

Research Article

Banking Sector in India vis-à-vis COVID-19

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Abstract: The world is facing an emergency in the shape of pandemic, which started in December 2019. The role of the various service-providers in all countries became more significant when lockdown was announced in almost all parts of the world. The banking sector remained opened during the communicable pandemic. The modern banking which is often under scrutiny for its technical limitations and risks is proving useful for the people. It has allowed cashless transactions during the last two months of lockdown in India. SBI (Yono), M banking and i-banking etc. along with UPI based money transfers made the transactions comfortable and allowed people to do online shopping and other activities without physical contact with ATMs, card swiping machines. A comprehensive legislation or legislative amendments in wide number of statutes as well as Allied Rules suitable to technology - driven modern banking is necessary. The amendments are required to be in tune with the susceptible means used for the modern banking. An integrated approach has to be strictly followed making the use of banking more risk-free and user-friendly at the same time. The responsibility rests both with the users and the service-providers (banks) to ensure a guarded experience in the banking services.

Keywords: Banks, customers, Covid-19, employees, India.

INTRODUCTION

The world is facing a public health emergency, which started in December 2019. The Government of India, the World Health Organisation and various health experts strongly advised the people to stay at their homes as far as possible. So, following this advisory, the people of India from the middle and the upper economic strata confined themselves within their homes. The part played by the various service-providers became more significant when lockdown was announced in almost all parts of the world. The services such as police; water; electricity; banking and so on form the core of the social system. The people engaged in these services continuously rendered the respective services to the people. The banks remained open during the communicable pandemic. Cashless transactions between the months of March-May - lockdown in India can be attributed to the modern banking. S.B.I. (Yono), M banking and i-banking etc. along with Unified Payment Interface based money transfers made the transactions comfortable and allowed people to do online shopping and other activities without physical contact with A.T.M.s, card swiping machines. Now, in the post-lockdown times, Apps like Bhim, Google Pay, Paytm need to be much safer and more protracted to enhance safety. A comprehensive legislation or legislative amendments in an array of statutes and their Allied Rules relating to technology-driven banking is necessary. The amendments are required to be in tune with the susceptible means used for the modern banking. An integrated approach has to be strictly followed making the use of banking more risk-free and user-friendly simultaneously. The responsibility rests with the users and the banks to ensure a guarded experience in the banking services. Can the pandemic pave way to a technologically developed system of full proof banking as this sector remains at the core of the economy?

Against this backdrop, the present research would analyse the change in perceptions of the employees of the banks and customers of the banks. The study is grounded on the premise that Covid-19, fear of infection associated with it, adherence of the advisory of the Governments and the availability of modern means of banking are likely to bring a transformation in the banking behaviour and practices in India. This study contributes to existing literature with

meaningful insights into these concerns. The rest of the paper is organized as follows- the data and methodology of the empirical study. It is followed by the key results and analysis and last part concludes the paper.

HISTORICAL DEVELOPMENT OF BANKING SERVICES IN INDIA

The evolution of modern banking industries in India can be traced back to the Reports of the Rangarajan Committees in 1984 and 1989. Total Bank Automation began with computerization of various branches of the bank. The early 1990s gave an opportunity to the banks to adopt the principle of information sharing enabled by tying up of the branches. Core Banking System has been absorbed mostly by the banks. The importance of extending speedy, efficient, and courteous customer service in banking industry is being regularly emphasized by the Government of India (G.O.I.) and Reserve Bank of India (R.B.I.). The utilization of Information Technology aids banks to lower their cost of operations and make available products and services at competitive rates to their customers. This has allowed the customers to operate their accounts and avail banking services from any branch of the bank on Core Banking System Network. "Anytime-anywhere" banking has replaced the traditional banking. Branch banking is replaced by electronic and mobile banking.

Internet banking and mobile banking are two new facets of technology driven banking. Internet banking is more than viewing account and transaction details. It is rather an extension of traditional banking where internet is a medium for "receiving instructions from customers and also delivering banking services to them. Similarly, where all these activities are performed vide mobile as the means, it is mobile banking. 'Mobile Banking transaction' means carrying out banking transactions using mobile phones. Interactive Voice Response System or Assistance of Tele-banking executives is resorted to. Mobile Banking Transactions in India, Operative Guidelines for Banks were released in October 2008 for the first time. Since then, they have been restructured in the light of the social and technological developments.

