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## Need and scope for revival of Indian banking and insurance sector in post covid-19 period: A conceptual study

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**Abstract:** Covid-19 widely known as (Corona Virus) had its fair share in disrupting the overall economic activities across the globe and so is in India. Banking and insurance sector largely regulate economic activities. In India, most of the economic activities are backed by the diversified small, medium, and big monetary institutions. As the economic witnessed standstill during lockdown, corporate and retail clients had posed credit risk for banks. Information technology and digitalized payment options supported in smooth transition and aided business continuity. Insurance as a commodity has gained prominence during and aftermath of the pandemic. Prior to the healthcare crisis, only 10 percent of people in India bought health insurance, now 71 percent and above people consider health insurance is necessary weapon to fight against the unforeseen pandemics like Covid-19. At this stage, it is important to understand the impact of such emergencies on banking and insurance sector to enable appropriate revival strategies to assure required economic support for business and country at large. This conceptual paper attempts to review and analyze the need for and revival strategies adopted in the banking and insurance sector. Framework for the study is built based on online and off-line literature review and the corporate white papers published. Further this study proposes strategies to fill the gap between economic need and operational functioning of the sectors. The scope of this paper would be to throw some light on the challenges faced by banking in the form of credit risk, NPA's and Insurance sector in India and the measures for sustainable future.

**Keywords:** Covid-19, Indian Economy, Banking, Insurance, Revival Strategies.

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### INTRODUCTION

India along with other countries across the globe witnessed the severity of pandemic (Covid-19) which caused an imbalance in the routine functioning of all sectors of our economy. Measures taken at initial stages to control the widespread of virus by the Indian Government by imposing complete lockdown except for the essential services had a dark shadow on economy resulting in financial crisis for small time vendors, business establishments and organizations. This was/is a challenge for any developed or developing countries, a healthcare crisis with such magnitude was never witnessed in the recent past. Economies across the globe witnessed steep contractions from the second quarter of 2020 while Indian GDP was at 23.9 percent, an all-time low figure as stated by RBI "historic technical recession" (Mukhopadhyay, 2021).

Banks had tremendous pressure in delivering financial services and ensure there is no fund crunch across the country. It was a challenging task for banks to ensure flow of money in economy to ensure day to day requirements of people (Limbare, Nitesh, 2014). There was need for innovative thinking, technology enabled services (Ashish and Devang, 2020) to reach people at their door-steps/finger tips. On the other hand, slower economic activities were mounting 'Non-Performing Assets'. There were operational and service delivery issues due to lockdown regulation. To address all these problems several initiatives have been floated. An execution of plans discovered several challenges. Revival of banking strategies are the only way out to the present crises.

As the healthcare crisis posed threat for survival of the individuals, Health insurance gained popularity. Insurance service providers have played a pivotal role in displaying their purpose driven, resilient and adaptable approach during the health care crisis in the country. Sudden awareness and compulsion of health insurance floated greater business opportunities. Mapping these opportunities with possible risk/claim liability defiantly was matter to be seriously calculated for sustainability.

### RESEARCH OBJECTIVE

The ideology behind this research is to highlight the challenges faced by the commercial banks and the Insurance sector due to the pandemic. The scope and need of measures taken by these sectors in stabilizing the overall processes and transition involved in overcoming the unforeseen hurdles. The following are the primary objectives of the research paper

1. To understand the financial impact of Covid-19 on the Indian banking and insurance sector.
2. The revival strategies for overcoming these challenges for smooth functioning of economic activities.

### **RESEARCH METHODOLOGY**

As stated in the abstract, this study is purely based on the abundance of literature available online and offline. Literature survey conducted to take stock of covid-19 impact globally and at domestic level. Government Lockdown period/s have been studied in relevance with the economic activities from mid of March 2020 till the date. Conceptual framework for studies is built based on Online and off-line literature review and the corporate white papers published.

This study attempts to cover two important sector of economy; Banking and insurance. Impact of Covid-19 has been separately studies for these two sectors, as nature of their challenges differ. Further this study proposes revival strategies to fill the gap between economic need and operational functioning of the banking and insurance sector.

