

# The COVID-19 Pandemic and its Impact on the Banking Industry – A Case of National Bank Ltd.

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## Abstract

The COVID-19 or Novel Coronavirus pandemic has impacted every sector of the economy. The banking sector is no exception, which is facing multitude of challenges. Some of the challenges are generic in nature like contraction of demand for products and services, restriction in mobility, logistics, and even sustainability in the present scenario. Some of these are sector specific, like the banking sector is facing a number of challenges with regard to operations, asset quality, and earnings to name a few. National Bank, which recently successfully handled the merger of Sagar Bank Ltd. in its fold, faced another big challenge in the form of this pandemic. Apart from the generic challenges mentioned above, National Bank is confronted with other challenges like employee morale, liquidity, and vendor management. Management of National Bank realized that it has to formulate specific strategies in order to deal with the circumstances arising on account of this pandemic. The management, being fully aware of the bank's weaknesses and looking into the threats posed by this pandemic, wanted to devise strategies catering to the circumstances. The CMD (Chairman & Managing Director) of National Bank elicited feedback of all CGMs (Chief General Managers) for dealing with the ramifications of this pandemic. The senior management soon realized that it has to act swiftly in order to minimize the impact of this pandemic on the bank.

**Keywords :** COVID-19, banking industry, public sector bank, merger

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The COVID-19 or Novel Coronavirus has become headlines of most of the newspapers, news channels, and other media sources starting January 2020. According to media, it first started from the People's Republic of China, and later on, spread to different parts of the world at a rapid pace. Just like China, none of the countries across the globe were prepared for such a kind of pandemic. Its capacity to transmit from one person to another person through various modes made this more dangerous and uncontrollable.

The Government of India acted fast and took some tough decisions such as banning of international flights and other modes of travel for an indefinite time from affected countries such as China, Greece, Italy, U.K., etc. and introduced compulsory thermal scanning of every passenger from other countries as a precautionary measure. Further, the Government of India still wanted to impose more restriction and that led to the decision of complete lockdown from March 25, 2020. The Honorable Prime Minister announced the same on the evening of March 24, 2020 – a complete lockdown for 21 days. As there is no vaccine or medicine to cure this disease, its ability of

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transmission made this more lethal. After a series of meetings, it was decided that to control the COVID-19 from spreading, the chain of transmission needed to be broken, and that could be possible only through a complete lockdown.

The lockdown announcement came with lots of questions and uncertainties. Later on, these uncertainties were further cleared with detailed instructions issued by the Ministry of Home Affairs, Government of India. The instructions put banking services into essential services, and all the banks across India were asked to continue their operations during this period of lockdown.

Mr. Rama Krishan, Chairman & Managing Director (CMD), National Bank Ltd. received a detailed briefing from the Ministry of Finance regarding various functionalities of lockdown after which he was very cautious to move ahead. He called a meeting with all the CGMs (Chief General Managers) a day after the announcement of lockdown. The National Bank was set up in the year 1975 after the nationalization of private banks in India. Since then, it has been very progressive and has successfully handled various challenges such as liberalization, privatization, and globalization in 1990s, 2008 sub-prime crises, rising non-performing assets, and merger with Sagar Bank Ltd. in the year 2019. Mr. Krishan played a key role during the merger process and ensured that their employees and customers were largely satisfied post-merger.

## **Meeting Day**

Mr. Rama Krishan started the meeting with all CGMs who were representing different areas of the country. There were five CGMs – Mr. Arjun Singh, who leads the team of 460 branches in Northern India, Mrs. Suman Kumari, who leads the team of 410 branches in Western India, Mr. Raju Laxman, who leads the team of 520 branches in South India, Mrs. Lhakpa Dema, who leads the team of 340 branches in Eastern India, and Mr. Uday Patel, who leads the team of 120 branches situated in Union territories all across India. These CGMs were assisted by 46 RMs (Regional Managers) and the branch managers reported directly to these RMs.

