Impact of the Covid-19 Pandemic on the Indian Retail Banking Sector

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Abstract

This study looks at how banking, specifically retail banking has been affected in the eyes of the average customer due to the COVID-19 pandemic. The study examines how the retail banking sector has been affected. The main focus is on if and how there has been a change in preference or perspective on how individuals interact with their banks. If there has been a drop in terms of service quality, response time and also an understanding of how secure they believe it is to conduct banking activities online or digitally. The study also takes a look at if individuals have used Unified Payments Interface, and their preference towards it. Furthermore, the study looks at if individual's consumption patterns have changed and so on. The data was gathered using an online Google form that was circulated using social media, the results were then compiled, analyzed and the interpretations were made to understand how exactly the COVID-19 pandemic affected or didn't affect the retail banking sector's customer base.

Keywords: COVID-19, Banking Sector, Retail Banking

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1. Introduction

The first real bank to be established is considered to be the Union Bank of Calcutta in 1829, this was during the time the British ruled India. The bank was initially setup as a joint stock association, then as a partnership. This bank's proprietors were the owners of the earlier Calcutta Bank and Commercial Bank, who had then decided according to mutual consent that they would unite to create the Union Bank that would replace both the previous banks. However, the Union Bank of Calcutta failed and has been closed down by the year 1848.

The first fully Indian joint stock bank was the Oudh Commercial Bank in Faizabad, that was established in 1881, which unfortunately failed in 1958. The next bank was established in Lahore, in 1894 was Punjab National Bank which has now become one of the biggest banks in India. The period between 1906 and 1911 which was inspired by the Swadeshi movement saw the establishment of many banks of and for the Indian community.

Post-Independence the state was more involved in different segments of the economy, starting with establishment of the Reserve Bank of India (RBI), India's central banking authority in 1935. The banking regulation act which was established in 1949 which empowered the RBI to control, regulate and inspect all the banks of India. During 1969, the Banking companies Ordinance was issued that nationalized the 14 largest commercial banks that contained 85% of bank deposits in the country.

Finally, in the early 1990s, a period of liberalisation was embarked upon by the government. This gave rise to licensing of a small number of private banks, along with which there was a rapid growth in the economy of India which led to the revitalisation of the banking sector in India.

2. Current Status of Indian Banking

India has a come a long way since then, it now has a sufficiently capitalised and well-regulated banking sector with conditions that are one of the most superior in the world. It has witnessed

innovative methods of banking and banking models such as payments and small finance. During the recent years, the digital payments system in India has evolved to be among the top 25 in the world and India's Immediate Payment Service (IMPS) is one among, only five in the Faster Payments Innovation Index (FPII).
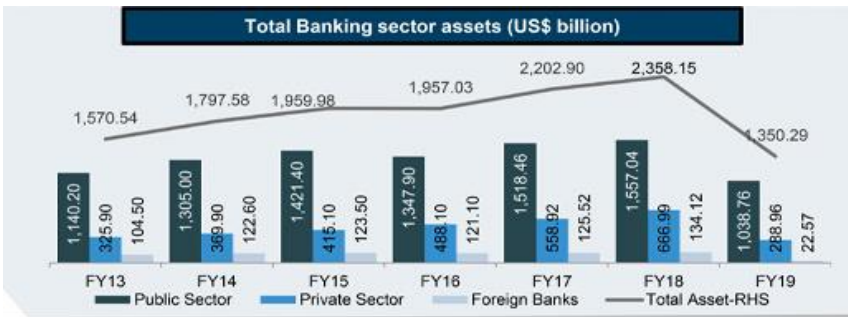
Graph 1 – Total Banking sector assets (US$ billion)

Indian Banking System had deposits as of Feb 2020 at around Rs.132.35 lakh crore. Assets of public sector banks stood at $1408.76 billion (Rs.72.59 lakh crore) in FY 19, whereas private sector stood at around $288.96 billion and foreign banks at $22.57 billion. Furthermore, India has foreign exchange reserves of approximately $ 481.89 billion.

3. Impact of COVID 19 on Retail Banking

In the year 2020, a pandemic broke out - Coronavirus disease 2019 or COVID-19. During this out-break, governments and other authoritative bodies had recommended and, in some parts, imposed lockdowns – this meant billions of people all over the world were made to stay at home. The disease spreads from those that are infected to a non-infected individual through droplets that are expelled either through coughing, sneezing or any other way that then makes it into the non-infected individual. It is highly contagious and for the most part non-lethal.

