative effects on the stability of the financial system (Goodell, 2020). The study by Demir and Danisman (2021) shows that the equity markets of the economies with tighter regulations are inclined to be more resilient to this pandemic. In response to Basel III liquidity and capital reforms after the 2008 financial crisis, the banking sector is well-positioned to face the severe effects of the

COVID-19 pandemic. Thus, my study tries to see how the COVID-19 pandemic affects banking sector in the near future.

Mishra, Patel and Jain (2021) carried out a research study titled "Impact of Covid-19 Outbreak on Performance of the Indian Banking Sector" showing the effects of Covid-19 in the performance of the Indian banking sector. Kumar and Kumar (2021) carried out a research study titled "Impact of Covid-19 on Indian Economy with Special Reference to Banking Sector: An Indian Perspective" elaborates on the impact of the COVID-19 situation on the Indian economy and its banking sector. Singh and Bodla (2020) carried out a research study titled "Covid-19 Pandemic and Lockdown Impact on India's Banking Sector: A Systemic Literature Review" presents the impact of the pandemic on Banks and NBFCs due to lockdown.

3. Objectives

Extensive review of the available literature resulted in framing the objectives for this present study. The objectives are;

i. To comprehend the changes brought about by the COVID-19 pandemic on the Indian banking system.

ii. To understand how this long pandemic's effect will shape the future of the Indian banking sector.

iii. To understand the competitive standing of the banks in the face of technological challenges and how the banks may face up to these challenges.

4. Methodology

This article is descriptive in nature. The study is based on secondary sources of data. Secondary data has been gathered from various sources such as research articles, newspapers, blogs, etc. Based on the secondary data, discussions have been made. However, we have emphasised on the future banking system in India. Further, conclusions and recommendations have been drawn.

5. Discussions

This article attempts to reveal the changes that have occurred in banking services, as well as the future effects of such changes. However, firstly, we have tried to showcase the changes that have occurred in the Indian banking system due to the present pandemic. Secondly, we have highlighted the challenges and future of the banking sector in India.

5.1 Changes in Banking Sector

The changes that have occurred in the past two years are here to stay in our lives due to the Covid pandemic. What was traditional and normal has changed in many aspects and we have somewhat been accustomed to it. What was carried out in person is now in electronic form. Of course, the traditional methods are there but the changes are being adapted day by day. Webinars and videoconferencing are here to stay and in a profitable way. Imagine how bankers use to travel for conferences and workshops; a huge expenditure. This is now very easily carried out in the online mode; sitting at home or in the branch. Customers, both individual and institutional, have understood the convenience and benefit of digital banking; paperless and time saving. Further, the banks are trying to go more digital day by day. Going digital saves a lot of time doing regular manual job in the branch which could be better utilised for marketing its products by the employees. It is also slowly catering to the environment due to the lesser usage of paper and vehicles. The change is also visible in the customer experience, i.e., how they view the offers by different banks; it is easier to compare in digital form rather than visiting different bank branches. Work from home though not adapted completely in the banking scenario, may be better utilised when there is an emergency task and the employee is on leave. Thus, changes though abruptly forced onto the banks due to the pandemic may very well be a boon in the long run.

5.2 Challenges and Future of Banking Sector

Smart Banking: Physical distancing has added to the modernisation of banking operations as well as the customer experience. Customers are getting habituated to multiple touchpoints. The need to visit branches is getting lesser by the day. Technology is making the employees efficient with their task and data in their fingertips. With technology reaching every corner of the world, the reduction in branches will not be an issue as online banking can suffice the requirements of the customers. With lesser usage of papers banks will be more environment friendly.

Artificial Intelligence: With globalisation and technological advancement, Indian Banks are no longer competing within the country but are now part of the global business scenario. Thus, competitiveness has to increase in order to survive in the fast-paced changing business world. The usage of Artificial Intelligence is increasing in various industries. Banks will witness a major change in this area, with collaboration for machine learning, analytics, cloud computing, etc. The new age start-ups including fintechs could be a collaborating force for the future of the banking industry. This needs a cost-effective approach to have maximum profitability.

Data Security and Operational Smartness: Protecting customer data is of prime importance in the world of cyberthreats. The customer's trust lies in the secrecy maintained by banks regarding their banking information. With remote working being accepted in many industries, this could be the future of the banking industry as well. And, this will lead to further dangers of cyberthreats. "Moreover, while 50% of banks' data is stored on cloud currently, the transition to 100% will happen over the next two years. These are critical factors to safeguard against" (Mahalingam, 2020). Keeping the usage simple for customers is now a challenge as technological know how is still a distant matter for many of the customers. Customer education in this regard is also of vital importance. The loopholes in the usage of technology are very often misused by fraudsters which could cause damage to the trustworthiness of the banks. Banks need to work on inhouse development of technology to have better monitoring and safeguarding mechanisms.

Inclusivity: With technology coming into the scenario in a larger way, banks can expand their reach to the unbanked or less competitive areas. Technology reaching through mobile phones in rural areas can be positively utilised for expanding the base. Areas devoid of the bouquet of services provided by banks in urban areas could be made available to these areas and, therefore, increasing profitability. Digitisation of banking activities will be a booster for banks in the future.

The Human Touch: Though we move towards more digitisation, the human element will still play a major role. A personal experience cannot always be replaced by digitisation. The feeling of assurance and security when visiting a branch will be an important element. When it comes to investments, borrowings or higher levels of transactions there is a psychological aspect to them all. Customers will be more satisfied coming to the branch than going digital. So, banks will need to maintain a fine balance between digital banking and physical banking; intelligent spending in these two areas must be well designed to keep competitiveness and profitability in mind.

