IMPACT OF COVID-19 ON THE BANKING AND INSURANCE SECTOR OF INDIA

Subject: Indian Economy in Global Scenario

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Abstract:

“Due to business closures and interruptions brought on by the COVID-19 Pandemic, there have been severe economic shocks around the globe. This has resulted in the biggest financial crisis. One of the nations that was badly impacted by the deadly new coronavirus is India. When it comes to insurance, everything revolves around making promises and keeping them when the danger arises. It is time for insurers to show how much value they provide to their clients, the communities they serve, and the economy as a whole. Although the Pandemic has severely hurt the insurance sector, the future appears bright. Reserve Bank of India, the nation's top bank, changed its strategy to address the COVID-19 pandemic with the assistance of experts. The whole Indian banking industry has encountered and is still facing numerous difficulties, including a liquidity problem and the Reserve Bank of India lowering the REPO rate, to mention a couple. In this paper we study and understand the impact of covid-19 on the banking and insurance sector of India

1. Introduction:

The worldwide pandemic - COVID19 - wreaked havoc on the world's entire economic status. Perhaps the most tragic period of history that humanity has ever witnessed. Whether a country is developing, underdeveloped, or has the most powerful economy. No country was spared its wrath. The COVID-19 Pandemic has had a significant impact on the economy.(Bobade & Alex, 2020) One of the fastest expanding industries in the world is financial services. The quick expansion of an economy depends on the financial sector of the nation. The development of the financial sector is driven by the success of the nation's various intermediary banks and non-banking organizations. Therefore, financial sectors must change their emphasis from short-term stability of profitability to long-term expansion. The banking sector may do this by introducing innovation into its operations and integrating technology. J. and Elizabeth (2022)
The Indian banking industry is implementing adjustments to lessen the effects of COVID19. An epidemic in banks has been brought on by the new Corona virus. Industries and borrowers are experiencing negative effects like job losses, sluggish sales, and declining earnings as the virus spreads throughout India. The RBI keeps prices stable while maintaining a consistent growth rate for the nation. The COVID19 regulatory package for commercial banks—including small finance banks, neighborhood banks, and regional rural banks—major cooperative banks (cities), state cooperative banks, and district central cooperative banks—has been made public by the Reserve Bank of India. All nonprofit organizations and financial institutions in India Finance companies and banks (including corporations and housing finance) n.d. (Chaudhary & Chauhan)

In addition to providing life insurance to individuals, non-life insurance companies provide coverage for travel, health, home, automobile, and business insurance.
By offering protection to individuals, communities, institutions, and enterprises, the insurance sector contributes significantly to the Indian economy. The Indian insurance sector is expanding at a rate of 15-20% and contributes roughly 7% to the GDP. The nation's entire financial system is anticipated to be impacted by the COVID-19 epidemic. Due to the unique and unprecedented character of this crisis, challenging new situations, such as physical separation and economic shutdowns, have occurred. Due to the lockdown and social exclusion from society, the Indian insurance business saw a 30% increase in the number of online health insurance policies sold in March 2020 and a decline in offline mode (Dubey, 2020). According to McKinsey's analysis, the Pandemic had a significant impact on the insurance industry globally, as seen by a 22.6 percent decline in the index. Share prices in the insurance industry have fallen by 25.9%. New service-based business models and innovative products can help the sector expand. Access to care and health insurance are crucial in the wake of the COVID-19 outbreak (Puawska, 2020).

