

**CORONAVIRUS ITS CURRENT & POTENTIAL IMPACT
ON THE FINANCIAL SECTOR**

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ABSTRACT

An evolving crisis, corona virus is a pandemic; its impact was being felt across the world 7.8 billion humans living on the planet with an overwhelming majority of them in no position to assist them and no one is able to know when it will be contained and what its long-term impact could be, the stress will be placed unequally on the individual and society & on the government which takes the responsibility for anticipating risk and putting in the structural buffers. The entire financial systems are more resilient due to covid-19 which has the recent great depression; this paper firstly attempt to address on the coronavirus and secondly on the current & potential impact on the financial sector specifically banking, insurance and fintech. The outbreak of coronavirus has impacted on the financial sector with the ongoing liquidity concerns and lockdown situations which seems more trouble making for financial institutions.

KEYWORDS: Covid-19, Financial sector, Banking, Insurance & Fintech.

I. INTRODUCTION

Globally since few months the Coronavirus or COVID 19 has triggered an economic collapse and the future unpredictable! Due to Coronavirus pandemic the economy already burdened with unprecedented debt levels and company valuations. For the past couple of weeks the stock markets have gone into a freefall with major indices falling between 10-20%, with all major countries entering a bear market (20% decline from 52 week highs). While the biggest losers are the tourism, aviation, hotels, energy and leisure sectors, the prolonged in oil prices lead shockwaves across a global economy. In India, the number of coronavirus infected people continued to rise with the number nearly 20,000 but the number of cases stood at 19,984 as many as 640 have died. 3,869 have been cured or discharged. Around the world the coronavirus COVID-19 is affecting 210 countries and territories and 2 international conveyances. India's financial sector has a diversified rapid expansion, both in terms of strong growth of existing financial services firms and new entities entering the market. The sector which includes commercial banks, insurance companies, NBFC (non-banking financial companies), co-operatives, pension funds, mutual funds and other smaller entities. The banking regulator has allowed new entities namely payments banks to be created recently thereby adding to the types of entities operating in the sector. However, the financial sector in India is predominantly a banking sector with commercial banks accounting for more than 64%t of the total assets held by the financial system. The crucial component of India's financial industry is the insurance industry which has been increasing at a rapid velocity. During the financial year 2019 the total first year premium of life insurance companies reached Rs 214,673 crore (US\$ 30.72 billion).

TABLE 1: Overview of Financial Sector

Sector Overview		
Sector	Amount & (%)	Month & Year
Gross non-food credit	INR 101 trillion	31.Jan.2020
Agriculture	13%	
Industry	31.7%	
Services	27.3%	
Total Deposits (SCBs)	INR 132.1 trillion	31.Jan.2020
Credit Deposit Ratio (SCBs)	75.7%	Dec 2019
Capital Adequacy (industry avg*)	15.2%	Sep2019
Cost to Income ratio (NBFCs)	80%	2019-2020#
Gross NPAs	9.3%	Sep2019
Net NPAs	3.7%	Sep2019

Source: RBI reports

Note: *industry avg for all Scheduled Commercial Banks

Provisional data

II. CURRENT & POTENTIAL ON THE SECTOR

➤ **BANKING & NBFC's**

Banks have significantly increase their focus on engaging customers through the digital payments which includes recovery processes during lock-down the proportion of banking services assist through digital channels. Banks will have to acquire innovative methods to digitization of processes & optimize of its work force & places in some remote working to reduce costs. Banks will be required to revisit their internal borrower rating based on the revised norms to factor the COVID-19 impact on borrowers in the short term where banks will be required to revisit their internal borrower rating based on the revised norms to factor.

Banks have been an important source of liquidity for NBFCs and any weakness in bank funding deposit can constrict liquidity available for lending. As coronavirus crisis, the NBFC sector has facing more issues further risks to economic growth and non-bank financial institutions' asset quality when NBFCs' customers namely MSMEs, a crucial pillar of an emerging economy like India's which may or mayn't be able to do business as usual, it would be difficult for the non-banking sector to meet its asset quality requirements.

