Evaluation of Bank Lending in Covid 19 Crisis – Issues & Challenge

Prof. Ankit Parmar
Asst. Professor, School of Business
Swarrnim Startup & Innovation University, Gandhinagar

Abstract- *The outbreak of the Covid-19 pandemic is unprecedented news to the Indian economy. The Government of India has announced a variety of measures to tackle the situation, from banking system and also from RBI. From that people get some loans from government and also repay after 3 months. With the prolonged country-wide lockdown, global economic downturn and associated disruption of demand and supply chains, the economy is likely to face a protracted period of slowdown. This study revealed the potential impact of bank lending in covid 19 issue and challenges toward people.*

I. INTRODUCTION

Provide assurance to your suppliers when the complying documents are presented. Build relationships with clients and support new business opportunities with a DBS Letter of Credit. We issue a Letter of Credit at your request, assuring payment up to a stated amount within a prescribed time. We then check that the documents received are in compliance with the Letter of Credit terms and certify them before you make payment.

1. The buyer and seller enter into a contract and agree that payment be made on the basis of Letter of Credit
2. Buyer approaches DBS (issuing bank) to issue Letter of Credit in favour of the seller
3. DBS issues Letter of Credit which is advised through its branch or correspondent bank (advising bank) in the seller's country
4. Advising bank advises Letter of Credit to the seller
5. Upon receipt of the Letter of Credit, the seller prepares shipment and delivers documents to presenting bank
6. Presenting bank despatches documents to DBS for payment
7.
    a. DBS pays the presenting bank upon verifying the documents are in order
    b. Upon receipt of payment, presenting bank pays the seller
8. Buyer pays the document amount to DBS
9. DBS forwards the documents to the buyer, who can now use them to obtain the goods.
10. Finance Minister Nirmala Sitharaman announced several measures today under the Prime Minister's Atmanirbhar Bharat Abhiyan—a post-pandemic financial package to help restore economic growth and make India self-reliant. Of the 16 measures the finance minister announced, six were targeted at micro, small and medium enterprises, or MSMEs. They range from providing more funding to small businesses, amending definition and timely payment of dues by government enterprises.

The COVID-19 pandemic has severely impacted small businesses across the world. Businesses are facing unprecedented economic disruption, loss of business, and are compelled to adapt to new ways of working. Moreover, millions of people across the globe are filing for unemployment relief over the past few weeks.

With these unforeseen challenges, National and State governments are offering financial assistance in the form of relief loan packages, designed to help small businesses navigate the crisis. Small business owners are applying for loans through their banks to keep their workers on the payroll during the pandemic.

This has led to banks getting inundated with a massive volume of loan application requests from small businesses, all of which must be reviewed and approved in a short time. Processing of loan application requests involves specific steps, from loan underwriting to verification checks and approvals. There also needs to be a mechanism to authenticate the small business enterprises applying for the loan, by extracting critical employee payroll data needed for approving the loan application. The failure to process loan application requests on time leads to a huge backlog and customer dissatisfaction.

This is where banks and financial institutions need a solution that can harness information and insights locked away in unstructured documents and automate the manual process done traditionally by banks in double-quick time.

For example, EdgeVerve's **IDP solution platform Nia DocAI**, leverages Computer Vision, NLP and ML/DL capabilities to automate bank lending and loan processing by extracting critical data from multiple documents such as loan application forms. This enables the underwriters and loan officers to make quicker decisions, process applications faster, and streamline workflows.

The measures for MSMEs through guarantees, equity infusion and debt support will incentivise bank lending to MSMEs as well as providing crucial support to stressed entities in the current situation, said Rajnish Kumar, chairman at State Bank of India.

1. COLLATERAL-FREE AUTOMATIC LOAN Rs 3 lakh crore outlay, to benefit 45 lakh MSMEs. Those MSMEs with 25 crore outstanding in loans and 100 crore turnover will get credit guarantee-backed loans of four-year tenure. Interest to be capped. There will be a 12-month moratorium on principal repayment. Can be availed till Oct. 31.

2. Rs 20,000 crore outlay, 2 lakh MSMEs to benefit. Government to provide Rs 4,000 crore towards partial credit guarantee support to banks. Banks will lend money to promoters who can use it to infuse it as equity. FUND OF FUNDS FOR MSMEs Corpus of Rs 10,000 crore. Will operate through primary and secondary funds. Will help leverage Rs 50,000 crore at secondary fund level. Will help MSME expand size, get listed on main board.