2. Literature Review

(Kaur & Singh, 2022) The impact on private health insurers is greater, in Patil's opinion, in countries like India with significant vulnerable populations. Even though fewer people had health insurance, an increase in medical claims due to volume cost private insurers a lot of money. Insurance providers offer free hospital benefits as well as telephone consultations. The IRDAI has mandated that the insurance sector provide an industry-standard health plan for treating infectious diseases like COVID in India. Employees are required to get health insurance under a labour agreement. Insurance companies allowed policyholders to pay insurance premiums in 12 monthly instalments rather than one lump sum when policies were about to expire because it was more convenient for them. Released was the Corona Kavach policy on fundamental conditions for health insurance. The heightened concern for life and health led to an increase in the demand for energy and health-sustaining commodities across a number of industries. Ghosh, Amlan, and Mukherjee discussed some of the major effects of COVID-19 in their study, including the mandate that employees have health insurance, the acceptance by insurers of payments made over 12 monthly instalments rather than in one lump sum to make payments easier for policyholders, and Corona Kavach's introduction of a basic health insurance needs policy. According to PWC INDIA, the months of March and April significantly affected non-year plans for life insurance by about 30% and 15%, respectively. It highlights once more how necessary it is for insurers to alter their product categories. The poll found that 14% of rural residents and 18% of urban residents each have private insurance. Some people believe they must purchase insurance now to avoid financial ruin as a result of the arrival of COVID-19. Three to four hundredths more people have asked questions about insurance. The problem is that there is now a dearth of information on patient profiles, morbidity rates, and cost data that are required to calculate premiums for goods created especially for them. Insurance companies must try to ascertain whether there are any state- or district-wide issues prior to using COVID-19. Enrollments in new policies have increased dramatically in the Indian health insurance market. In one area of the country, it is believed that the number of insurance inquiries has climbed by nearly 40%. In a circular dated March 4, 2020, the IRDA advised that hospitalisation claims, including those for costs incurred under quarantine, should be completed as quickly as possible.

(Chaudhary & Chauhan, n.d.) While the entire world is in distress. Banking services have also been impacted. The borrower's ability to repay the loan is diminished. India's GDP has decreased. The Indian economy's growth rate has slowed. The Indian government and the Reserve Bank of India are constantly developing new policies to help mitigate the impact of COVID19. The paper "Covid-19 Pandemic And Lockdown Impact On India's Banking Sector: A Systemic Literature Review," published in June 2020, focuses on the impact of the Covid-19 pandemic on banks, NBFC, educational institutions, public and private offices, and suspension of modes of transportation. The research paper describes the severe economic effects of COVID-19. The title was the subject of a research paper that was published "Analysis of Banking Sector in India: Post

Covid-19 dated September 2020 by Ashish Bagewadi and Dewang Dhingra, this paper focuses on the pre and post effects of COVID-19 in the banking sector, as well as the effects of COVID-19 on the environment, which is published in a research paper. On the title of, a research paper will be published in June 2020 "A study of the impact of COVID-19 on the banking industry.

(Narayanan, 2021) “The instant real-time payment system has proven to be the best financial innovation in India since independence, and it has begun the process of completely replacing the cash economy. It has contributed significantly to the country becoming one of the world's fastest growing digital economies.
The Covid pandemic appears to have shifted people's attention to contactless payments in their daily lives. Though many people began using contactless payment options such as UPI (Unified Payment Interface) prior to the pandemic, its use has increased significantly since the lockdown. The increase is significant because it not only indicates that digital payments are gaining traction in India, but also a recovery in business activity following pandemic-induced lockdowns in May. With experts expecting transaction growth to continue, three billion UPI transactions per month—an average of 100 million per day—could soon become a reality following the easing of lockdown restrictions in mid-May 2020. They are 122% and 91% of their January 2020 levels, respectively. The use of digital payment apps will increase economic transparency. This will boost the country's credibility and increase investment. While new business areas are adopting UPI, the payment system must also focus on building the infrastructure required to absorb such large-scale growth while minimising technical failures.

(Kakhkharov & Bianchi, 2022) The economic crisis caused by the spread of COVID 19 is fundamentally different from previous economic and financial crises. Unlike previous crises, this time the shock did not originate in the financial sector and was not the result of irresponsible behaviour by financial intermediaries or companies due to ex-ante moral hazard.
2020 will be remembered in history as the year that saw the COVID-19 pandemic, which caused a global health and economic crisis. In response, governments and central banks around the world implemented stimulus packages to combat the crisis's negative economic and financial consequences. The crisis persisted in many parts of the world in 2020-2022, and the long-term consequences of policy responses are still unknown. The purpose of this paper is to empirically examine how the arrival of the crisis and the policy actions of authorities impacted two important groups in the financial sector, banks and FinTech companies, in the short run.
When designing financing programmes to maximise the probability of firm survival, it is critical to consider how much government will act as a "lender of last resort" versus a "loss absorber of last resort." While the health emergency is temporary, the economic consequences can be long-term.

