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INTERNATIONAL JOURNAL FOR LEGAL RESEARCH & ANALYSIS ISSN 2582-6433 is an Online Journal is Quarterly, Peer Review, Academic Journal, Published online, that seeks to provide an interactive platform for the publication of Short Articles, Long Articles, Book Review, Case Comments, Research Papers, Essay in the field of Law & Multidisciplinary issue. Our aim is to upgrade the level of interaction and discourse about contemporary issues of law. We are eager to become a highly cited academic publication, through quality contributions from students, academics, professionals from the industry, the bar and the bench. INTERNATIONAL JOURNAL FOR LEGAL RESEARCH & ANALYSIS ISSN 2582-6433 welcomes contributions from all legal branches, as long as the work is original, unpublished and is in consonance with the submission guidelines.
As the world is fighting a weaponless war on all fronts against the outbreak of the deadly Corona Virus, India too has been affected in a huge scale by the pandemic. In a dire attempt to control the spread of the deadly virus from spreading, the Government of India had announced a nationwide lockdown back in the month of March, 2020. The pandemic created a huge impact on life and the business of the world’s largest democracy. One of the sectors that was distinctly affected was the banking sector. The banking system being the backbone of the country, it was indeed a herculean task for the them to prevent any failures or slowdown. From maintaining cash and liquidity to re adjusting operations, the banking sector had to navigate complex government support measures in order to safely weather the current crisis. The situation has hit the Indian economy at a time when the growth has slowed to the lowest in the decade. In the past there were signs of tiny shoots of betterment and recovery in the Indian economy, however it all came to a sudden standstill and a gradual fall in the recovery process. The apex bank of the country after joining hands with the central government have already swung into action with targeted intervention to try bringing normalcy as soon as possible.

This paper will talk about the impact caused to the banking sector due to the virus outbreak and the implications taken by the Reserve Bank of India to minimize the impact to its maximum extent.

**INTRODUCTION**

Covid-19 is undoubtedly one of the biggest global events of our lifetimes, presenting various unprecedented challenges to industries, governments and people all over the world. The ongoing pandemic remains a health and humanitarian crisis, and the business and the economic impact has been deep and far reaching. The pandemic emerged as the black swan event which will be requiring extraordinary measures from the government to help resume

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economic stability. The situation has hit the country at a time when the growth had slowed to the lowest in a decade. In the recent past, there were signs of growth in the Indian economy, however the outbreak shattered the the recovery process. The government along with the regulators have responded by providing an economic package with many measures to shore up liquidity and provide fortitude on several financial and compliance commitments. Financial Institutions have taken responsive measures to the pandemic and aimed to reduce downsize operations. Former ICICI Bank chief, Mr K.V Kamath, in one of his statements\(^2\) mentioned that the banks of the country may be more risk-averse to restructuring loans after having already suffered huge losses in previous restructuring efforts.

**ASSESSING THE IMPACT**\(^3\)

The ongoing pandemic has impacted the financial services in multiple ways be it business continuity issues or operational considerations. It has shook the overall financial outlook. As the financial institutions are mobilizing and taking steps to minimize the impacts, they are likely to face both short and long term implications on both profitabilities as well as balance sheet items. Amid the highly uncertain circumstances due to the said pandemic, financial institutions need to stress their portfolios to better understand the impact. Identifying the sectors that are most at risk and re-evaluating the loan loss provisions under the different economic scenarios will be very essential. A continued spread of the pandemic and its aftermath will slow down business hence the financial institutions must be ready to take additional measures to ensure business continuity and must prepare its ground to tackle the problems that will arise henceforth post lockdown. While the long term implications of the pandemic for India is unknown but when normalcy returns, the Banks as well as the NBFC’s would have surely learnt a few lessons as well. Them including retaining operational resilience when dealing with future pandemics and also redesigning new operating models at the earliest to control the damage when caused. The financial institutions must make a blueprint for multiple scenarios till the operations are normalized keeping in mind the benefit of both their customers and their employees and along with that need to evaluate, test and implement business continuity and contingency plans alongside building business innovations.