However, individuals that are old or have pre-existing medical conditions can be severely ill, if infected and has resulted in a large number of deaths as a result. This, therefore required a change in the way we as humans lived our lives and performed daily tasks. One

such task, banking which is a very essential activity was severely affected as well.

Banking as an industry had to adapt to the new norms set by COVID 19 pandemic. Use of ATMs, interaction with Banking agents and any other point of contact had to be thoroughly monitored and sanitized for the safety of all who are involved. This increased costs of operations of retail banking branches.

Fortunately, India recently moved towards digital banking due to demonetisation and digital initiatives from the government of India. The country was much more prepared for this move that has now been forced upon the world. Some other countries that still rely on physical transfer of value, either through cash or other means have been severely hit and have needed to create new systems as well as educate their public on how to use these new online payment systems and so on.

3. Review of Literature

Velde, F. R. (2020) focused on the effect of the 1918 Influenza or Spanish Flu pandemic that can be compared to the current Covid-19 pandemic. This study focused on various sectors of the economy and how they were affected such as industrial production, consumer durables, and retail and so on. The study used a host of data to understand the effect the pandemic had on the US economy.

Koshle, H., Kaur, R., & Basista, R. (2020 shed light on the effect of Covid-19 on Indian industries, such as its impact on businesses, medical support systems, vehicle industry and so on. The study breaks down how the industry will be affected and explains why it happened. It also takes a look at how Covid-19 has affected India's exports and imports in relation to China.

Pratheeesh, J. T., & Arumugasamy, G. (2020) focused on effects of the Covid-19 pandemic on the economy and banking sector of India as well as abroad, it also breaks down the sector wise impact on various industries in India, mainly focusing on the major impact on Banks and how to make long term plans that are both sustainable and efficient. The study also takes a look at some banks that have

offered relief to their customers that have been affected by Covid-19. The study details best practices and gives examples that might help banks in the long run, function smoothly and ensure that there is a better response in case something untoward happens again.

Piller, F. T. (2020) pointed how businesses must be prepared to function in the economy after Covid-19, how to setup sustainable, efficient and better equipped businesses that can handle any and all situations that might arise. They discuss about practices that have arisen due to Covid-19 and solutions that should be implemented in order to prepare the businesses for the future. The suggestions such as boost digital business models, become more flexible and agile are practices that are already being implemented due to the pandemic. This study gives details on how to leverage all of this and ensure a future ready business in the new economy post Covid-19.

4. Objectives of the Study

The primary objective of this study is to focus on the relationship, interactions and perceptions retail banking customers have with their respective banks, mainly:

- How often they interacted with their banks and which means they used to interact with the bank before and after Covid-19.

- To find out if their preferences have changed due to the pandemic.

- To understand the service quality and level of safety experienced by retail customers while banking.

- To identify preferred mode of payment and to understand if UPI is preferred over traditional banking methods.

## 5. Data Analysis and Discussion

Table 1: Gender of respondents

Gender	Number of respondents	Percentage
Male	50	51.5
Female	47	48.5

There was no clear majority or difference between the respondents' gender. There is a mere difference of 3 respondents or 1.5% more male respondents than female. This will give us a better understanding of the situation as a whole, as there should not ideally be any difference in opinion based on gender. Therefore, this should give us a proper representation of both the genders.

Table 2: Annual Family Income

Annual Family Income	Number of respondents	Percentage
<1,00,000	4	4.1
1,00,000-5,00,000	21	21.6
5,00,000-10,00,000	37	38.1
10,00,000+	25	25.8
Prefer not to say	10	10.3