(Mishra et al., 2021) studied the effect of the Covid-19 pandemic on the operations and efficiency of the Indian banking sector. The pandemic led to turmoil in various economies across the world, especially in those sectors that were performing excellent hence, it became absolutely necessary to collect, analyse and interpret data related to it. However, the task doesn't end here once appropriate interpretation is done formulating and implementing appropriate strategies to revive these sectors should be done. There is a tonne of papers detailing the consequences of this virus outbreak that are accessible to the general public. Getting the right data for the user's needs, despite the large volume of data, is the main challenge. The information sources are revised often, but they are unable to draw conclusions from previously recorded information. We can extract implicit and indirect information from the knowledge base by employing reasoning abilities. Online resources on Covid-19 topics include a number of them, but they do not specifically address the performance of India's banking industry during Covid 19. As a result, users typically do not get the information they need in order to answer the requested question. In order to extract contextual elements, this research article builds and analyses the most comprehensive body of knowledge, or ontology (Covid19-IBO), in an effort to highlight the effects of Covid-19 on the performance of the Indian banking sector. In addition, they confront a number of significant research questions concerning the Indian economy.

(Rakshit & Basistha, 2020). This paper attempts to assess the financial consequences of the COVID-19 pandemic's emergence across India, which has had a profound impact on a variety of major industries. They have considered the outbreak purely as a human tragedy. No statistical method has been able to compensate for the innumerable human miseries the crisis has caused. In this paper, they address a number of crucial scientific issues and illustrate India's capacity to resist the COVID-19 pandemic. Furthermore, the research paper highlights its key finding on the basis of three important research questions, Firstly, how would COVID-19 impact the Indian economy as well as how it influences the various economic sectors? Secondly, what effect does the epidemic impose on India and China's bilateral commercial relations? Thirdly, how the public healthcare system should respond to the viral spread in India? The Indian long-term economic growth forecast by various economic experts is also discussed in this paper. They provide a few policy suggestions for the Indian economy as they wrap up the essay.

(Parvathi & Lalitha, 2021) in their paper talk about the devastating consequences of the pandemic that were faced by the insurance sector. The key challenges that the industry faced were:

- Business Stability
- Employee Welfare – shift to remote working due to digitalization, balancing of work from home and dealing with clients digitally.
- Crises Management
- Capital Adequacy – liquidity and solvency challenges
- Claims Processing – decrease in accident claims but increase in life insurance and health insurance claims
- Cybersecurity – building an IT infrastructure, it should be secured.

The industry in response to the unprecedented crises responded in various ways. They increased communication with customers. They started monitoring and reviewing their customer support and attention models. The payment of claims and its evaluation became a key challenge which was dealt with the help of interactive voice response systems. Study of use of AI and robotics in this field also increased. Insurers digitized in a way that they could provide information easily and help customers through online mediums for claims. Digital underwriting also began in India in the pandemic. The insurance sector also had to make innovations in their product portfolio and had to modernize their distribution channels.

(Bobade & Alex, 2020) in their paper give a brief analysis of the impact the pandemic had on the Indian Banking Sector. There were short term disruptions like inability to access branches, inability to access data/infrastructure, loan payment defaults, non-essential operations were scaled down and domestic and cross border trade reduced to essentials. The long-term impact was shift to online transactions, increase in loan defaulters, shift to a preference where workforce has distributed the shared services.

This led to a lot of reforms by the RBI:

- Relaxation in repayment of debt
- Improving working capital management access
- Focusing on prevention of financial stress to the various business holders
- Rescheduling of payments - for 3 months
- Change in working capital finances – sanctioning of cash credit and overdraft
- Provisions in making working capital financing
- Asset classification norms changed

Due to a severe economic shutdown caused by stringent lockdown measures, business closures, the banking sector struggled. As a result, the banking industry and its policies underwent a radical structural change.

(KAMALPREET) The covid 19 pandemic has had a major influence on the day-to-day life and the consequences in the long term caused by the spread of the virus. The outbreak of the covid 19 virus has caused the insurance sector in India has been moving in a loop full of ups and downs. Both the public sector and the commercial sector are looking forward to integrate with the health care system of India to be prepared for a similar unfortunate pandemic in the future. Looking at the current scenario, it is easy to say that it is going to take more than monetary factors to fix and balance the health care system of India. In the future, it is a must for the insurance companies to invest in various technologies to supply the increasing demand. The overall scenario suggests that all the people should be taking strict preventive measures to contain the future stages of the covid pandemic. The insurance sector has been getting support by the various government initiatives for the betterment of the people in India. If necessary, steps are taken, this sector in India will be able to overcome the crisis effectively.