Banks have been successful in delivering, managing and integrating new products in harmony with customers' needs. The various platforms offered by technology used by banks have witnessed a substantial evolution over the years. A large part of paper-based transactions is now occupied by the electronic transactions. The banks are not only concerned about immediate benefits to the customers and themselves, rather displayed concern for the environment. Now, banking has become universalized, with range of products designed for each class of customers.

LEGAL FRAMEWORK VIS-À-VIS TECHNOLOGY-DRIVEN BANKING

To keep pace with the communication channels, even the banking sector has adopted the new channels of service delivery. The earlier channels i.e. physical banking has now been replaced by alternative channels such as mobile-banking and internet banking. Since these channels cannot operate without any regulation, RBI issues circulars and directions for banking institutions to adopt minimum security requirements regarding the technologies adopted [1]. The Banking Regulation Act, 1949 and the Reserve Bank of India Act, 1934 are two specific statutes that empower R.B.I. to exercise power over the banking institutions in India.

RBI Act, 1934

Reserve Bank of India, that acts as the central bank in India has been authorized under various enactments to regulate and supervise banking and financial institutions in India. R.B.I. oversees the public sector banks and the private sector commercial banks as well as specialized financial agencies.

Banking Regulation Act, 1949

RBI may issue various directions as it deems fit for specified objectives [2].

Payments and Settlements System Act, 2007

In addition to the above main legislations, Payments and Settlements System Act, 2007 entrusts R.B.I. with the regulation and supervision of payment systems. Various powers are conferred upon the central bank under the Act.

At present, apart from the direct legislations discussed above, banking sector in India is governed under various Acts like Indian Contract Act, 1857; Limitation Act, 1963; Stamp Act, 1899; Telegraph Act, 1985; Wireless Telegraphy, Act 1933; T.R.A.I. Act, 1997; Consumer Protection Act, 1986 ; Information Technology Act, 2000 etc. There is a need for a comprehensive legislation or legislative amendments in wide number of statutes as well as Allied Rules suitable to technology - driven modern banking is necessary.

¹The directions issued by RBI in the form of Circulars are binding upon the Banking Companies by virtue of the power under Section 35 A(1) of The Banking Regulation Act, 1949. Section 26(5) of Payments and Settlements System Act, 2007 has provision of penalty for failure of the banking companies to fulfil the directions of the R.B.I.

²The Banking Regulation Act, 1949 (Act No. 10 of 1949); § 35 A(1) (India).

NEW INITIATIVES OF BANKS IN INDIA DURING COVID-19

As the nation deals with the occurrence of COVID-19 and authorities plead organisations to implement remote working policies to enable social distancing, Major Indian Banks have executed measures to ensure employee well-being and ensure that customers don't face difficulties.

Some of the Indian private sector banks such as I.C.I.C.I. Bank, AXIS Bank, Kotak Mahindra Bank (K.M.B.) and H.D.F.C. Bank have allowed employees to work remotely. In March 2020, advisories were issued to all Public Sector Banks by The Department of Financial Services.

LITERATURE REVIEW

The study titled *Bank Integration and System Risk: Panacea or Pandemic* suggests that region, banks play an important role in mediating the region's vast savings and capital flows [3]. Rupa Nege Nitsure in the paper *E-banking: Challenges and Opportunities* has discussed the challenges in e-banking for the developing countries with focus on India [4].

The study entitled "COVID-19: Impact on banking in India - Finding the silver lining [5]" mentions that COVID-19 has resulted in significant structural and behavioural alterations in the shape of social distancing, push for economic rejuvenation, and expanding regulatory and government interventions [6]. These modifications have created challenges to financial institutions across key functions [7]. In the coming times, three priority areas would help kick-start the recovery and setup for the future growth. They are changing collections and risk assessment; virtualising key functions and reinforcing digital channels and establishing up a cross-functional team for implementation [8]. The study is elaborate in the light of the changes in the banking sector due to Covid 19. A report released in April 2020 by Liftoff and App Annie shows that world-over, including India the use of the banking and payment apps had speeded during the Corona phase [9].

RESEARCH OBJECTIVES

The paper has the following research objectives: to highlight the emerging trends in the behaviour of the customers of banks before Covid pandemic and post Covid pandemic; to study relationship between the customers and banks amid the lockdown; to suggest how the customer behaviour is likely to change post lockdown.

RESEARCH METHODOLOGY

The study comprises of both empirical and non-empirical research. Total respondents included 1380 across India. The study was conducted through online survey.