### **LITERATURE REVIEW**

Banking and financial services have played a crucial role in helping the public, major institutions, corporate establishment etc. by providing all the assistance required in this challenging period. Cash flow in the economy was not affected much during this phase as the bank employees across the country volunteered in serving the nation. Liquidity status of small private banks compelled them to reduce lending, on account of which small companies and vendors relying on banks for reviving their business might face weak finances and poor liquidity. And in this situation the companies may default on loans. (Singh; Bodla, 2020)

Impact of Covid-19 has portrayed an unfavorable environment for the banking sector. The unprecedented economic crisis is posing threat with increase in non-performing assets (NPA's). The loan recovery process of commercial banks would require a complete restructure in tracing out the defaulters. A close monitoring system for provision of credit is necessary in bailing out the troubled borrowers, and to accelerate the revival of the economy. (Rao, 2020)

Although the country has managed to stabilize cash inflows in the short run due to covid-19, banks in India will have to resist trillions in credit and revenue losses for the fiscal year and many more years. An outcome of a research indicates that challenges for the banks could be in two phases. In the first phase the banks would face severe credit losses throughout the current fiscal year 2021. The other phase would start amid a muted global recovery, banks would face a profound challenge with ongoing operations that may persist beyond 2024. (Lal, McKinsey & Co. 2021)

### **RESEARCH FINDINGS**

#### **Performance of banking sector post covid-19**

The RBI has directed banks on certain waivers of principal and the interest applicable to borrowers and have further provided relaxation by classifying them as non-performing asset or restructured asset. (EY, 2020) This has been undertaken to provide financial assistance and relief in helping borrowers to overcome the challenges. Banks will have to prioritize, track, and monitor such borrowers facing temporary and long-term financial difficulties. Due to the ongoing effect of pandemic, banks will certainly face challenges in estimating the collaterals and considering them for such provisions. It would be crucial for banks to follow up with each borrower on their ability to repay to maintain a robust risk management function and recovery practices.

#### **1. NPA's**

The Reserve Bank of India has conducted the rescue operations for banks and well as borrowers by offering the option of halting loan repayment for a period of six months i.e. (March-August). It has lowered the repo rate as much as possible and has provided special credit to meet the requirements of lending operations. The moratorium on loans have helped the banks from rise in band loans. In the latest report issued by RBI states that "data on gross non-performing assets (GNPA) of banks are yet to reflect the stress" which mean the amount advanced as loans for certain borrowers who are unable to repay but are also protected by the moratorium need to be considered ad bad loans. Supreme court of India has also ordered the banks temporarily not to declare the defaulters as non-performing assets (NPAs)(Mulye, 2021)

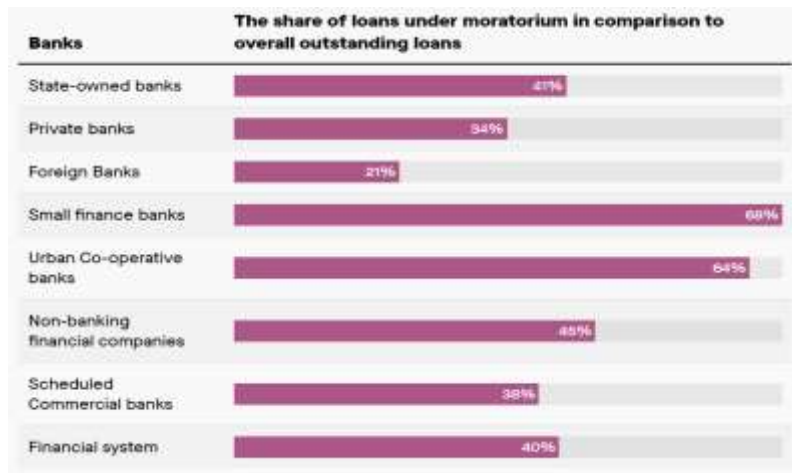


Fig.1:

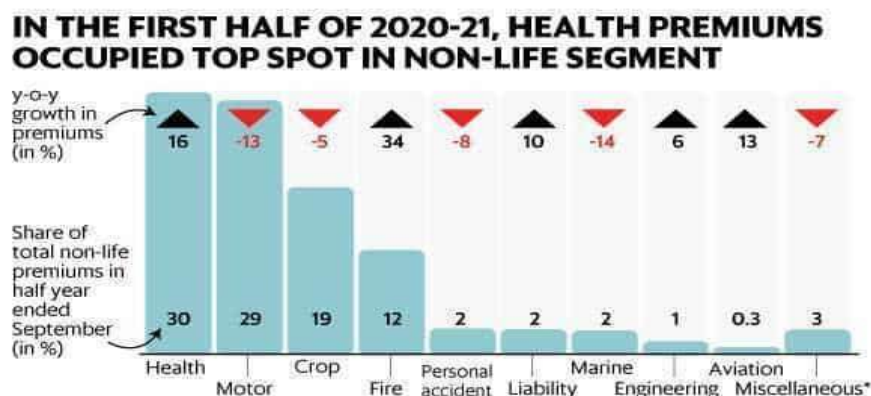
Source: <https://qz.com/india/1952347/indian-banks-face-bad-loans-and-credit-growth-issues-in-2021/>  
 Short-term disruption leads to accessibility concerns and scaling down of SME/Corporate customers (retrieved from

1. Significant reduction in demand from SMEs/corporate- lack of economic activity result into lowering of demand from SMEs and Corporate (Deloitte, 2020)
2. Structural shift into customer behavior- social distance and restrictions and fear for getting infected has changed resulted into structural change in the customer behavior (Deloitte, 2020). The disruption challenges will necessitate emphasis on deeper customer relationship (Shah, 2020). Most importantly investment in technology to meet future challenges to suite and adopt the mind-set of customer. The focus of business will be on customer retention.
3. Transformation of employee roles and overall operating model. Restriction of mobility and ways of working of employees, and sudden shift in the demand for contactless banking and remote operability changed the mode and way banks were operating.

**Revival strategies for banking sector**

1. Need for balanced portfolio structuring is required. Each of the defined scenario needs evaluation in terms of its impact and better strategies to handle them. Identifying viable sectors/regions/and clients in terms of risk and re-valuating loan loss provision is essential (Shah, 2020).
2. Banks must take additional measures to ensure business continuity to remain connected with changing needs of customers (Shah, 2020). It need to design a flexible plan to incorporate changing requirement of customers anticipated future changing needs.
3. There is need for banking sector to develop and design short-term, medium, and long term operational, financial, and risk and regulatory compliances implications resulting due to uncertainty caused by pandemic (Shah, 2020). There is need for re-analysis of their business model and plan of actions.
4. Sensitive measures to ensure customer and employee relief will eventually help the banks to grow and sustain (Shah, 2020)

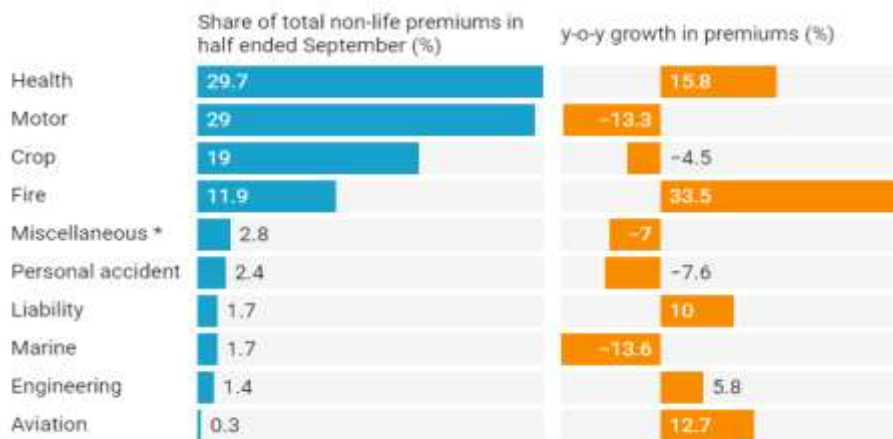
**Performance of Insurance sector post covid-19**



**Fig.2:**

**Source:** <https://www.livemint.com/insurance/news/the-covid-19-boost-to-health-insurance-in-four-charts-11605597369780.html>

The rising medical costs for treatments in private medical centers and the prolonged phase of the healthcare crisis has made health insurance the most sought-after product among the working class in the country. Health insurance as a product became the most valuable segment in terms of premiums collected overtaking the motor insurance.