(PARVATHI) During the pandemic, the country had to face an unexpected shock in the Indian insurance sector. All the policy holders of the insurance companies should act decisively to overcome the disruption that the pandemic has caused. In the recent years, the insurance sector has been contributing to the growth of India. The regulatory authorities of India should announce regular updates to the insurance sector. For the post covid scenario, various strategies should be evaluated again, regarding the business line and the new products which will reflect the pandemics impact. All the insurance companies should adapt to the expectation of the consumers and what products and solutions they need in the future. Many new operating channels which were previously viewed unachievable will be prioritised. There should be an increase in investments in automations such as AI and RPA. The mergers and acquisitions opportunities for insurance companies may enable further growth in new segments or existing lines of businesses. The World bank can help with assistance to issuers who are not able to recover from the losses.

3. ***Research Objectives***

The objective of this paper is to study and understand the impact of covid 19 pandemic on the insurance and banking sector in India. In the light of this objective there are specific objectives pertaining to the case as follows:

1. *To find out the impact of the pandemic on the insurance sector in India.*
2. *To find out the impact of the pandemic on the banking sector in India.*
3. *To analyse the initiatives taken by the government of India to restart and help the banking and insurance sector.*
4. *To provide policy recommendations for the future of banking and insurance sector in India.*
5. RBI policy change due to COVID19.
6.

4. ***Research Methodology***

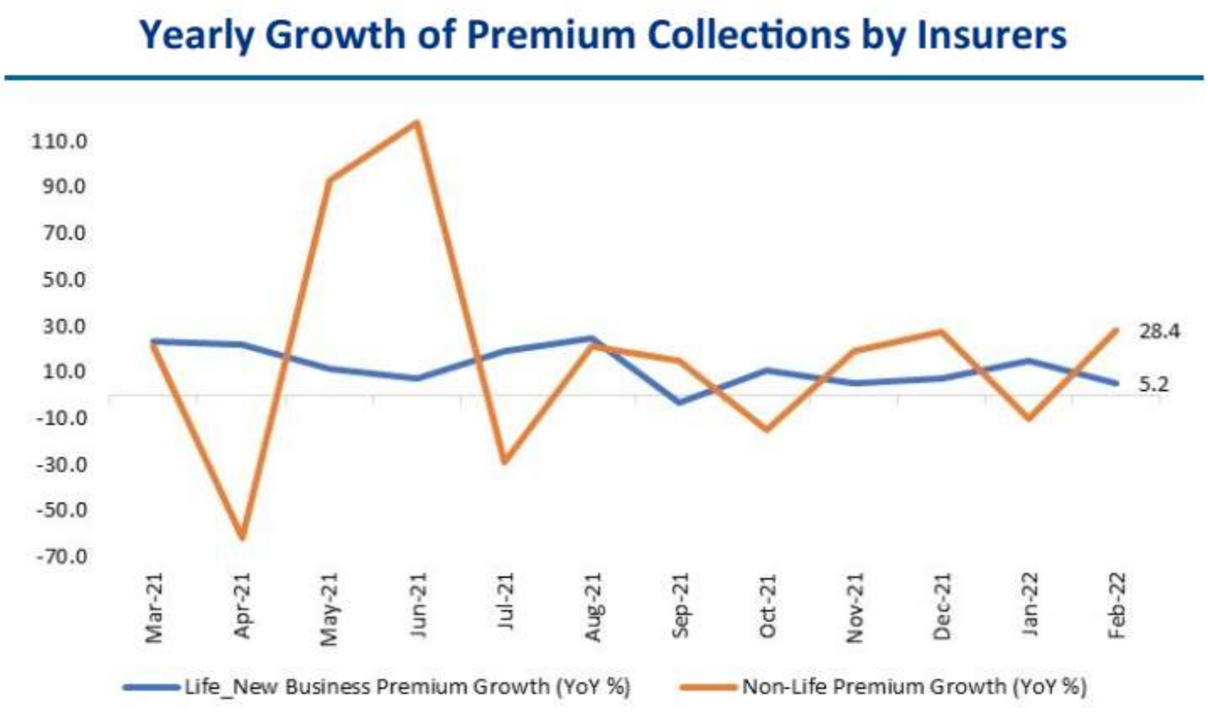
This section will discuss the research methodology adopted to analyse and understand the broad research objective of the paper. Secondary research has been conducted to understand the impact of the pandemic on the insurance and banking sector in India.