Sample Characteristics and Respondent Profiles

The respondents both the employees of the private and public sector banks spread across various cities of the country. Similarly, the customers from different banks were interviewed.

Data Collection Instruments and Procedures

The primary data has been collected through interview schedules, filled digitally by the bank employees of different banks and the customers of different banks. The study is spread across all parts of the country. The researchers have adopted convenience sampling of the respondents.

ANALYSIS AND RESULTS

74% respondents felt a considerable difference in the banking practices during the lockdown. It shows that the use of internet banking and U.P.I. apps changed the traditional pattern of banking in India. As evident from our pilot study that the lockdown announced by the Government in March 2020 brought a significant change in the banking practices in the country. But both the employees of the banks and the customers faced some or the other difficulty.

³Priscilla Yin-Pheng Lim. *Bank Integration and System Risk: Panacea or Pandemic*, 49 J.D.A. 301 at 303 (Fall 2015).

⁴Rupa Nege Nitsure, *E-banking: Challenges and Opportunities*, 38 E.P.W. 5379-5380 at 5377 (27 Dec.2003).

⁵Monitor Deloitte, *COVID-19: Impact on banking in India –Finding the silver lining* (June 2020).

⁶Id. at 3.

⁷Id.

⁸Id.

⁹2020 is the Year of Fintech Apps As Economic Uncertainty Reigns, Says New Report from Liftoff and App Annie, April 2020, <https://www.webwire.com/ViewPressRel.asp?aId=258009>, accessed on Aug.1,2020, 10.55 AM.

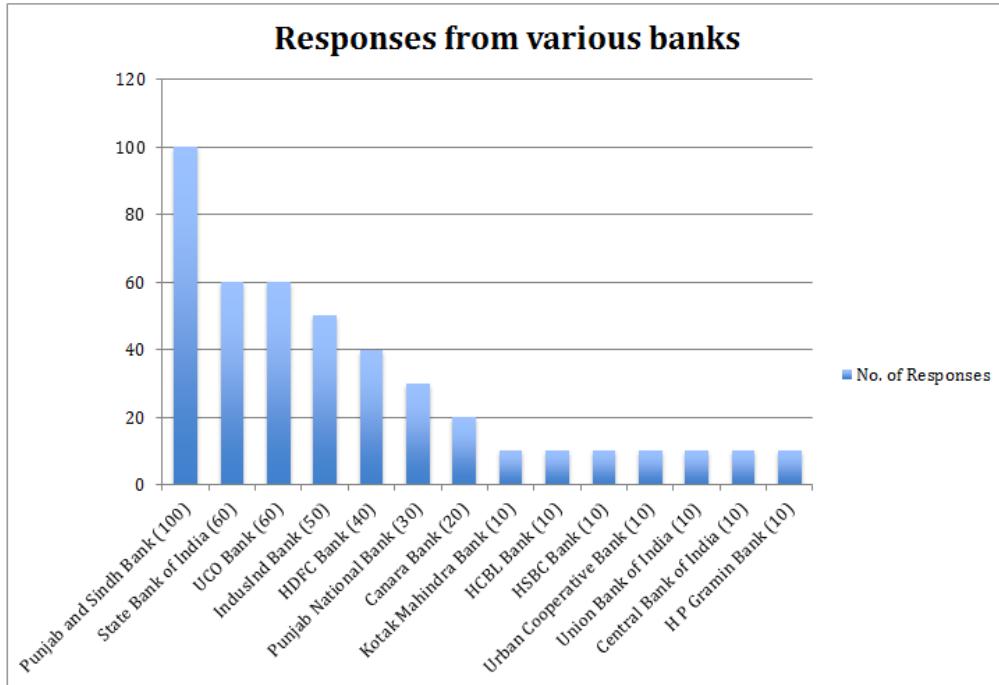


Fig-1: Responses from various banks

Relating to Employees of the Banks

87% respondents employed in different banks across the country answered that the hands of customers were sanitized before entering the branch of the bank. 71% bank employees had observed that most of the customers themselves followed the social distancing norms in the branches. 77.6% respondents amongst the bank employees were scared during the Corona outbreak while dealing with the customers. 49.3% bank employees believed that the cut-off in the banking hours during the lockdown had put an extra burden on them.