**Fig.3:**

**Source:** Source: General Insurance Council

Health insurance gained the top position as the vehicle sales halted during the lockdown and affecting the insurance premiums on a year-on-year basis dropping at 13.3%. The Corona Kavach Policy has been mandated by the Insurance Regulatory and Development Authority of India (IRDAI) which covers hospitalization expenses if the insured is diagnosed with COVID-19. Motor insurance segment is still trying hard to meet the pre pandemic positions. In the past, the prominence of health insurance premiums was driven by 'group policies' or MNC's and other major organizations that would cover their employees. In the post pandemic environment, individuals buying policies had a noticeable increase where the premium paid on individual policies increased by 34% in the second and third quarter of 2020.

### Revival strategies for Insurance sector

1. Disruptive technologies like Artificial intelligence (AI) and machine learning (ML) can be implemented for improving the value chain. Since long, the industry was slow in adapting to a digital services environment. COVID-19 accelerated this transition, and companies are forced to think of digitizing their entire value chains.
2. The gaining popularity and awareness of the insurance as a commodity has provided wide scope for product innovation. Insurance has long functioned as a legacy industry with limited innovation. With changing times and preferences, offering innovative schemes such as differentiated policies and greater customer data tracking, incumbents need to quickly adopt and mainstream innovative products. (Arthur D Little, 2020)
3. Insurance service providers can tie up with other companies i.e. hospitals for online consultations, pharmacy discounts, and telehealth services, among others to offer complementary and value-added services that differentiate them from other companies.
4. Reskilling of staff can boost the morale of insurance agents and other insurance industry staff have long worked on a face-to-face physical model, where they interact with potential customers before closing deals. Training on how to navigate and close sales in a 100% digital environment, without any in-person customer interactions can be beneficial. (Arthur D Little, 2020)

### Scope and challenges for revival

The gross non-performing asset (GNPA) ratio of banks may further increase from 7.5 per cent in September 2020 to 13.5 per cent in September 2021 as a reference point, but if there is instability in macroeconomic environment, the ratio may rise up to 14.8 per cent as per RBI in its Financial Stability Report.

The RBI can further extend its support to banks in protecting them from bad loans by providing an opportunity to reevaluate the borrowers credit worthiness once the moratorium period gets over.

Banks can focus on improving and building a robust online banking and e-wallet payment services that would further help its customers to relay on safety of their transactions. The charges on such transactions can be lowered to encourage and gain wider popularity among users.

The insurance service providers can extend the period in case of non-payment of premiums or delay in the renewal of the policies.

The BFSI sector would require to have keen monitoring process to identify and disclose material events such as bankruptcies of the borrowers or the impact on lending operations due to liquidity or business issues in particular sectors such as real-estate, Small and Micro Enterprises (SME), etc.

The current crisis would impact the capital markets and various business establishments, banks and financial service providers will encounter with clients who are currently facing financial constraints that would further affect their credit rating and repayment of loans. Such loans would be classified as non-performing assets case of covenants breach.

## CONCLUSION

Covid-19 has certainly disrupted the banking and Insurance sector in India. After a great setback, Institutions which use the downturn to sharpen their business models are likely to gain more from the time to bounce back with enthusiasm for stabilizing the Institutions by taking sensitive measures to ensure customer and employee reliefs. The path ahead will be tough but by adopting a vigilant and viable short, medium, and long-term action plan, financial services and insurance players will emerge from this crisis as stronger, confident, and socially responsible institutions.

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