INDIAN BANKS EMERGED STRONGER IN PANDEMIC TEST THROUGH SWIFT REFORMS

EXPERT VIEW

V. VAIDYANATHAN

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feedback@livemint.com

As the year started, no one had factored in the extraordinary gyrations they would experience in their lives in 2020. Banking generally speaking is a busy life, but during 2020, the system was dealing with multiple emergency buttons under stiff deadlines. To mention a few, when the lockdown was announced, the banking system not only had to enable over a million employees to work from home almost overnight, but also had to, in parallel, implement a never-before-moratorium, a never-before-retail restructuring affecting millions of customers, create internal alignment, work out error-free coding logics on connected systems, work out customer communication strategies, deal with social media, enable remote collections overnight, remote customer service, cost cuts, constant employee communication, manage safety at customer interface areas, and in the midst of these emergency buttons, banks were also pitching to potential investors for substantial equity raises! The banking system raised a staggering ₹1 trillion of equity under these circumstances.

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These challenges apart, three important markets—the bond markets, the money markets and credit markets— froze simultaneously in panic. Markets crashed to the fear of the unknown. For the government, the Reserve Bank of India (RBI), business leaders, middle management and staff, it would not be an exaggeration to say that to land 2020 with few bruises felt no less than pilot Chesley Sullenberger's dramatic landing of the Airbus A320 on the Hudson river after both engines stalled because of a bird-hit.

The impact on businesses was dramatic. Large businesses were hoarding up cash, some invoking force majeure clauses for the first time in their lives, hotels, airlines, even Tesla, were effecting furloughs, and informal businesses also suffered. Under these circumstances, the banking system was quite empathetic. In our case for instance, instead of asking customers to visit our branch with bank statements to prove they were affected by the pandemic to apply for restructuring or moratorium, we implemented an STP (straight-through processing) process, simply asked our customers to visit our website, authenticate themselves through the mobile number, simulate the desired restructuring through drag and drop, make necessary online declarations, and these were executed at the back-end in an instant. A total of 76,765 small borrowers availed of online restructuring from us for ₹662 crore at the time of this article.

Before the pandemic, generally speaking, people were either at work or at home; the pandemic fused the two. The dedication from the staff in opening branches, serving from call centres in these circumstances was inspirational to the point of being hair-raising. Because banking is not just about service, it's a lot of control over cash and accounting, the suddenness of the change raised challenges more than ever.

RBI moved swiftly with providing moratoriums and pumping in unprecedented liquidity through tools like TLTRO (Targeted Long Term Repo Operations) 1.0, TLTRO 2.0, OMO (Open market operation) purchases, Operation Twist, CRR (cash reserve ratio) cut of 1%, increase in MSF (marginal standing facility), intervention in currency markets and providing specific refinances to Nabard (National Bank for Agriculture and Rural Development) and SIDBI (Small Industries Development Bank of India). The government in swift succession announced a series of packages, including first providing direct funds to the poorest sections through DBT (direct benefit transfer), then supporting small entrepreneurs through Emergency Credit Line Guarantee Scheme (ECLGS) 1.0, ECLGS 2.0, and various schemes. The banking system owes a lot to the thoughtfulness, sensitivity, speed and decisiveness from these institutions.

People refer to 2020 as a year to forget, but in my opinion, 2020 is the year never to forget. The learnings were many, but prime among them would be not to panic if there is a Corona 2.0. The authorities, whether it is RBI or the government, will press the buttons quickly and decisively. Customers will start paying back the moment they can; no one likes to carry forward debt forever. The evolution of the digital ecosystem, including Jan Dhan, Aadhaar, mobile, video, UPI (Unified Payments Interface) and DBT, has provided us with a new platform to deal with crises and transfer cash to the poor instantly.

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Finally, the underlying demand in India, as seen in the recent sharp revival, is so strong that things will bounce back quickly with appropriate measures. That the banking system emerged through many reforms such as Asset Quality Review (2015), demonetization (2016), and extreme stress tests such as high inflation (2010-2014), rising interest rates 2010-2014, cancellation of mines and telecom licences, and now a once-in-a-century covid disruption (2020), should give us great confidence in our banking system. We should resolve to strengthen it further before the next crisis strikes, which inevitably will.

V. Vaidyanathan is managing director and chief executive officer, IDFC FIRST Bank.