NBFC is to be provided tolerance of 3 months to service bonds and debentures with given the EMI deferral option given to customers. To Moratorium for tax payments of at least 6 months to enable enterprises overcome liquidity crunch. Thus, the economic slowdown due to the corona virus will impact demand for loans which will reduce further profits of NBFCs. The credit guarantees schemes to be increased to banks in helping securitisation deals with NBFCs due to COVID-19.

➤ **INSURANCE**

The Indian insurance sector had noticed tough growth in the financial year with an increase of 13% growth for the non-life and 18% growth for the life insurance sector for the period till February on a year on year basis. Renewals may get delayed due to paucity of monies in the hands of policyholders. With the policyholders focusing on pure risk cover policies in these trying times, there is more focus on customer retention. During coronavirus pandemic crisis, the demand for health insurance policies has seen a huge erupt of 16% growth. As the of Covid 19 positive cases in India is growing which seems that people are more aware of the significance of having health insurance is doing their best to make certain absolute services and support their existing policyholders. Generally the health insurance industry witnesses a higher growth in sale of health insurance policies every year because insurers normally hurry to purchase policies before the end of the financial year for tax saving. The below table depicts the performance of different line of business.

Table 2: Performance of Line of Business

LINE OF BUSINESS	Unit	YTD Feb		Growth (%)
		2019	2020	
Life Insurance (Retail APE)	INR bn	571.90	675.11	18
Non-Life Insurance	INR bn	1,440.92	1,634.09	13
Retail (Motor, health and PA)	INR bn	1,029.46	1,150.45	12
Motor	INR bn	583.16	634.81	9
Health and PA	INR bn	446.31	515.64	16
Stand-alone health insurers	INR bn	96.33	126.02	31
Other non-life insurers	INR bn	349.97	389.61	11
Commercial Lines	INR bn	411.46	483.64	18

Source: LIC & GIC reports

➤ **FINTECH**

The demonetization period the growth FinTech players enabling India's digital payments have increased 5% to over 30% as a sustained campaign by the Government to make India a less-cash economy. The Covid19's impact as both good and bad, but mostly it will help to encourage the sector going forward as the experts and investors tracking the FinTech ecosystem strictly to maintain social distance and work-from-home start to become a norm, businesses are likely to get more digitized, and this would lead to the growth of digital financial services. For example funding in Indian FinTech start-ups has increased by 40% at \$807 million for the first three months of 2020 as compared to \$570 million for the same period last year. Similarly with the Indonesian market, FinTechs secured a total of nearly \$1.2 billion in this year i.e January-March, as compared to \$1 billion for the same period last year and also in Hong Kong sag a three-fold increase in investments at \$28 million in the first quarter of 2020 which was a vast increase in the number of deaths and infection caused due to the Covid19 pandemics that first broke out in China's Wuhan city. Walmart owned digital payments company PhonePe in partnership with Bajaj Allianz General Insurance has launched Corona Care; a coronavirus hospitalisation insurance policy, with Priced @ Rs 156, the plan comes with a coverage of Rs 50,000 for a person aged under 55 years, and is applicable at any hospital offering Covid-19 treatment which covers 30 days related to pre-hospitalisation costs and post-care medical treatment expanses. The below diagram shows the covid-19 pandemic affect the Indian fintech start-up ecosystem.

Fig: Covid-19 Pandemic-Fintech start-up Ecosystem



Source: <https://www.microsave.net/>

CONCLUSION

To conclude while the financial sector impact of the COVID-19 pandemic will be evident in 2020, it has provided an opportunity for digitalization to become more resilient and innovative. In the India perspective, the overall world economic health is itself expected to be hit especially in countries that depend on exports, tourism and other services sectors, some worse than others but the government still plays a pivotal role in assisting them. The central and state governments provide tax break or other incentives to the banks and financial institutions that avail the technology power of fintech startups in digitalizing the processes especially in the (PLS) priority lending sector. Indian Banks and NBFCs are experiencing a sudden downturn in business due to the ongoing covid-19epidemic, with over 80% of companies reporting a decreased cash flow and the lowest reported economic growth rate and where as generally the insurance sector is advance prepared for major loss events, including pandemics, but the impact on financial will take time to assess and will be insurer and reinsurer specific.

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