Branches as Service Lounges: The change is not only in the digital sphere but in the physical infrastructure too. Anyone can see today that many banks have been witnessing fewer customer queues and more personal spaces; especially in the case of private sector banks. Personal consultation and guidance in digital usage will be increasing in the days to come. With the increase in the income group this will also be a welcome change.

Collaborative Banking: Partnerships amongst banks may increase due to increased digitisation. With online retailing on the rise, seamless collaboration between the banks will be increasing in the years to come. Customers will benefit from this development in the banking sphere and the banks will have an overall increase in profitability with increased usage of the banking platform.

Mergers and Acquisitions: "Even before the pandemic, one of the driving forces for the amalgamation (in the public sector banking space) was the need to scale-up banking. "India needs a lot of banks, but a lot more big banks" (Lele,2021). It is evident that in order to survive in an even more competitive future with focus on digitisation, banks need to come together. The transitional cost burden for smaller banks will be much higher, thus, leading to acquisitions and mergers. If Indian Banks are to compete with global giants, they have to be much larger and stronger. Thus, mergers would make this viable in the future.

Shifting to Fintechs: We have been thrust into technology-driven lifestyle quite fast in the last few years. People are increasingly preferring to use banking services via mobile phones and laptop computers whenever they find it convenient. Fintechs are bringing in newer experiences for the customers; faster and with less hassle. Banks are slowly getting overshadowed by new age tech financial companies. Amazon Pay and Google Pay are already in the game in a big way. "Jack Ma, before he was surrounded by Chinese authorities had a word of advice for our banks: Today's banks continue to have a pawnshop mentality. Collaterals and warranties are pawnshops. This was very advanced once upon a time. But collateralization with a pawnshop mentality is not going to support the financial needs of the world's development over the next thirty years. We must replace this pawnshop mentality with a credit-based system rooted in big data using today's technological capabilities" (Rath, 2021). Banks have to appropriately undertake changes to be competitive with new age technology companies.

Will it be a collaborative functioning or one dominating the other in the years to come, will be an interesting change that we shall witness in the future.

Financing: The future is expected to see a tremendous amount of credit growth in the area of housing and real estate for the banking sector. With fast population growth, coupled with increased urbanisation and growing incomes, the business opportunity will open up even more. However, the challenge remains to see how banks will compete with other non-banking financial companies. Banks have to be cautious enough to avoid any bubble creation in the real estate sector like we witnessed in the financial crisis of 2008. Also, how fintechs will come to play in this sector is to be seen in the near future. Further, with the growth of the credit card business of banks, retail financing is another segment that is seeing an ever-increasing trend. This has much to do with the younger generation of the work force. With the easy availability of credit, the younger workforce wishes to fulfil their dreams through borrowing. This is a very profitable business and surely there will be more financing companies foraying into this area in the future.

Cryptocurrencies: Bitcoins were started with the idea of reducing dependency on third party payment mechanisms like banks and brokerage houses. Though initially the risk of cryptocurrencies was a real concern, today they seem to have better security mechanism and therefore is an attractive investment opportunity for investors. The cryptocurrency mechanism does not make it necessary for the investor to hold a bank account, thus reducing the hold of the bank on the asset. With the increasing trends in digital currency, we cannot be sure about the future of currency. Today, there are debates about its regulation and functionality. However, it may be a real concern for the banks in the future. Banks need to gear up for an unexpected change that might affect their entire existence. Though there are few countries that have legalised cryptocurrencies; there could be a greater addition in the future.

6. Conclusion

With a history of over two and a half centuries, the Indian banks have evolved to stand today among the world class banks. With around six hundred banks before the independence, we now stand at twelve public sector banks, twenty-two private sector banks and forty-three regional rural banks (Wikipedia). The banking system has come a long way and has successfully evolved to be robust and a vibrant wheel of the Indian economy. The industry has witnessed nationalisation, scams, mergers, the financial crisis and now the Covid pandemic, among many other milestones in its history. And, the banks have evolved stronger and competitive in today's world. Of course, we have not yet reached the stage where we could be at par with the global giants, yet there is a tremendous potential to be in the global platform. The resilience that the banks have shown during the last financial crisis shows that if right management with determination is there, we could scale greater heights. It is not just an expected future but we may say that it is imperative, or else in a liberalised scenario we may witness our banks getting taken over by foreign banks; the private ones as of now. Thus, post pandemic we may be witness to many unexpected changes in the banking sphere. The changes and challenges as discussed in this article are there to stay. Now, how will the Indian Banks evolve is what is to be seen in the near future. This change is not just going to affect the Indian Banks but it is a global phenomenon affecting all banks across the globe. The major change will be in the digitisation and artificial intelligence mechanism that the banks will undertake. This will also bring about the challenges of security breach and data theft. Thus, in order to be future ready; which is not very far away, the banking regulatory mechanism has to be robust and in tune with the changing scenario. Though our systems are strong and the regulatory bodies competent enough, they need to look beyond the traditional banking mechanism. We may very well say that it will be banks without borders in the future that may have majority of their functioning through the internet. The Indian banks must come together to face the various challenges and take pride in their competent ability. They are the drivers of our economy and as the Indian economy is poised to scale higher in the years to come, the banks will play the primary role in this regard. Though the foundation of the banking functions will not change the mechanism will be different in the post covid world.

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