The majority of the respondents are from families that have an annual income of Rs. 5,00,000-10,00,000, followed by families that have an annual income of more than Rs. 10,00,000.
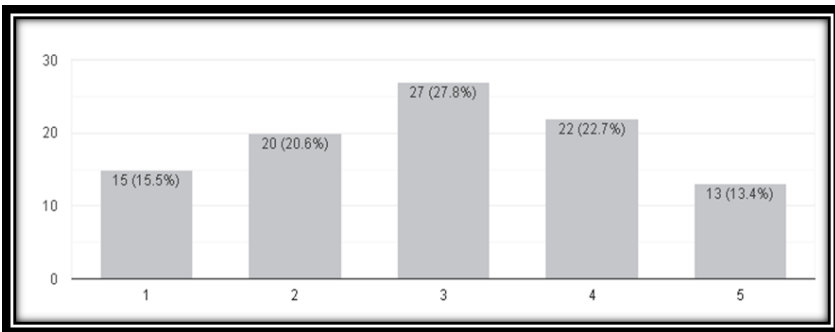
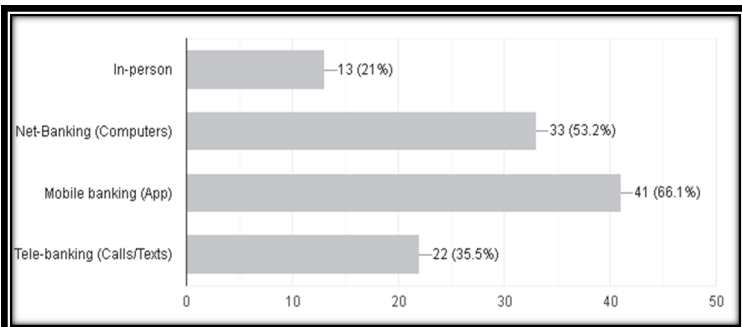Graph 2: Amount of interaction (before the pandemic)

The amount of interaction that the respondents had with their bank before the pandemic broke out on a scale of 1-5; where 1 is very rarely and 5 is very often. The mean or average of all the responses was 2.97 and the mode as we can see above is 3, which was the answer picked the majority of the times. Therefore, we can understand that the majority of the respondents were occasional to seasonal users of the bank before the COVID-19 pandemic broke out.
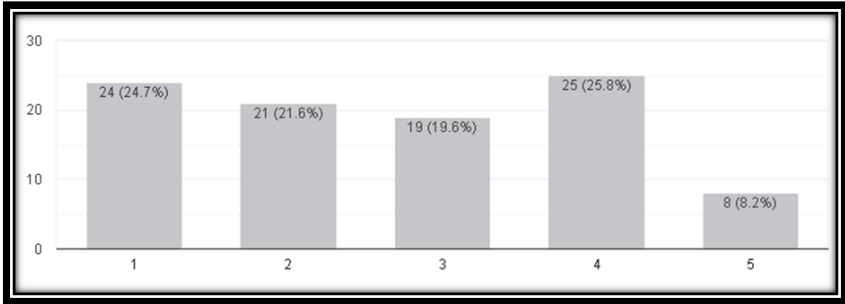
Graph 3: Preferred mode of interaction with the bank (before the pandemic)

This was a multiple answer question, meaning respondents could chose more than one answer/choice of interaction with the bank. The mode of interaction before the pandemic 'COVID-19' broke out had a majority of respondents that preferred mobile banking (App) at 62.9% and followed by respondents that would go to the bank physically at 48.5% of the respondents.

This means that close to the half of the respondents went to the bank before the pandemic broke out. This is significant as after the pandemic broke out, there was a lockdown imposed in many parts of the world; this meant travel outside houses was prohibited. This also meant that bank visits would be impossible or difficult after the pandemic and would require these users to change their preferred means of interaction.
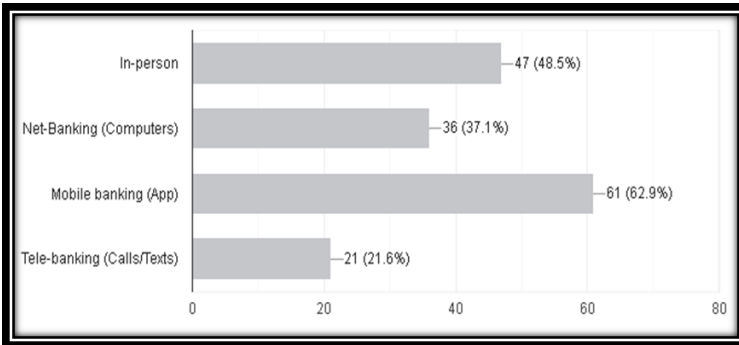

Graph 4: Amount of interaction (after the pandemic)

The amount of interaction that the respondents had with their bank after the pandemic broke out on a scale of 1-5; where 1 is very rarely

and 5 is very often. The mean or average of all the responses was 2.71. The highest number of responses was four meaning often and followed closely by one (24 responses) and 2 (21 responses) which means that there has been a reduction in the number of times the respondents interacted with their bank as a result of the pandemic.

However, it should also be noted that the since the highest number of responses marked 'four' meaning often, some of the respondents also started interacting with the banks more since the pandemic broke out. This therefore, means that it has become a priority for some individuals compared to before the pandemic.