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\(^3\) Article by Monish Shah, Partner, Deloitte, featured in The Economic Times dated May 01, 2020
AREAS IMPACTED MOST BY COVID-19

➢ **PROFITABILITY AND CREDIT MANAGEMENT:**
The low interest rate along with the impact of the virus spread is reducing the core banking profitability in mature markets. Hence, the financial institutions are shifting towards commission based income. Major effect of the health emergency on the real global economy is the increased credit risk of corporate and retail clients of the banks. The primary aspects that are needed to be considered in order to continue financing the economy and support the recovery are:

◆ Proper Information Update: New information must be incorporated into risk parameters after being analyzed critically and carefully.

◆ Update of the Default rates: Any waivers granted by the authorities in relation to only temporary phenomena of expiry of credit.

◆ Update of Recovery Rates: In order to be able to factor in the positive effects deriving from the credit recovery policies which could further introduce forms of deferred payments on longer maturities.

➢ **CUSTOMER RELATIONSHIP AND COMMERCIAL MODELS:**
The pandemic has lead to a crisis in the economy and has further lead to a positive discontinuity in the bank-customer relationship. Banks have been forced to encourage the use of channels that have never been their strategic priority thus leading to a complex phase which the banks have to address by demonstrating real proximity with their customers.

➢ **SHUNNING CREDIT TO SMALL AND MEDIUM BUSINESSES:**
The Indian banking sector shunned lending to small and medium sized business and also keeping a safe distance from riskier personal loans. The total non-food credit rose by 6.8% in the month of May compared to the 11.4% of last year as stated by the Reserve Bank of India. The credit growth to industry wasn’t spared either and fell to 1.7% as compared to 6.4% of the preceding year. Credit to the micro and small enterprises contracted to 3.4% while the lending to the medium sized enterprises fell to 5.3%.

➢ **CREDIT FLOW ACROSS INDUSTRIES(PERIOD BETWEEN THE MONTH OF MARCH TO MAY):**

The bank credit across different sectors turned negative between the months of March to May. Credit to all industries fell to 1.5% between the mentioned months.  

- Credit to engineering firms fell to 1.3% when compared to the drop of 2.1% last year.
- Credit for construction firms fell 3.7% against a fall of 2.1% in the same period as that of last year.
- Disbursement to food processing companies fell 3.1% versus a steeper fall of 3.4% as of last year.
- Outstanding loans to chemical manufacturers fell by 10.2% as compared to a near fall of 8.1% as that of last year.
- Loans given out to tea producers fell by a huge margin of 18% compared to an increase of 1.1% last year.
- The Telecom firms suffered a hit of 4% contraction in incremental bank credit where they had seen an increase of 7.15% last year.
- Jute and textile manufacturers were not spared either and saw a fall of 7.5% of Bank credit compared to an increase of 1.5% in the preceding year.

Suresh Ganapathy, Associate Director at Macquarie Capital Securities in one of his articles had mentioned that the growth had slowed further across all major categories of retail loans and further added that the lending market is indeed facing a number of issues.

### RISE OF NPA’S ON COVID-19 IMPACT

The Reserve Bank of India expressed its distress on the increase of gross non-performing asset (NPA) of all commercial banks and confirmed the likely increase of ratio from 8.5% in March 2020 to 12.5% by March 2021. The report further stated that if the macroeconomic environment degrades further, the NPA ratio might escalate to 14.7% under the very stressed scenario. In the current environment, the need for financial intermediaries to improve their resilience has been the top priority. Among the bank groups, GNPA ratio of public sector banks might increase from 11.3% in March 2020 to 15.2% by March, 2021 under the baseline scenario. The quality of bank loans to services sector had worsened already by April, 2020. The GNPA ratio of the retail loan sector had edged up too. NPA ratios in respect to