### **Mr. Rama Krishan :**

Good morning, everyone!! As you all are aware that due to the COVID-19, the Honorable Prime Minister has announced a complete lockdown of 21 days last evening and only essential services are allowed to operate for providing all the basic services to our citizens. The banking services are the part of essential services and we all have to be more active and careful in this challenging time. I emphasize on “more active and careful” since this is an unprecedented situation, which no one ever imagined to happen in our world and country, and we are not sure about its duration of impact too.

### **Mrs. Suman Kumari :**

Yes sir, the conditions are quite unpredictable and our responsibilities at this juncture increase manifold. Since morning, I am getting updates from my team that we are getting increased footfall of customers in our branches. They largely want to withdraw money through savings or by breaking their term deposits with us. Thankfully, we have good cash position and will be able to handle the pressure for a while. But given restrictions on account of lockdown, cash management can be a challenge as presently, we function on a centralized system, where one currency chest caters to the needs of many branches, spread across various districts.

**Mr. Rama Krishan :**

There will be more complications and uncertainties in the days to come and we need to prepare ourselves in a better way. I had already shared with you the agenda of the meeting last night and we will be focusing on it one by one. Due to the lockdown, I can foresee diminishing of physical transactions as the walk-in business will get hampered on account of restrictions imposed by the government. People will use more of the digital platform for their banking needs. So, we need to work on our information technology infrastructure, ensuring its update and maintenance to avoid any system breakdown on account of the increase in load. There will be a great strain on our digital platforms, so we have to ensure that it can bear the load of excessive transactions contemplated by this situation. The pandemic will also impact our strategy as we had decided to focus on retail loans for expanding our balance sheet, but we have to rework in the wake of this environment.

**Mr. Raju Laxman :**

Very true, sir. We experienced the same during demonetization, wherein our IT system faced problems due to an increase in a load of online transactions. Learning from that experience, we are keeping our servers and their software updated to avoid system crash. However, the magnitude of the transactions during this phase may be enormous ; we may need to deactivate few services available on our online and mobile banking such as online retail loan application interface. Once the customer has applied through online mode, the final sanction and disbursal require physical verification by our staff, which would not be possible during this phase of lockdown.

**Mr. Rama Krishan :**

Exactly, now this has pushed us to rethink about the products and services offered by us on our online portal. We need to add something or remove something for some time. We may also make those changes for a longer duration of time only if they are good enough to increase our customer base and customer's satisfaction. Due to the merger and increased non-performing assets, we are already facing deep cuts in profit figures, and if we are not able to increase the revenue options, then this lockdown may hit us harder than expected.

**Mr. Raju Laxman :**

Sir, we may focus more on existing clients of different products and services. For example – if anyone has a personal loan of ₹ 1 lakh, then we can give them an additional limit of ₹ 50,000. The more the customer avails this type of facility, the better it will be for us to increase our earnings. The lockdown will impact the SME sector and hit the businessmen very hard financially as they will not be able to generate income. We can devise a product for them for overcoming their emergency liquidity requirements.

**Mr. Rama Krishan :**

Now this is what is expected from all from us. Great!! It is rightly said that necessity is the mother

of all inventions. This is a new situation requiring new thinking and we should think fast as our competitors would be doing the same. If we can launch products catering to the present conditions, we will gain an edge over our peer banks. By doing so, we can reduce the impact of this pandemic on our business to the bare minimum.

Mr. Arjun Singh said, "Sir, this COVID-19 will jeopardize our plan for expansion of different products and services. We were very keen to push retail credit schemes, but now, we need to change our focus to a different area."

**Mrs. Lhakpa Dema :**

Also, to add one more point, the Reserve Bank of India also asked all banking and non-banking financial companies to opt for moratorium on the repayment of EMI on term loans for upcoming 3 months starting from March 31, 2020. This will have a direct bearing on the interest income generated by the bank.