Upon checking the data further and in-depth, the individuals that used to bank in person or physically are those that have reduced their level of interaction with the bank. The others that increased the amount of interaction with their banks are those that began using Mobile, Net or Tele-banking. Therefore, the mode of interaction also directly affects the level of interaction.

Graph 5: Change in preferred mode of interaction (after the pandemic)

This was a multiple answer question; the number of users that changed their preferred mode of interaction to mobile banking was 41 respondents. This was followed by 33 respondents who changed their preferred mode of interaction to Net and further followed by Tele-banking, with there being a visibly reduced number of individuals that have changed their preferred mode of interaction with the bank to be physical or in-person.

From the data collected from this survey, it is inferred that there is a significant change in preferred mode of interaction from in-person banking to using Mobile Banking, Net Banking, or Tele- banking.

Respondents that used either of the non-physical modes of interaction only either marked an additional non-physical mode of interaction or didn't change their mode of interaction. Whereas, almost all the respondents that used to physically interact with the bank initially responded that their preferred mode to interact with their bank is physical – are also the respondents that have reduced the number of times they interact with their bank since the pandemic broke out.
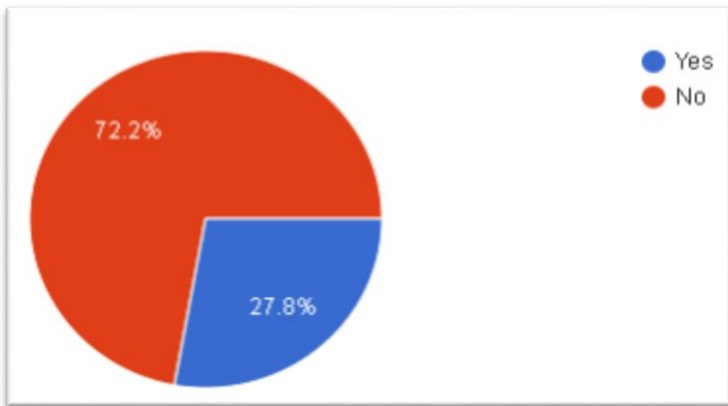

Chart 1: Safety of online banking

The majority of respondents feel that they are safe to make online transactions while banking digitally. Upon further analysis, the individuals that responded that they were not comfortable or felt safe to make online transactions were also the respondents that would bank physically or in-person. Furthermore, majority of the individuals that switched from physical or in-person banking to either net or mobile banking responded that they feel safe banking online. It can be inferred that majority of the individuals that used to bank in-person and did not change to a non-physical banking method do not trust online banking.
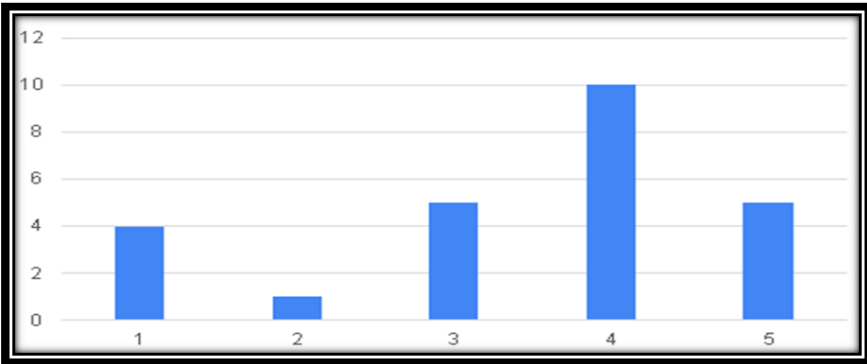
Graph 6: Response time

Respondents that faced an issue and felt that they were assisted promptly on a scale of 1-5; where 1 is 'strongly disagree' and 5 is 'strongly agree'. The majority of the respondents that faced an issue responded with a four (10 responses). Therefore, if an issue was faced the respondents agree that they were assisted promptly. The respondents that feel that they were not assisted promptly were individuals that changed the way they interacted with the bank either from physical to non-physical and vice-versa. Furthermore, they were also the individuals that did not regularly interact with the bank both before and after the pandemic, which could be the reason they felt they were not assisted promptly.
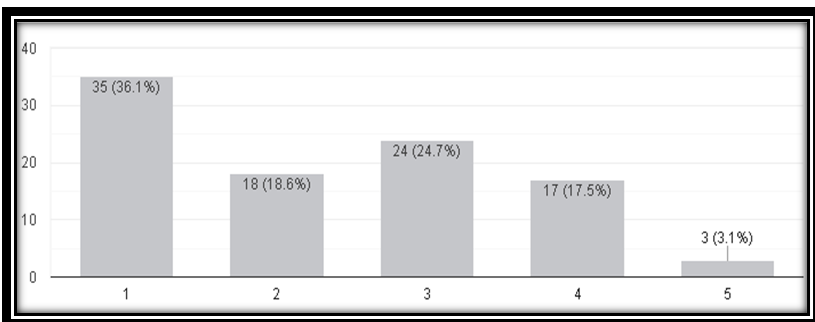
Graph 7: Service Quality