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construction or jewellery sectors had swelled up while on the other hand the infrastructure an
the electricity sector showed a decline. Mr.Shaktikanta Das, Governor of RBI in one of his
statements mentioned that the government finances are likely to suffer deterioration in the
financial year of 2020-2021, with fiscal revenues badly hit by Covid-19 related disruptions.
Bank credit which had already been weakened during the first half of 2019-2020, slipped
down even more in the subsequent period. It was further stated that the capital to
risk-weighted assets ratio of the commercial banks edged down to a shocking 14.8% in
March,2020, while the GNPA ratio declined to 8.5% whereas the provision coverage ratio
PCR improved to 65.4% over the said period. The Apex bank of the country acknowledged
that the six month loan moratorium extended by banks could distort the NPA picture and
explained further that impact of moratorium is still uncertain and evolving, the nature of how
the same will be used to run down on the quality of banking assets is difficult to determine
accurately.

**STEPS TAKEN BY BANKS TO ADDRESS THE IMPACT CAUSED**
Most banks have already addressed the immediate challenges of Covid-19 be it protecting
their own staff or providing much needed valuable services to their customers. They have
made sure to create such a platform where they can help mitigate this ongoing crisis and he
four major areas where the focus has been targeted in order to swim through the current
situation are:

- **CUSTOMER SERVICE AND ADVICE:** As a result of following the norm of social
distancing, numbers of customers using online banking channels have increased by a
huge extent. The banks have worked their way to be accessible to all consumers be it the
elderly or those having less idea regarding digital banking. Banks have made sure that
this positive increase in digital customer engagement must go hand in hand and is
backed by cyber security and fraud protection tools.

- **CREDIT MANAGEMENT:** Even with the Central government’s packages and Reserve
Bank’s liquidity measures, banks still expect an increase in loan defaults as borrowers
across customer groups are still struggling to make payments in an economic crisis which

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has resulted from lost jobs and business. The moratorium facility that was announced by the Apex bank\(^8\) of the country for all term loans, lenders are considering proactive restructuring loans to reduce the cashflow burden in the upcoming term thus reducing defaults in the immediate future. The entire industry is working together to make the financial relief process quick and easy to deploy. Banks are also initiating credit forbearance and modification programs to understand the customer need. As the customer demand picks up gradually post lockdown, banks will keep in mind the changing consumer behaviour post Covid-19 and will also focus on better risk discovery.

- **REVENUE COMPRESSION:** Revenue from retail and commercial banking is falling sharply as consumption and transactions have seen a rapid dip. The central banks around the world have slashed interest rates and banks are reducing yields to generate business, thus reducing net interest margins. Incomes from payments and other fee based services have been hit by a general decline in economy activity. With measures like moratorium periods provided on loans, bank’s cash-flow have also taken a hit. There is little that banks can do to stop the overall drop in revenue but they have turned their entire focus on making payments safer by increasing limits on contact less payment channels and digital wallets.

- **OPERATING MODEL ADJUSTMENTS, COST ELASTICITY AND INNOVATION:** Over the next few quarters, the banking sector will face a misalignment between short term costs and revenues due to the economic impact of Covid-19. Banks have already started reviewing and prioritizing current projects to ensure allocation of resources to the most pressing needs. Banks have also focused on investing in areas that will outlive the current pandemic, including projects and initiatives that maintain or improve the customer experience.

**MEASURES AND RELIEFS BY THE RESERVE BANK OF INDIA**

The battle with this deadly virus is not only to save the country and its people but also to ensure that the banking channels are working round the clock to cater to the needs of the public and the financial market as well. Hence, in order to ease out the unforeseen difficulties faced by numerous sectors, the Central Bank of India, The RBI came up with a number of

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\(^8\) RBI/2019-20/244,DOR.No.BP.BC.71/21.04.048/2019-20
measures and reliefs post the nationwide lockdown. In the early days of March this year, before the announcement of lockdown, the pandemic had already started to show its impact on all the business establishments. In order to prepare the banks for all kinds of unforeseen events, RBI came out on the March 16th 2020 came out with a notification with ‘Operational And Business Continuity Measures’ which involves the following steps:

- Taking stock of critical processes and revisiting the Business Continuity Plan (BCP) in the emerging situations with the sole aim of continuity in critical interfaces and preventing disruption of any services
- Taking steps of sharing important instructions with their staff members at all levels for better response and at the same time encouraging their customers to use digital banking facilities.

