

## ROLE OF BANKS AS FINANCIAL SUCCOR AMID COVID FIGHT: AN INDIAN PERSPECTIVE



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### ABSTRACT

*At present time, the existence of Coronavirus in the environment continues to bother the globe. As an aftermath effect, the entire economies are at a standstill. Reduced economic activities, mass unemployment, and financial crunch have emerged as the most realistic prospects and so, people are struggling for their livelihoods. Whether it's developed, developing, or underdeveloped economies, no country could save them from its tragic consequences. The economy of India has also been severely affected due to this pandemic. Amid this situation, the role of banks has become more evident in the public eyes in recent times. The banking sector is the spine of the country's economy. As a result, common people started expecting banks to step forward as financial succor for them in these difficult times. The current paper tries to put the spotlight on the significant roles of the banks in supporting the people, the lives, and the economies in this unpredicted state of affairs. The study offers an analysis of secondary data which is gathered from different research articles published on the Covid-19 outbreak. Further, this paper offers suggestions to Indian banks on the adoption of innovative strategies for the improvisation of financial lives and the economy.*

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### INTRODUCTION

The existence of deadly coronavirus was first time identified in Wuhan, the sprawling capital of China's Hubei province, in December 2019. Later, an unpredicted emergence and spread of this virus were seen all over the globe. It created an unpleasant situation throughout the world as the masses lost their lives in all the countries. After this, on 11<sup>th</sup> March 2020, the situation was declared as a pandemic by World Health Organization. Further, to reduce the spread of this virus and to safeguard real lives, governments imposed some restrictions on everyday life like social distancing, quarantines, and shutdown of non-essential activities in the economies. Consequently, the economic slowdown has come out as an uninvited output. To cushion this poor economic situation, people obtained reasonable expectations from their banks to perform like financial succor. The banking sector is a responsible and constructive member of society. So, this sector is presumed to illustrate an essential role in supporting the financial lives of the people, economies and sharing the pain of economic slowdown.

As the pandemic started, buying activities of consumers started decreasing due to country-wide lockdowns. It caused a slowdown in sales volume and a sudden drop in the firm's profitability. As a result, many big companies in India started reducing their industrial operations, which led to a continuous rise in unemployment. Consequently, the revenue of the economy decreased and high stress was created on supply chain management. Many sectors of the Indian economy

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experienced a sudden downfall which includes the hospitality sector, tourism sector, travel sector, automobile sector, real estate, construction sector, etc. People of the society started facing poor economic conditions and financial problems in their real lives. Here, the bank customers began to seek financial relief and support from their banking partners.

### **The COVID-19 Crisis**

The impact of COVID-19 has been devastating all around the globe. The outcomes of this natural calamity are physical suffering and death, shut down of economic activities to save human lives, recessions, and huge economic damage. Covid-19 originated the public health crisis which further gave birth to an economic crisis as the economic activities were stopped to mitigate the spread of coronavirus. The countrywide lockdowns reduced customers' demand for goods and services. The employers shut down their workplaces to avoid personal contacts and so, the production and supply contracted. Shutdowns of various business organizations, educational organizations, travel services, etc. also reduced economic supply. Due to shutdowns, the working population started earning comparatively lower incomes and started reducing their demand in many cases. The industries, where remote working is not possible, experienced really hard times, like hospitality and construction industries. The serious health issues also led to the weak financial condition of common people. Consequently, an economic crisis arrived.

Further, because of the economic slowdown and financial difficulties of people, the banks started getting affected significantly. However, many researchers observed the Indian Banking "surprise" during the COVID-19 crisis. The banking industry performed so well and extended its support to economic recovery. In India, the major section of the population got connected with the banking industry as during lockdowns they were completely dependent on their banking partners for discharging their monetary transactions. And on the other hand, people started developing their trust in online banking when they were not left with any other option. Hence, society started considering the banking industry as financial succor during this hardship (Kunt, 2021).