The respondents felt that there has been a drop in service quality on a scale of 1-5 where 1 is 'strongly disagree' and 5 is 'strongly agree'

The mean or average of all the responses was 2.14 and the majority responded with 'one' meaning they strongly disagree. The majority of individuals feel that there has been no drop in terms of service quality since the pandemic broke out and are happy with the quality of service they are receiving. The few respondents that feel there has been a drop in service quality are the respondents that faced an issue while performing an online transaction or performing banking related activity.

Most of the respondents that claimed that the service quality has dropped are again users that have switched their preferred mode of interaction. Therefore, there is a clear relation between the forced change in preferred mode of interaction and overall user experience for the respondents.
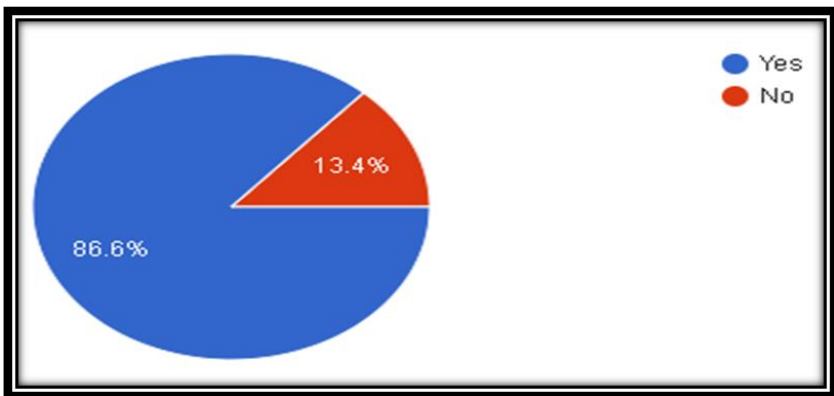

Chart 2: Usage of Unified Payments Interface (UPI)

The majority of respondents have used UPI or other non-bank payment apps, such as Google Pay, Phone Pay or Paytm. This question was asked in order to understand if the user is aware of UPI apps and the modern technology that is in existence. So that we may then find out if there is a preference to the same over traditional methods of interaction with the bank. Individuals that responded that they interacted with their bank a lot also tend to have used UPI apps. Furthermore, majority of the respondents that do not feel banking online is safe are also the majority that have not tried UPI apps.
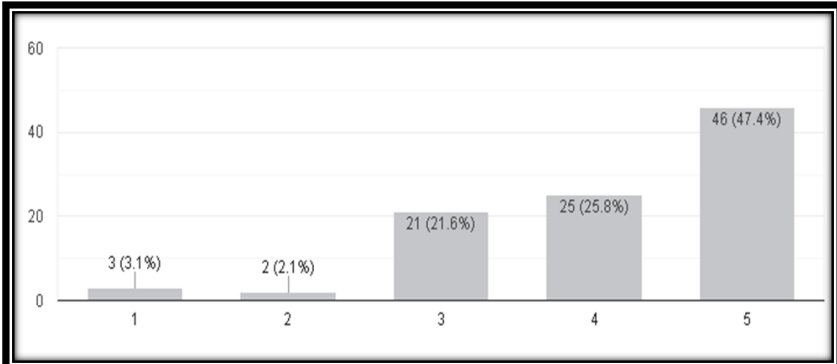
Graph 8: Preference of UPI apps over banking app