Extensive Secondary research has been conducted to understand the shocks faced by the insurance and banking sector in face of the lockdowns imposed to curtail the pandemic. Numerous journals, research papers, websites and scholarly articles were used to conduct the research. Articles from mint, and government websites were thoroughly used to conduct the research. Research papers written in the years 2021, 2022 were referred to, to understand the impacts.

5.1. **OBJECTIVE – Impact of covid-19 on the insurance sector of India**

The insurance industry all over the world has become the futile hope to which people are looking for rescue since the covid-19 pandemic. The increase in infections and the comparatively low numbers of recovery have given many insurance companies a financial hit. The total impact on this industry after the pandemic is yet to be analysed to help the government and the insurance companies to be prepared in any unfortunate pandemics in the future. Life insurance has a direct relation with the income of people, their business performance and their net worth. This dependence on other industries has made the insurance sector suffer. In India, the automobile sector which accounts to over 35 percent of the insurance premium collection, witnessed a slowdown reducing a huge chunk of the revenue.

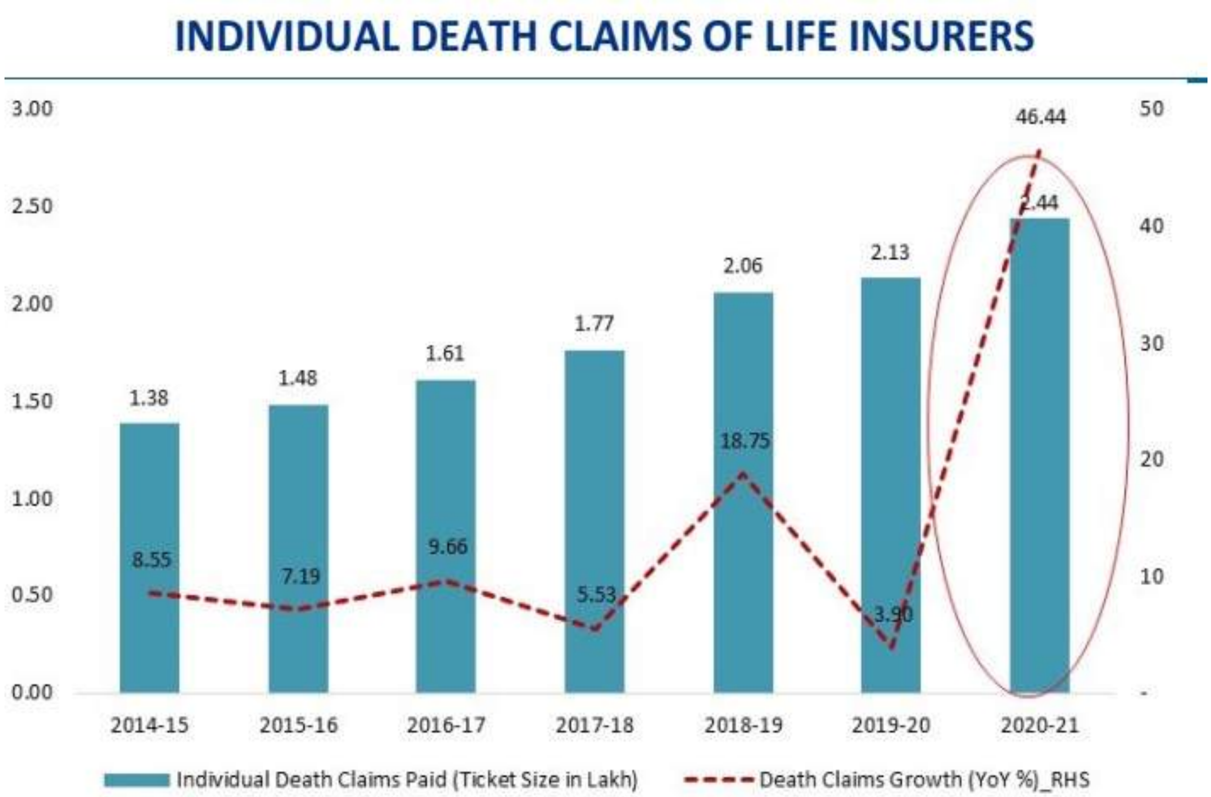
The insurance sector in India can be separated into two parts during the pandemic, life insurance and health insurance. A life insurance is a legal contract between an insurer and the policy holder in which the insurer assures to pay a specific amount of money in return for a premium, after the death of a specific insured person. A health insurance, also known as health coverage is the facility to finance the healthcare cost of the policyholder.