**Mr. Rama Krishan :**

This moratorium will impact our cash inflow for upcoming months. Even though we can charge interest on loan outstanding amount, but still, that will not help us in the short run. There is also another aspect to this moratorium, as it will impact financial discipline, particularly if it is extended beyond three months. The habit of regular servicing of EMIs may be shaken, and it would take long to establish it again. We would face challenges in recovery front also, as we would not be able to demand our dues from NPA borrowers. We have to change our priorities and targets for the upcoming time. We have to go slow on some products and services and divert our resources to other areas.

**Mr. Uday Patel :**

Sir, due to the merger with Sagar Bank Ltd., we have added advantage in terms of customer profile, which is comparatively young, who prefer digital banking. We had done some analysis with regard to their customers' database, from which we concluded that due to a large number of customers below 40 years and constant focus on online banking by the bank before the merger with us, we may not face this situation there. So, we may also focus on products and services targeting the younger generation.

**Mr. Rama Krishan :**

Yes, maybe. Apart from products and services, we also need to consider the safety of our employees due to the COVID-19. Social distancing within the branch is very essential. If it is not possible to have every employee in the branch, then we may consider calling them on an alternate basis, but we need to ensure uninterrupted service, with banking being an essential service. As per the instructions, every employee in the branch needs to wear a mask and should use sanitizers or wash hands regularly. As per the discussion, operation time of branches can be

reduced or increased as per the situation in the command area of the branch.  
Everyone in the meeting nodded up and agreed to work on the suggested different areas.

**Mr. Rama Krishan :**

One more important point, we all need to circulate all the information related to the COVID-19 action plan to all the employees, especially our operational staff, as they will be our front liners during this challenging time. Also, we need to take their feedback on different challenges faced by them as this will help to reframe our different policies more robustly.

On this note, the meeting ended and all CGMs instructed their regional managers to disseminate the message to their branch managers. Mr. Raju Laxman gave this responsibility to his deputy Mr. Shiv Swami, General Manager, National Bank Ltd. Mr. Swami has been associated with the bank for the last 15 years and has performed different roles as per the required task. His prompt initiatives had benefited the bank a lot. He immediately called all the departmental heads so that they may also get updates about the meeting and for identifying challenges confronting the bank. Mr. Swami was also asked to take feedback from departmental heads so that it may be communicated to the top management without any delay. This process, in turn, was carried by all CGMs in their region as directed by the CMD of National Bank.

After the meeting was conducted, Mr. Swami and his team envisaged the following important challenges during this phase of COVID - 19 for National Bank :

***Branch Operations***

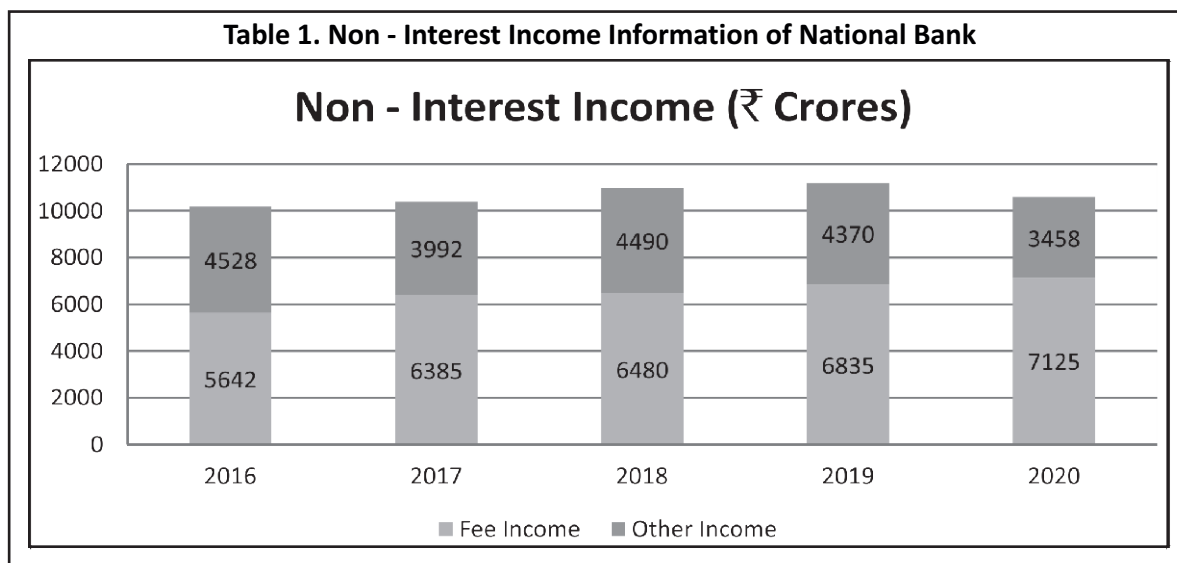
This is the most important challenge as banking being in essential services, the bank has to ensure uninterrupted banking services across its branches. Apart from that, the bank has to ensure the safety of its employees and prevent its branches from becoming a hotspot for spreading of the disease. The bank runs risk of losing its reputation in command area if it cannot take proper precautions in the safety of its employees and its customers. Many employees may be stuck up at different places who had availed leave for going out of their present place of posting.