The respondents prefer UPI apps over the native/traditional banking app on a scale of 1-5 where 1 is 'strongly disagree' and 5 is 'strongly agree'. The mean or average of all the responses was 4.38 and the majority responded with 'five' meaning they strongly agree. This means that respondents prefer UPI apps over the apps provided by their respective banks meaning that UPI apps have a larger appeal. Furthermore, majority of the respondents that use the mobile app as a mode of interaction with their banks also are majority of UPI app users.
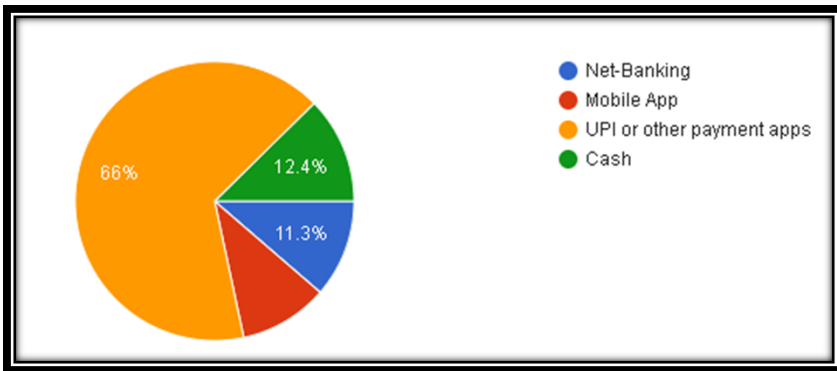

Chart 3: Preferred source of payment for online shopping

The majority of the respondents prefer using UPI or other payment apps over net/mobile-banking and cash. This further goes to show that there is a wider appeal and preference towards using UPI or

other payment apps over traditional/native banking methods or apps.

Respondents that felt online banking transactions were unsafe have responded that their preferred mode of payment is cash. The responses correspond to the preference of the respondent's mode of interaction with their bank, that is if a respondent prefers mobile banking as their method of interaction with their bank it is what they prefer to use to pay for online transactions/shopping as well.
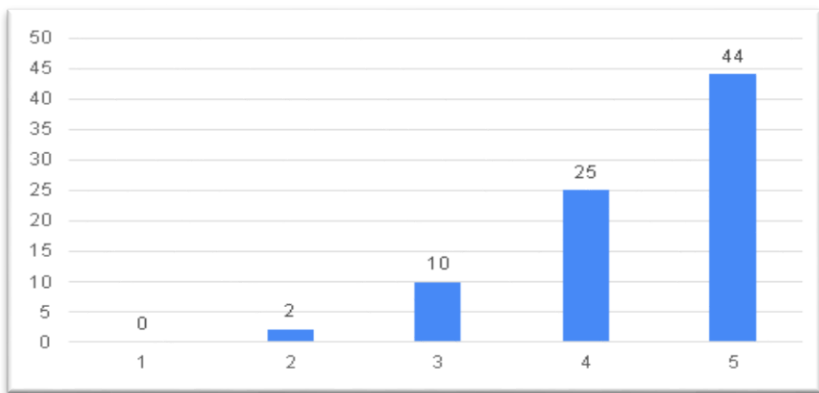
Graph 9: Digital future of banking

The respondents believe that India's banking and payments future may be completely digital on a scale of 1-5 where 1 is 'strongly disagree' and 5 is 'strongly agree'. The mean or average of all the responses was 4.18 and the majority responded with 'five' meaning they strongly agree. The respondents believe that the future of Indian banking and payments will be completely digital.

The respondents that believe banking online is safe are the majority of respondents that believe the future of banking is digital as well. The few respondents that do not believe in the security of online banking and have not used UPI apps are also the respondents that do not believe the future will be digital banking and payments systems. Additionally, respondents that preferred to interact with their banks in-person and did not change their preference are respondents that do not believe in a digital future.

6. Findings and Conclusion

The pandemic COVID-19 has affected the banking sector in the eyes of the customers. Prior habits or practices are the main influencing factors or reasons for change. Individuals that preferred to interact with their banks in-person or physically were the ones that were most affected. Individuals' beliefs affect their entire experience. For example, respondents that believed online banking was not safe were not willing to use mobile/net-banking or UPI apps.

There has not been a noticeable change in service quality standards even after the pandemic. There has been a dip in the amount of interaction by a certain group of individuals, mainly those that used to physically interact with the bank. However, at the same time there has also been an increase in physical interaction of other groups with bank branches probably due to urgent requirement of funds, settlement of payments or so on.

Introduction of Unified Payments Interface was a great move and has had an incredible reach with the majority using the services and even preferring it over other traditional modes of banking. UPI has also gained preference over cash on delivery, in a country like India that used to be very reliant on cash and was the fore-runners in development and usage of cash on delivery systems; this is a huge step in digitalization of India's payments system. Majority of the respondents believe that the future of India's payments and banking systems will be fully digital. This would mean that India is ready to move forward from physical hard cash to electronic/digital money something that was unprecedented a few years ago.

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