Covid-19 pandemic has affected the life the life and non-life insurance policies. However the sector of the health insurance policies have been showing an exponential increase in the same period. This pandemic has made people realise the importance of health and insurance policies and the need to have an adequate coverage for efficient services. This spread of awareness has made more people buy the policies to make sure that they have better coverage and that they claim the settlement. In the financial year 20-21, the retail health policies have shown an increase of 28.5 percent to Rs 26301 crore

Yet it hasn't been easy for the insurance sector during the pandemic. People have been starting to search for low premiums and the market has been becoming more and more competitive. Fortunate for the life insurance companies, they have been showing impressive growth since the third wave of covid-19. This growth was mainly due to initial public offering launched by life insurance corporation (LIC). They were able to witness a growth of 40% in the group single premiums.

The premium of the insurers other than life insurance dropped down after rising for two months. This drop was mainly because the crop protection business faced the worst hit.
The industries revenue fell by 22.6 percent in February 2022. According to an report by the state bank of India, in the financial year 20-21 the death claims paid by the life insurance industry increased by 40.8% to Rs 41598 crore which created a big impact on the industries funds. The rise in death claims was mainly because the high amount of deaths due to covid pandemic.



Key challenges faced by the insurance industries in India

- **Business stability:** the insurance sector being a highly complex business involving many processes has caused them to come up with new approaches to survive the pandemic. In the times of a global emergency, insurance companies were under a lot of pressure to satisfy their consumers. Their service had to remain constant despite the demand for the high volumes of claims
- **Managing employee welfare:** Since 2019, like many industries the insurance industry has been shifting towards digitisation. The employees need to work remotely for safety reasons, hence there was an immediate need to balance the work from home and to minimise the physical meetings. The employees also had to be given incentives during the lockdown to make sure of efficient services.
- **Crisis management and resolution**: There is a very strict need of analysing the crisis and to initiate methods to manage and communicate with the customers and employees effectively. The shift in the pattern of the requirement of insurance policies needed a change in the working of the company.
- **Capital adequacy:** All insurers have started experiencing solvency and liquidity challenges. The companies are required to closely analyse the financial status to maintain the regulatory solvency. A specific capital adequacy ratio is to be maintained by the insurance companies. Other factors like stakeholders, rating agencies and stability should also be managed carefully.
- **Claims Processing:** The volume of claims has had a major shift and the companies have to process it without causing any harm to the customers due to any lag. It was a necessity for the majority claims to be processed smoothly while completing their fact checking process.
- **Cybersecurity:** The insurance companies had become an easy target for the scamsters during the pandemic. Due to this increase in criminal activity, the insurance sectors have demanded for an appropriate IT infrastructure to increase the cyber fraud prevention and to monitor the activities,
- **Customer outreach:** The companies experienced a significant increase in the communication with the consumers. There was a sudden need to communicate about the Covid-19 coverage and related policies. Many companies, despite being in losses tried to launch and announce packages specific to Covid patients. This industries major revenues come from the sales of agents. The movements of agents were restricted due to the lockdown making is very difficult to make sure of customer outreach.

- **Digitisation:** Insurers have gone through a digital transformation for the benefit of automation tools at the product level. Various methods of digital underwriting were implemented to increase customer outreach. Risk management teams were also formed to assess their response to the crisis,

Changing trends in insurance industry during covid

- **Growth in online coverage business:** During the peak of the pandemic, all the people in India had to shift towards the online mode of business to earn bread for their family. There was a demand side shock in the online businesses which directly lead to the increase in the purchase coverage from online mode. A significant increase from 30 percent to 40 percent was observed in the coverage business which was due to the increased in fear of losing during the pandemic
- **Boost in call for medical insurance:** With the continuous extension of the lockdown due to the addition of more variants of covid, there was uncertainty of the lifestyle for all individuals. A wider variety of people started seeking specifically the medical insurance policies. The Indian companies were able to see a boom of more than 35 percent in the coverage plans which remained during the pandemic and stayed after.