Movement of staff will pose a challenge as the government has announced a complete lockdown. Staff in rural branches generally commute from nearby cities, and ensuring their services during this phase is crucial for the smooth operation of branches. Other sectors have responded to this challenge by giving work from home option to its employees. However, the inherent nature of banking makes implementation of work from home strategy difficult to implement, as there is limited scope for banking functions and operations to be carried out from home. The other issue is with regard to cash management as the customers would come mostly for withdrawal of their deposits rather than for depositing of cash.

***Earnings***

Management of the National Bank knows that ensuring adequate earnings, which is essential for the survival of the bank, can be a challenging task. Though the bank will charge interest during the moratorium, it will not be able to realize it as per relaxation given by the regulator. There is no such condition in case of deposits, and the bank will continue to give interest to customers, who maintain their deposits with the bank. This peculiar situation will put a strain on interest earnings of the bank and ultimately on the profit of the bank. In normal conditions, the bank

can encash another important source, that is, charges, which contribute handsomely to the earnings kitty of the bank. However, during this pandemic, it can bear the brunt of negative publicity by raising its charges for different services rendered by it. In the case of National Bank, non-interest income contributes handsomely to the total earnings of the bank. The main source of non-interest income for National Bank is through fee-based income generated through the sale of third-party products, which consist of insurance (both life and general insurance) and mutual fund products, as evident from the ratio of its fee-based and other income generated over the years (Table 1).



The bank has tie-ups with two leading insurance companies, both in general and life insurance. Similarly, it has tie-ups with leading eight mutual fund houses in the country. The bank has a cross-selling culture wherein the staff tries to offer a bundle of products, especially third-party products, apart from the product(s) demanded by the customers. There is culture of selling insurance and mutual funds in both assets (loans) as well as liability products (deposits). With restricted banking operations as mandated, the non-interest income will get hampered as customers will come only for limited services during the lockdown. The bank will face whammy in terms of reduction in both interest and non-interest income, which will impact the earnings of the bank severely.

### **Liquidity**

The bank may face challenges on the liquidity front also as a large number of customers during this phase of uncertainty would like to withdraw their money, and few would go for depositing of money. Similarly, repayment of loans, which is another source of the funds, would not be available to the bank on account of the moratorium extended by the bank. The bank may have to look after ALM (asset liability management) in wake of the moratorium as the bank assumes regular funds from credit extended by the bank while ascertaining its ALM position. Any mismatch in asset and liability can lead to a liquidity crisis.