Post lockdown, in order to ensure normal business functioning, maximum relaxations were introduced by the Reserve Bank of India on March and May 2020 vide different notifications. The first address by the RBI governor on the 27th of March, 2020 introduced several measures including grant of a three months moratorium on term loans. The RBI Governor’s address on the 17th of April, 2020 was intended to introduce further measures to maintain adequate liquidity in the financial system by easing out the financial stress. The third address extended deadlines, made changes in some previously announced measures and introduced new measures including limit on Group Exposures under the Large Exposures Framework and relaxation of guidelines for Consolidated Sinking Fund of State Governments. The relaxations have been categorized in the following sets of measures:

- **LIQUIDITY MANAGEMENT MEASURES:** As banks are often evaluated on their liquidity and collateral obligations without incurring losses, these measures had been introduced to ensure that adequate liquidity is available to all constituents.
- Targeted Long-Term Repos Operations: In order to mitigate the adverse effects of various effects of various instruments like corporate bonds, commercial paper and

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debentures on economic activity leading to cash flows, it was decided that the Reserve Bank of India will be conducting auctions on targeted term repos up to a tenure of three years for an amount of Rs 1,00,000 Crore. The TLTRO announcement from RBI dated 17th April, 2020 aimed at injecting a said sum of around Rs 50,000 Crore of additional liquidity into the banking system.

◆ Cash Reserve Ratio: Considering the circumstances, the Apex Bank of India through its press release dated 27th March, 2020 has cut the CRR by 100 basic points to 3.0 percent for a period of one year ending on the 26th of March, 2021 thus unlocking Rs. 1.37 Crore primary liquidity in the banking system. In addition to this, reduction in daily CRR maintenance requirement to 80 percent from 90 percent was made till the 26th of June, 2020 which did provide some relief for bank’s reporting requirements.

◆ Widening of the Monetary Policy Rate Corridor:

● Policy Repo Rate and Reverse Repo Rate: The consumption has reduced to a huge extent because of the lockdown further resulting in excess liquidity in the banking system. In order to overcome the said problem, the Reserve Bank of India decided to widen the existing policy rate corridor from 50 bps to 65 bps. Accordingly, the reverse repo rate was reduced from 90 bps from 4.90 % to 4.00 % which stood effective from the 22nd of May, 2020. Reserve Bank of India further reduced the interest rate on fixed rate reverse repo from 4.00 % and had it down to 3.75 %.

● Marginal Standing Facility and Bank Rate: The Reserve Bank of India through notification dated 22nd of May, 2020 reduced the Bank rate from 4.65% to that of 4.25% with the sole purpose of helping the banks make more money available to meet the needs of their consumers.

◆ Opening of Special liquidity facility for mutual funds: This said window was opened for an amount of Rs. 50,000 Crore vide notification dated 27th April, 2020 by Reserve Bank of India to lend money to banks at the repo rate for 90 days. The fund that the banks borrowed was confined only to meet the liquidity needs of mutual funds. This step was taken as there was a fear in the market that the mutual fund houses might face liquidity
shortages shortly after Franklin Templeton Mutual Fund has six of its open-ended debt funds shut\textsuperscript{13}.

- **FINANCIAL MARKET MEASURES**: These measures are strictly developmental in nature with an intention to improve the depth and price discovery in the foreign exchange market segments. This measure assumes great importance in the context of the increased fluctuation of the rupee caused by the impact of the pandemic on currency markets. Back in January, a task force on offshore rupee markets had proposed that the Indian banks should not be permitted to deal in offshore rupee market considering the risk that the participation of the Indian banks may improve liquidity in the offshore market.

- **REGULATORY MEASURES**: The said measures were introduced in order to mitigate the burden of debt servicing brought by disruptions due to the pandemic and to ensure the continuity of the business.