### **Pivotal Roles of Banks in Covid-19 Situation**

The Indian banking sector operates with a wide network of over 1.6 lakh branches and 2.1 lakh ATMs, which ensured the availability of cash during this stressful period.

- All the bank branches facilitated payments for crores of online transactions every day to keep the economic engine running during lockdowns as people could not move out freely.
- The 38 crore Jan Dhan accounts operated with banks helped the government to transfer the government's fiscal packages to its beneficiaries especially women and old age people, timely and safely during this difficult time.
- All the banks accelerated the transformation towards digitalization for conducting everyday business and also to empower the vulnerable section by offering access to credit and other financial services.
- As per the RBI measures, banks are trying to ease the rates of interest accumulated on a variety of shorter-term-products like working capital loans to minimize the stress of the MSME sector and to facilitate their growth in this slowdown.
- As in the upcoming period, the lockdowns will be opened up, so the demand for funds will be elevated and so, a strong banking sector will be needed for a strong recovery. To meet the requirements for smooth economic recovery, the banking sector is making all the necessary arrangements under the guidance of RBI Governor Shaktikanta Das, as he is ready to offer 'whatever is necessary to shield the domestic economy' (Amitabh Chaudhry, 2020).

### **RESEARCH OBJECTIVE**

- The ultimate objective is to expose the significance of the banking sector in the pandemic situation.

### **RESEARCH METHODOLOGY**

This study is desk research that involves using secondary data for interpreting findings and perspectives. An effective and well-structured literature review is explored and summarized for facilitating knowledge enhancement and theory development. This is a realistic paper framed on the information obtained from past studies. We investigated the Reserve Bank of India website, Reports of RBI, authorized websites of banks, various books, conference proceedings, journal articles, and newspapers. Based on significant findings, we manifest the significance of the banking sector in the Indian economy, especially in the Covid-19 pandemic.

### **LITERATURE REVIEW**

Limbore (2014) States that today's banking sector is fairly mature. It is equipped with a wide and innovative products range, a broad supply network, and easy accessibility by all the sections of society. However, the reach of the banking sector in rural areas remains a challenge. Goyal (2019) Highlight the significance of the banking sector in terms of providing financial stability to the economy. The phase of financial stability develops the capacity of the country's economy to absorb any economic shock and uncertainty. Mathew (2022) Reports in *The Indian Express*, Banks recognize that as the third wave of the pandemic reached, the curbs on economic activities started prolonging. The ongoing downward movement of the economy is due to closing times of malls, night or weekend curfews, restrictions on the operations of theaters, hotels, and restaurants, parks, gyms, etc., and the closing of physical educational institutions. Some sectors are facing lay-offs also like travel, tourism retail, and hospitality sector. Consequently, the present banking organizations are experiencing an increase in non-performing assets, and slow growth and profitability. Alex (2020) Specify that in the present situation, banking