### **Employee Morale**

The other issue relates to the morale of the employees as they have to work in an environment of uncertainty, where they can also get infected from the virus. The majority of the employees feel that they are being treated



unfairly during this time of crises. Just like other employees, they also want to stay inside during the lockdown period. Apart from their safety, they are concerned about the safety of their family members as there are chances of getting infected while dealing with customers. Since the declaration of the lockdown, many of the employees in different branches want to avail their leave, just to avoid any possibility of getting infected. Thus, keeping the morale of the employees high is a daunting challenge before the bank's management.

### ***Vendor Management***

National Bank has outsourced a number of its services like ATM operations and maintenance, Card operations, hardware maintenance, security services, call centre operations, data centre and software support, to name a few. The bank will face challenges with respect to ensuring uninterrupted services from its vendors and their control. The services from these vendors are essential for ensuring smooth service delivery by the bank. The vendors, just like the bank, are facing hurdles on account of lockdown in providing services to their customers.

### ***Recovery & Asset Quality***

National Bank is already grappling with mounting NPAs (non-performing assets) as its GNPA (gross NPA) is hovering around 21%. With restrictions on movement and operations, the position on the recovery front appears to be very grim. Though the moratorium offered is only for standard assets, it will have a bearing on recoveries from non - performing assets. The top management is envisaging a further drop in asset quality in the post moratorium phase on account of the burden on repaying capacity. The assessment of loans is done on the basis of repaying capacity and cash flows of the enterprises, which is going to receive a severe blow on account of this uncertainty. Loss of employment and closure of small business units will lead to financial stress, which will impact loan servicing by the customers. The moratorium granted for loans in the pandemic will have a bearing on financial discipline and their habit of paying their installments may be broken. The National Bank will face challenges with regard to maintaining its asset quality, which is already in bad shape on account of its merger with Sagar Bank Ltd.

Post-meeting, Mr. Swami made one report based on feedback received from his team and forwarded the same to Mr. Raju Laxman, keeping other officials in loop. He knew that they need a proper roadmap on an urgent basis to overcome the COVID-19 or Novel Coronavirus pandemic.

## **Managerial Implications**

The COVID-19 has impacted every section of the industry. The banking industry is facing this challenge from the front as it has to operate during this time of pandemic. Government directives, competition, employees' morale, and asset quality etc. have impacted the banking sector the most. Liquidity position, asset liability management, and hampering of income have made this time more challenging for banks. The efficient and effective utilization of all financial resources is the utmost priority as it works as oil and gas for the banking industry.

## **Teaching Notes**

### ***Teaching Objectives***

This case focuses on the COVID-19 and its impact on a hypothetical public sector bank, that is, National Bank. The National Bank prepared itself to face this pandemic situation as per the government policies and suggested practices. At the end of the case exercise, participants should have an understanding of the following issues :

- ⇒ Impact of COVID-19 on the banking industry.
- ⇒ Impact of crisis on financial stability of the bank.
- ⇒ Challenges related to banking operations during a pandemic.
- ⇒ Role of government and stakeholders during the COVID-19.
- ⇒ Policy execution by public sector banks.

### **Potential Audience**

Graduate and post graduate students, executives, and anyone interested in impact of COVID-19 on public sector banks are the potential audience.

Relevant programmes – Graduates and post graduates of management, commerce, banking and finance, crisis management, change management programmes.

### **Number of Teaching Sessions Needed**

Four lectures of 50 minutes.

### **Authors' Analysis of Each Question Raised :**

#### **(Q-1) Why is the banking industry impacted hard by the COVID-19 pandemic ?**

As per the instructions of the Government of India, banking services are the part of essential services. Hence, the operations of banking services are compulsory. During the crises times, the importance of cash increases. After the imposition of lockdown, only essential items were available and for purchasing them, one needs to have sufficient cash. As banks not only deal in cash, but also facilitate other services such as transfer of money, payment of bills & taxes, term deposits, loans and lockers, etc. ; so, if any customer needs any above-mentioned services, then he or she will visit the bank. All this ultimately leads to increased footfall, lack of social distancing, and the possibility of becoming hotspot, etc. Along with this, mobility of cash during lockdown itself is a big challenge. Banks being dependent on income from advances, servicing of EMI on account of job loss would increase, leading to default by the customers and these will impact banks in a large way, leading to poor quality of loan assets.