  ◆ Rescheduling of Payments- Term Loans and Working Capital Facilities: The Apex Bank of India through its notification dated the 27\textsuperscript{th} of March, 2020 unveiled a measure by permitting all commercial, cooperative AIFI’s and NBFC’s to grant a moratorium of three months on all term loans along with working capital facilities on payment of all instalment outstanding as that of on March 1, 2020. Due to the extension of the lockdown, RBI extended the moratorium loan installments by another three months to August 31\textsuperscript{st} vide its notification dated 23\textsuperscript{rd} March, 2020.

  ◆ Easing of Working Capital Financing: The Reserve Bank of India through its notification dated the 23\textsuperscript{rd} of May, 2020 extended the deferment period for recovery of interest by another three months. The lending institutions were also permitted to convert the accumulated interest on working capital facilities over the deferment period into a funded interest term loan.

  ◆ Asset Clarification and loans to commercial real estate projects by NBFC’s: The Reserve Bank of India vide its notification dated the 17\textsuperscript{th} of April,2020 instructed the Non Banking Financial Companies to comply with the Indian Accounting Standards and serving the purpose of impairment recognition. Through another notification dated 17\textsuperscript{th}

of April, 2020 Reserve Bank of India had decided that the loans by NBFCs to delayed commercial real estate projects can be extended by a year without restructuring as it will improve the developer’s cash flows for execution and completion of the project and improve their future sales.

◆ Extension of the Resolution Timeline\(^\text{14}\). Due to major challenges faced in the resolution of stressed assets in this volatile environment, the Apex Bank of the country through one of its notification extended the period of the resolution plan by ninety days. According to the said notification, lending institutions were permitted to exclude the entire moratorium period from the 1\(^{st}\) of March, 2020 to 31\(^{st}\) of August, 2020 from the calculation of a thirty day review period or one eighty day Resolution Period, only if the said Review period had not expired on March 1\(^{st}\), 2020.

◆ Liquidity Coverage Ratio: In order to accommodate the heavy burden on banks cash flows on account of the pandemic, banks were allowed to maintain the ratio as

<table>
<thead>
<tr>
<th>Period</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>From date of circular to September 30, 2020</td>
<td>80%</td>
</tr>
<tr>
<td>October 1, 2020 to March 31, 2020</td>
<td>90%</td>
</tr>
<tr>
<td>April 1, 2020 onwards</td>
<td>100%</td>
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➢ MEASURES TO SUPPORT EXPORTS AND IMPORTS: Due to the uncertainty that the pandemic brought along with it, the exporters had a hard time and faced major difficulties like delay of orders, realisation of bills among various others. The Reserve Bank of India had to step in in order to save them from further losses and vide its notification dated April 1, 2020 extended the time period from nine months to fifteen months for realization and repatriation of exports proceeds for exports with a hope that this measure will help the exporters by providing greater flexibility to negotiate future export contracts with buyers present outside the country. In another move by the Apex Bank, it decided to extend the line of credit of Rs. 15,000 Crore to Exim Bank for a period of ninety days in order to enable them to meet its foreign currency resource requirements. The said step is expected to give the import-export sector more time and liquidity to tackle the obstructions they are facing.

DEBT MANAGEMENT MEASURES: This measure was taken with an intention to ease the debt management constraints on the State Government finances by enabling the states to meet a larger proportion of their redemption of market borrowings falling low in the current financial year from the Consolidated Sinking Fund. The Reserve bank of India eased the rules governing the withdrawal from the CSF which will be valid till the 31st of March, 2021 thus resulting in the release of Rs13,300 crore to all the states.

CONCLUSION:
This ongoing pandemic will have a long lasting impact on many industries including the banking industry. Post crisis, digital maturity and Covid-19 resiliency will determine the strategy of the banking industry. Though the measures adopted by Reserve Bank of India or the consumer serving banks of the country are temporary, yet they have been effective to stabilize the volatile situation in the financial market. As the virus continues to spread, both borrowers and lenders should keep a watchful eye on the compliance requirements and take appropriate steps to fulfill such obligations within the time period. Furthermore, the domestic economy is expected to shrink to a great extent until the vaccine for the virus is developed. In response to this the Central Bank of the Country is still working on bringing more additional measures to contain the economic stress and try preventing the fall of the banking sector of this country.