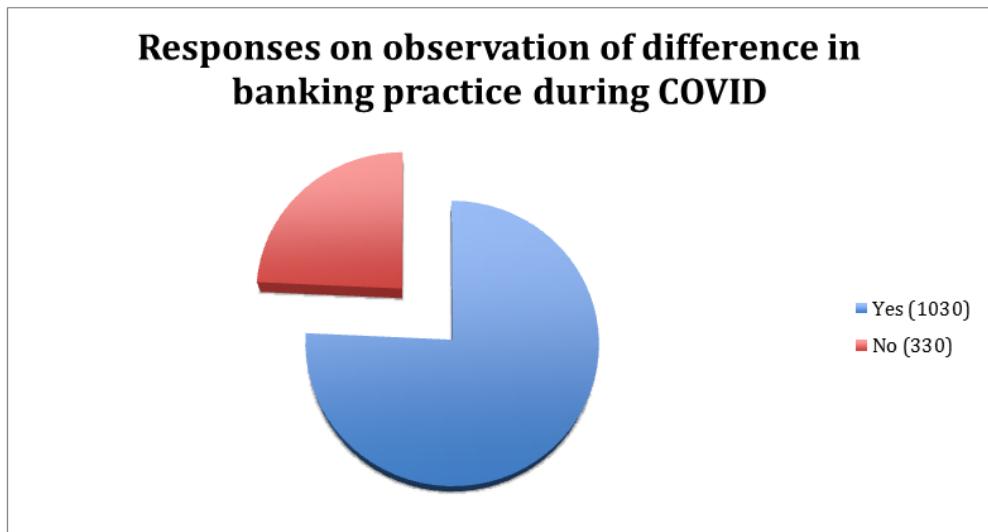


Fig-2: Responses on observation of difference in banking practice during COVID --Have you seen a considerable difference in the banking practices during the lockdown?

Relating to the perceptions of the Customers of Banks –

70.3 customers are of the view that the lockdown has affected their relationship with the branch of the bank. 73.3% customers faced difficulties due to the change in the hours of the banks. 84.5% customers made use of UPI apps as compared to internet banking.

Responses on service satisfaction by customers



Fig-3: Service satisfaction of bank customers -- Whether before lockdown you were satisfied with the services offered to you by your bank branch?

Responses on difficulty in using banking services

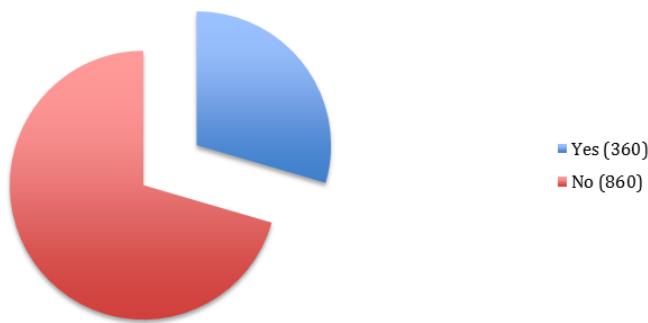


Fig-4: Difficulty in using banking services – Have you experienced any difficulty in accessing facilities provided by banks?

DISCUSSION AND CONCLUSIONS

The study done shows that the Indian banking sector has responded effectively to the demands of Covid-19. Both the banks and their employees in the study have shown adherence to the norms issued by the government. A harmony needs to be created between the social, economic and digital responsibilities of the banks and the customers. The post-Covid times calls for comprehensive policies on the part of various stakeholders to ensure that the people adopt new life-style with ease and safety. The security of the financial transactions has to be looked into to allow the customers to have trust in them. The interests and the rights of the employees of the banks must be protected simultaneously. It is hoped that the revolution attributed to the Information and Communication Technology would go move further.

SUGGESTIONS

- i. The banks should introduce more and more services which are contact free in post Covid times.
- ii. Efforts should be made to provide more safety measures to the employees of the banks. At the same time, the customers of the banks should be made given know-how of new means of banking and how to safely make their use. The awareness and literacy of the bank customers from time to time either in person or through digital platforms must continue.
- iii. The government and the R.B.I. have to take lead in the direction that people use more online banking and U.P.I. apps without much fear of cyber frauds and crimes.
The research gives way to possibility of a study with larger number of respondents for more accurate results and trends.

Due to paucity of time, the number of respondents interviewed is less. To have more accurate results, it is recommended that a large sample size be studied.

Declaration/ Certificate

It is hereby affirmed that the paper titled – “Banking Sector in India vis-à-vis Covid-19” submitted is a piece of original and bonafide research work and has not been published or submitted for publication elsewhere.

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