#### **(Q-2) How to overcome the COVID – 19 impact on banking operations ?**

**(i) Earnings :** Due to the pandemic, lockdown was imposed and different sources of loan income suffered after the Reserve Bank of India imposed a moratorium on all types of term loans for 3 months. The moratorium impacted banks on short term income source and to cope with the loss, banks can look for some other income sources such as commission on non-fund business, increase in selling of third- party products through the digital medium, and sanction of additional limits on existing loans to take care of future earnings.

**(ii) Branch Operations :** For reducing the workload in branches, the bank can popularize its digital channels like Internet banking, mobile banking, and cards. It can utilize the services of banking correspondent or *bank mitra* for small value transactions, which contribute to bulk of transactions, especially in rural areas. This will ease the workload in branches, as these transactions will be serviced by the correspondent. It will be convenient for



customers as they can avail this facility in their vicinity. Similarly, the bank can go for restricted services, offering only the essentials like cash withdrawal and deposits during this phase to increase the number of transactions and decrease the number of branch walk-ins. Online support through mobile applications or websites and over the phone call solution services should be increased. This will save time and cost.

**(iii) Reducing Deposit Rates :** Term deposits offer certain fix rate of interest as a return. The bank can reduce the deposit rates as this will reduce their expense on deposits in the form of interest rates.

**(iv) Roster System :** Employees should be called on a roster basis as this will put the risk of disease on limited employees only. Due to roster, employees will have sufficient time to cope up with fatigue and exhaustion.

**(v) Social Distancing :** As per the Government guidelines, social distancing is a must for preventing further spread of COVID-19 within the society. Depending on the size of a branch, the number of customers inside the bank should be fixed. Further admission in the bank should be allowed only after the already entered customers have exited the branch. A token system can also be implemented for controlling the flow of customer walk-ins. The employees of the banks should also sit by maintaining adequate distancing.

**(vi) Extension of Moratorium :** The moratorium was implemented for 3 months ; if required, it can be further extended by 3 or 6 months. It will be loss in short run, but this will also give a chance to the customers of the bank to repay their EMI amount, which could default due to lockdown and COVID-19.

**(Q-3) What could be the possible outcome of the impact of COVID-19 on the banking industry, if not resolved effectively?**

**(i) Customer Churning :** If during the time of the pandemic, banks are not able to give prompt services to their customers, then there are high chances of losing the existing customer database. If the competitors can modify their strategies according to the prevailing conditions, they can gain advantage over National Bank and gain in terms of market share.

**(ii) Financial Loss :** Reduced cash inflow and other income sources will incur a loss for the bank in the short run and this can force the bank to alter their long-term plans too. Furthermore, in case of a loan default, the overall quality of financial assets will also decrease.

**(iii) A Decrease in Employee Morale :** If the bank employees suffer due to ineffective precautionary steps against the COVID-19, then their morale will decrease and the same will reflect in their performance and results.

## **Authors' Contribution**

Dr. Sarvesh Mohania conceived the idea and wrote the case study and teaching notes considering different aspects of the case. Mr. Girish Mainrai reframed the case and wrote the challenges part in the case. Both authors reviewed the final manuscript.

## **Conflict of Interest**

The first author, Sarvesh Mohania, certifies that he has no affiliations with or involvement in any organization

or entity with any financial interest, or non-financial interest in the subject matter, or materials discussed in this manuscript. The second author, Girish Mainrai, is associated with a bank, but the present case study is written from the banking industry perspective, and not any individual bank. Furthermore, the case study is fictitious, written only for aiding management teaching and has no relation to any real organization or person.

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## Disclaimer

This case was prepared by the authors for the sole purpose of aiding classroom discussion. Cases are not intended to serve as endorsements, or sources of data, or illustrations of effective or ineffective management.

## Suggestions for Further Reading

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