organizations are focusing on facilitating a flexible and healthy working environment for their employees and training them on innovative working methods to serve the customers effectively. Due to the fast spread of the virus, a good reform started in India. As common people started depending on online banking, it helped the banks to adapt smoothly to internet banking and digital marketing. As Covid-19 created an economic crisis in India, RBI and the government jointly entered into action mode to provide financial relief to the people. Eleanor Bensley (2020) Believe that in the Covid period, the bank customers are distressed. To serve distressed customers the banks need to offer more awareness, simplicity, transparency, digitalization, and frequent status updates. During the financial slowdown situation, the banks need to concentrate on remaking the banking customer experience as the banks along with the government are considered to be the financial succor for common people at this hard time. By addressing evolving customer needs and delivering an effective customer experience, banks can stabilize people's financial lives in society. Volin (2020) strongly feels after they research Covid's situation that there is a change in customer behavior as they started adopting digital platforms of banking. But at the same time, customers need human touch to take the important financial decisions as they trust human advisors more. So, the banks need to offer a perfect blend of digital banking services and trusted human forces to satisfy the customers to the highest extent. Claims that in the pandemic situation the banking sector is at the pivotal of the country's economy as it provides funding to individuals and corporates. So, banks' stability is crucial for the smooth running of the economy. Perwej (2020) put the light on the challenges created by the Covid-19 pandemic. There is a huge fall in revenue generation due to lower customer walk-ins. Stress on net interest income due to job loss and low earning of customers. Economic activities got reduced because of lockdowns and so there is a fall in demand. Remote working of bank staff is another big challenge. Amid these challenges, there is a huge scope of the transformation of banks in the areas like customization, digitalization, innovation, excellent customer experience, etc. and to become resilient and profitable. The banks are required to adopt an effective blend of digital platforms and human touch for providing all types of banking services. Kumar (2021) named the Covid situation as a 'Black Swan event' for the economies. This study clearly shows that in India 19 sectors experienced a negative impact with 15.5 lakh crore of debt. However, before the pandemic, these sectors were free from any crisis. This created a major hindrance to the smooth running of the banking sector. The government of India and RBI has taken many initiatives to reduce the effect of the Covid pandemic on the economy and financial lives of the people. Implementation of these initiatives calls for strong and resilient banking organizations to protect the country's economy from long-term damage. Panchal (2021) specifies the implications of the Covid-19 pandemic on the Indian banking sector. The study reveals that to avoid the spread of the virus, the government announced a countrywide lockdown. Because of this shutdown, economic activities were almost stopped and so the sources of revenue got decreased. However, day today's expenses were unaltered. To meet the expenses, common people increased their demand for loans and advances but at the same time, they were not having sufficient money to repay loans. Consequently, a liquidity crisis arose for the banks. To lessen the financial stress and to maintain sufficient liquidity in Indian banks, RBI has started taking initiatives to face the present Covid situation. Banks are also focusing on implementing systematic measures to maintain liquidity and to revive profitability to support the economy further. Mathur (2021) Explains that at present the situation of the Indian economy has become poor due to lockdowns and shutdowns to avoid the spread of deadly coronavirus. However, the study suggests that during the post-pandemic also, it will take a significantly long time for the economy and the people to return to normal lives and stable economy. The banking sector is expected to produce a new working model and to take innovative initiatives to help the people and the society achieve secured financial lives and a stable economy.

### **Measures, Taken By RBI to Support the Economy during the Covid Pandemic**

Since March 2020, the apex body of the Indian banking sector, the Reserve Bank of India has announced various strategies to face the impacts of the Covid Pandemic. These measures were taken to provide Special Economic Package and to support the 'Atmanirbhar Bharat Abhiyan' announced by the Prime minister of India, Narendra Modi during the Covid pandemic. Various developmental and regulatory measures were taken by the Reserve Bank of India to address the present economic slowdown and financial stress that arose due to the Covid-19 outbreak are discussed below:

- RBI initiated to reduce the cash reserve ratio of all the banks to 3% of net demand to enhance liquidity.
- The Statutory Liquidity Ratio of all the banks has also been increased from 2% to 3% to allow additional liquidity.
- RBI has allowed all the banks to offer a moratorium of three months initially and later of six months on payment of installments of all types of term loans, outstanding as of March 1, 2020.
- RBI also permitted the banks to allow a postponement of three months on payment of interest outstanding as of March 1, 2020.
- All the lending institutions got allowance by the Reserve Bank of India to ease the working capital financing.
- RBI granted an extension of one year for commencement of commercial operations to the real estate sector.