Fortunately, since 2022 the death rate and the positivity rate of covid has declined steeply giving an opportunity to gain more profits in the health and life insurance sector. People of India have been purchasing more life and health insurance policies. The insurance industry in India is looking forward to more happy days in the post covid times. It being one of the most badly hit industries has been forecasted to reach great heights due to the constant rise in demands

5.2. **OBJECTIVE – Impact of Covid on Banking**

The coronavirus (COVID-19) outbreak has taken a heavy toll on global economic activity. The shock was sudden and simultaneous across countries, and it was marked by significant uncertainty about its magnitude and duration. Because of the virus's rapid spread, people all over the world have been forced to isolate themselves in accordance with strict public health orders. Social isolation and other containment measures are life-saving measures, but they have contributed to a synchronised collapse in economic activity. (Didier et al., 2021)

"Adoption patterns by product type as time from COVID progresses This table presents coefficient estimates for a panel regression model estimating the relationship between the spread of COVID−19 on relative (logarithmic) change in daily app downloads for finance category mobile apps. Days since first COVID case is a continuous variable capturing time elapsed (transformed into logarithmic form) since each country's first confirmed COVID case. First wave of lockdowns and Second wave of lockdowns denote dummy indicators that turn on and off during each country's first and second lockdown periods. We include interaction terms by product category to test for differential effects. The base level is general banking apps. All models include a general Post dummy indicator that turns on after the first confirmed COVID− 19 case worldwide. We run separate specifications including all countries in the sample (All), subset to advanced economies (AE) and subset to emerging and developing economies (EMDE). The data sample covers top android and iOS mobile finance apps for a globally representative sample of countries daily from January 1st, 2019 to December 9th, 2020. Standard errors are clustered at the country− application level and in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.10$. Data sources: AppTweak, Crunchbase, OxCGRT, and aura vision." (Fu & Mishra, 2022)

In EMDE and AE countries alike. For example, we conduct additional analyses to determine how sensitive the adoption of various products was to the duration of the COVID shock and the separate lockdown waves within countries at the aggregate level, and then by EMDE and AE countries (see Appendix Table A.8). We observe that demand for lending apps in EMDE countries increased significantly from the start of the pandemic compared to other product categories, but did not become particularly prominent as lockdown waves arrived. Meanwhile, demand for similar lending apps increased over time in the AE countries, but became particularly prominent in the long run during the second wave of lockdowns.

This is consistent with AE consumers having higher ex ante levels of financial health to buffer against initial shocks, but that a subset may have become more vulnerable as the economic shock grew longer. However, we see signs of a subset of consumers in the AE countries who have a greater capacity to branch out and leverage a broader set of financial tools, such as risk mitigation products (e.g., pure play insurance apps) and asset building tools (e.g., pure play investment apps). Overall, our analysis indicates that most product types saw an increase in adoption as a result of COVID, but that unbundled ("modularized") apps saw particularly significant gains in comparison to bundled products.

Base level – General banking apps	DV – Relative (ln) daily app downloads (All)	(EMDE)	(AE)	DV – Relative (ln) daily app downloads (All)	(EMDE)	(AE)
Panel A. Time from COVID cases within country	0.015***	0.033***				
ln(Days since 1st COVID case)			0.003			
	(0.003)	(0.005)	(0.003)			
ln(Days since 1st COVID case) X Payment	0.015***	0.009	0.021***			
	(0.005)	(0.010) 0.063**	(0.005)			
ln(Days since 1st COVID case) X Lending	0.048***	(0.027)	0.027***			
	(0.015)		(0.010)			
ln(Days since 1st COVID case) X Insurance	0.010		0.028***			
	(0.010)		(0.010)			
ln(Days since 1st COVID case) X Investment	0.034***	0.011	0.050***			
	(0.008)	(0.014)	(0.008)			
ln(Days since 1st COVID case) X Government	0.056*	0.048	0.033**			
	(0.030)	(0.041)	(0.015)			
ln(Days since 1st COVID case) X Miscellaneous	−0.003	0.008	0.006			
	(0.011)	(0.020)	(0.012)			
Panel B. Patterns across successive lockdown waves						
First wave of lockdowns = 1				−0.006	−0.025	−0.014
				(0.016)	(0.026)	(0.019)
First wave of lockdowns = 1 X Payment				0.051*	0.013	0.092***
				(0.030)	(0.060)	(0.029)
First wave of lockdowns = 1 X Lending				0.012	−0.011	0.011
				(0.073)	(0.125)	(0.044)
First wave of lockdowns = 1 X Insurance				−0.077		−0.012
				(0.074) 0.097**		(0.075)
First wave of lockdowns = 1 X Investment					−0.011	0.190***
				(0.048)	(0.073)	(0.062)
First wave of lockdowns = 1 X Government				0.242*	0.269	0.043
				(0.145)	(0.189)	(0.086)
First wave of lockdowns = 1 X Miscellaneous				−0.094**	−0.082	−0.050
				(0.043)	(0.072)	(0.051)
Second wave of lockdowns = 1				−0.197***	−0.030	−0.155***