3. MSME DEFINITION AMENDED Similar limits for manufacturing and services units. Micro: Investment < Rs 1 crore; Turnover < Rs 5 crore Small: Investment < Rs 10 crore; Turnover < Rs 50 crore Medium: Investment < Rs 20 crore; Turnover < Rs 100 crore *Investment in plant and machinery

4. ONLY LOCAL BIDS FOR GOVERNMENT TENDERS UP TO RS 200 CRORE Global tenders will be disallowed for government procurement up to Rs 200 crore. This is to help MSMEs fight unfair competition from global competitors.

5. MSME DUES & MARKET ACCESS E-market linkage for MSMEs as there will not be any trade fairs and exhibitions soon... All receivables of MSMEs from government and PSUs will be cleared in 45 days.

Banks in the country are likely to witness a spike in their non-performing assets ratio by 1.9 per cent and credit cost ratios by 130 basis point in 2020, following the economic slowdown on account of COVID-19 crisis, says a report. In its report titled "For Asia-Pacific Banks, COVID-19 Crisis Could Add USD 300 Billion To Credit Costs" S&P Global Ratings said, it expects the non-performing assets (NPA) ratio for the Chinese banking sector to increase by about 2 per cent in 2020, and credit l losses to increases by 100 points

On India, the report said "the NPA ratio in India is likely to fare similarly to China's (1.9 per cent 2 per cent) but the credit costs ratios could be worse, increasing by about 130 basis points," the rating agency's credit analyst Gavin Gunning said in the report. Gunning said there are concerns that the corona virus will spread faster, further, and for longer.

"This will deepen the economic pain we already anticipate for 2020. Financing conditions may likewise sour as investors become more risk averse. This would hit bank credit," he said. The report noted that an additional USD 300 billion spike in lenders' credit costs and a USD 600 billion increase in (NPAs) will occur in 2020 due to the adverse impact of coronavirus pandemic.

While banks are not as exposed as the corporate sector during the initial stage of the pandemic, the strain on lenders could ultimately be profound. Banks face a second-order hit compared with the corporate and household sectors. The report said the economic storm created by COVID-19 will test the ratings resilience of the region's 20 banking sectors.

"The resilience of banks' asset quality in 2020 hinges in part on the success of governments' and regulators' policy responses. These measures are in early stages. Some have started, some are in planning, and we suspect many more may be in the wings," Gunning said.

Asia-Pacific governments, central banks, and supervisory authorities have rolled out diverse measures to address COVID-19. These include liquidity injections, targeted loans to affected industries and regions, and policy rate cuts. It also includes support for banks to provide forbearance to otherwise economically viable households and businesses sideswiped by COVID-19.

The RBI in its seventh bi-monthly monetary policy announced on March 27, reduced the repo rate by 75 basis points to 4.40 per cent. It announced to provide Rs 3.74 lakh crore liquidity to banks through reduction in cash reserve ratio, by conducting targeted long term repos operations (TLTRO) and by increasing the limit for marginal standing facility (MSF) to 3 per cent.

RBI also allowed a repayment moratorium for three months on all term loans outstanding as on March 1, 2020, to borrowers of all commercial banks, including regional rural banks, small finance banks and local area banks, co-operative banks, and NBFCs, including housing finance companies and micro-finance institutions.

The equation underpinning policy responses is simple in theory but difficult in practice, and always comes at a significant fiscal cost," Gunning noted.

Kolkata: About 15 percent of State Bank of India's Mudra loan portfolio has turned bad, in sync with the concerns raised by Reserve Bank of India over the growing stress on the government's loan scheme for micro enterprises and partnership firms. The bank had sanctioned Rs 33800 crore Mudra loans in FY19.

SBI chairman Rajnish Kumar said that the bank has adopted digital process for lending under Mudra scheme and that it has tested some success in containing non-performing assets.

“We have tweaked the model and changed it to e-mudra," Kumar said. "Some parameters are changed and now the NPA ratio has reduced to 10% in new loans. The entire process is now end-to-end digitised," he said in a video call with businessmen, organised by the Bharat Chamber of Commerce.

The Shishu Mudra scheme under which loans upto Rs 50,000 are disbursed have seen the highest delinquency ratio, sources in the bank said.

The Pradhan Mantri Mudra Yojana is a central government scheme under which small businesses can avail collateral-free working capital loan up to Rs 10 lakh. The scheme was unveiled in 2015 to boost credit flow to the country's MSME sector.