### **DISCUSSION ON FINDINGS**

As the Covid pandemic is getting prolonged all around the globe, all the countries are experiencing a slowdown in economic activities, financial lives, growth, and development. India is also facing similar issues. The spread of deadly coronavirus has produced poor health issues at an initial phase that slowly got converted into economic issues. At present India is undergoing an economic slowdown and financial stress. To get the better of the situation, the banking sector is believed to support the financial lives of the people, economies and share the pain of economic slowdown with innovative measures. Here, the major take away from the study are discussed below:

- Due to the countrywide lockdowns and restrictions, the economic activities were almost stopped. This further led to a reduction in the income of common people and the revenue of corporates. Consequently, the present banking organizations started experiencing an increase in non-performing assets, and slow growth and profitability.
- However, during this financial slowdown, the banks need to concentrate on remaking the banking customer experience as they are considered to be the financial succor for common people at this hard time.
- So, under the guidance of RBI and the government, the Indian banking sector entered into started providing financial relief to the people.
- The Covid situation caused a change in customer behavior as they started adopting digital platforms of banking. However, they need human touch to take the important financial decisions as they trust human advisors more. So, the banks are trying to offer a perfect blend of digital banking services and trusted human forces to satisfy the customers to the highest extent.
- To lessen the financial stress of common people, banks are also focusing on implementing systematic measures and initiatives taken by RBI.
- Amid these challenges, there is a huge scope of the transformation of banks in the areas like customization, digitalization, innovation, excellent customer experience, etc. and to become resilient and profitable.
- The researchers suggest that in the present pandemic situation the banking sector is at the pivotal of the country's economy as it provides funding to individuals and corporates. So, banks' stability is crucial for the smooth running of the economy.
- In the new normal, the banking sector is expected to produce a new working model and to take innovative initiatives to help the people and the society to achieve secured financial lives and a stable economy.

#### **CONCRETE STEPS TO BE TAKEN BY BANKS IN FUTURE- SUGGESTIONS BASED ON FINDINGS**

It is too early to make such predictions and offer related suggestions. However, there are some very clear trends in the banking sector, based on that the following suggestions are offered:

- The economic slowdown and financial difficulties of people started affecting the banking sector significantly. However, the Indian banking sector experienced a "surprise" during this COVID-19 crisis. The large population got connected with banks to discharge their economic transactions during lockdowns. Customer trust and connectivity with their banking partners got improved during the Covid situation.
- Banks are expected to check the spread of coronavirus immediately by motivating the customers to opt for digital banking to a maximum extent. Banks of developed countries have launched integrated digital coronavirus programs and new online portals to provide a comprehensive knowledge of available banking services, wealth management services, advisory content, and information on how to use digital channels of banking, etc. Banks in India can also do so.
- Banks can take initiative to spread awareness among customers regarding how to use existing digital services. Before the Covid situation, too few customers were availing of digital offerings due to a lack of awareness, trust, and confidence. However, at present time all the customers were forced to get connected with digital banking because of the countrywide lockdowns and fear of the spread of coronavirus. Banks need to frame reskilling programs for the employees to offer the best customer experience on the digital platform as well.
- As an aftermath effect of this pandemic, there is a change in customer behavior. The customers have become more connected with their banking partners to stabilize and secure their financial lives. Consequently, banks get more opportunities to flourish their businesses. Hence, banks should focus on understanding evolving needs of customers. They should try to improve their efficiency and effectiveness. And personalized services delivered through physical as well as digital platforms should become the priority of every bank.

#### **CONCLUSION**

The economy of India has severely been affected due to the Covid-19 pandemic as it encountered a continuous slowdown and the people are suffering from unstable financial lives and stress. Amid this situation, the role of banks has become more evident in the public eyes in recent times. Masses started expecting that banks should step forward as financial succor for them in this difficult time. Customers are seeking financial relief, customized products, assistance regarding digitalization, security, and transparency from their banking partners. Further, the post-pandemic period may show a completely different picture for the Indian banking sector. Customers have learned a lesson from this pandemic to always have a financial cushion to meet the uncertainties and so, there is a change in customer behavior. The customers would like to become more connected with their banking partners to stabilize and secure their financial lives. The banks should focus more on understanding the evolving needs of customers. And personalized services delivered through physical as well as digital platforms should become the priority of every bank. Consequently, banks may get more opportunities to flourish their businesses.

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