Lenders have sanctioned Rs 3.4 lakh crore loans to 6.2 crore borrowers under this scheme in FY20, according to Mudra website. Several quarters have expressed concerns on whether banks have the eco-system to monitor loans to micro entrepreneurs, while microfinance lenders have been successful so far in maintaining a robust repayment policy. "While such a massive push would have lifted many beneficiaries out of poverty, there has been some concern at the growing level of non-performing assets among these borrowers. Banks need to focus on repayment capacity at the appraisal stage and monitor the loans through their life cycle much more closely," RBI deputy governor MK Jain had said in December last year.

Under the Mudra scheme, there are two other schemes -- Kishor covering loans between Rs 50,000 and Rs 5 lakh, and Tarun covering loans above Rs 5 lakh and up to Rs 10 lakh.

Kumar said some other government schemes such as Kisan Credit Card are also seeing high NPAs. SBI has reported 15.85 percent NPA in its agriculture loan portfolio, while the bank's gross NPA stood at 6.15 percent at the end of March.

SBI has sanctioned loans to about 2 lakh MSMEs and nearly 60 per cent of it has been disbursed.

Kumar said that while it's natural to expect MSMEs getting impacted as the economy is facing a blow following the Covid-19 pandemic, the support from banking sector in terms of 10 per cent additional working capital, emergency credit lines and moratorium on loan repayment would help these units to tide over the crisis.

“Our data analysis shows that MSMEs are managing this crisis very well,” he said.

According to the latest monthly lending data released by Reserve Bank of India, the banking sector saw outstanding non-food credit between March 27 and April 24 fall 1.2%, as compared with a drop of 1.8% in the same period a year ago. As on April 24, non-food credit stood at Rs 91 lakh crore, as compared with Rs 85 lakh crore a year ago.

On a year-on-year basis, non-food bank credit growth decelerated to 7.3% in April 2020 from 11.9% in April 2019.

Among major segments such as industry, services, retail and priority sector, only large industries reported a positive credit growth of 0.6% between March and April 2020.

In case of sub-sectors such as transport operators, retail trade, non-banking finance companies, low cost housing and priority sector export credit; during the lockdown period, banks saw growth ranging from 2-3 percent year-on-year.

This is the highest credit growth these sectors have seen in the same one-month period over the last five years.

Non-bank lenders saw an improvement in credit flow during the first month of the current financial year. Outstanding bank loans to the NBFC sector rose 0.6 percent between March 27 and April 24 to Rs 8.12 lakh crore, the first positive growth reported in this period over the last three years.

Large banks have been extending emergency credit lines so that non-bank lenders may meet their liquidity needs during the lockdown, rather than deferring their repayments under the RBI approved moratorium. Banks have shied away from openly offering the moratorium to NBFCs, citing a possible contagion effect in the financial sector. Lenders led by State Bank of India have adopted a case-to-case bas

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While addressing reporters over a conference call last week, Sanjiv Chadha, MD & CEO, Bank of Baroda said that it may not be an adequate solution to offer a loan moratorium to NBFCs when a significant portion of their borrowings come from the bond market, where no such deferral is available.

Unsecured retail loan segments such as credit card loans, consumer durable loans, personal loans and microcredit have all shown negative growth in the first 30 days of the current financial year as banks became more risk averse in the middle of a global pandemic. With job losses and salary cuts across companies in India, unsecured lending to the salaried class has become a difficult proposition fo

Outstanding credit card loans fell the most during the first month of the fiscal, down 10.3 percent between March 27 and April 24 to Rs 96,978 crore. This is the steepest fall in outstanding credit card loans during the comparative period since April 2016 at least. Credit card outstandings are the amounts that are not repaid in the 30-day payment cycle.

Microcredit, which had reported a 13.4 percent growth in the the 30 days between March and April 2019, saw an 8.1 percent drop in the current year. This is the sharpest fall in these small value unsecured loans reported in the comparative period since April 2016 at least. As on April 24, outstanding microcredit loans extended by banks stood at Rs 35,154 crore.

II. CONCLUSION

With an unprecedented increase in loan applications by small businesses, banks need to automate tedious tasks in loan processing such as extracting information from the lender's forms and Intelligent document identification and information extraction from applicant documents.

Nia DocAI can accelerate the bank lending & loan application processing with high accuracy while providing traceability for risk and audit.

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