(continued on next page)

Table A.8 (*continued*)

Base level – General banking apps	DV – Relative (ln) daily app downloads (All)	(EMDE)	(AE)	DV – Relative (ln) daily app downloads (All)	(EMDE)	(AE)
				(0.020)	(0.050)	(0.020)
Second wave of lockdowns = 1 X Payment				0.223***	0.131	0.225***
				(0.053)	(0.128)	(0.056)
Second wave of lockdowns = 1 X Lending				0.203***	0.062	0.219***
				(0.074) 0.170*	(0.383)	(0.076) 0.185**
Second wave of lockdowns = 1 X Insurance				(0.091)	−0.093*	(0.088)
Second wave of lockdowns = 1 X Investment				0.238***		0.278***
				(0.034)	(0.054)	(0.038)
Second wave of lockdowns = 1 X Government				0.117*	0.000 (.) 0.000	0.138**
Second wave of lockdowns = 1 X Miscellaneous				(0.065)	(.)	(0.065)
				0.278***		0.291***
				(0.078)		(0.079)
Observations	865,031	338,032	526,999	865,031	338,032	526,999
R^2	0.909	0.905	0.912	0.907	0.902	0.910

(Fu & Mishra, 2022)

COVID-19 has caused significant insecurity and volatility in global financial markets. While the full impact has yet to be determined, it is expected that the virus's knock-on effects will continue to have a negative impact.

1. Profitability, credit management, and risk cost

The combination of low interest rates and the significant impact of the COVID-19 is reducing core banking profitability in mature markets. As a result, financial institutions are shifting toward commission-based income from businesses such as payments and technology.

The increased credit risk of corporate and retail clients of banks is one of the immediate effects of the health emergency on the real global economy. To continue financing the real economy and support its recovery, banks must distinguish between purely temporary phenomena that will be absorbed quickly and longer-term impacts that will necessitate management and reclassification actions. Given the peculiar nature of COVID-19, the forward-looking information update – in particular, the manner in which new information must be incorporated into risk parameters – must be carefully analysed. This may last less time than cyclical downturns caused by economic-financial factors.

The updating of the 'default rates,' which must take into account any waivers granted by the authorities in relation to only temporary phenomena of creditworthiness expiry; the definition of the most appropriate timescales for updating the 'recovery rates,' in order to be able to factor in the positive effects derived from credit recovery policies, which could introduce forms of deferred payments or long-term agreements.

The slowing of economic activity is having a negative impact on credit quality, as banks increase loan loss provisions. A few European banks have already reported significant losses in Q1'20 (Jan-Mar) to prepare for a potential surge in bad loans.

2. Operational resilience and business continuity management

The availability of technological innovation can play a significant role in ensuring the business continuity of the banks. For example, the activation and improvement of robotics solutions or artificial intelligence (e.g., Advanced BOTs that support the adoption of the technologies displayed on the channels direct) and mobility (e.g., platforms for the management of promoters and system authorizations), if applied to critical processes, would allow for an easier protection of the banks' business operations.
The financial sector has a clear opportunity to assess the advantages of applicable Cloud technologies given the requirement for a variable availability of infrastructure resources. While COVID-19 may cause a real-economy crisis, the impact on the banking system and the bank-customer relationship can also be defined as a 'positive discontinuity' for the purpose of sector digitization and the ability to provide an excellent customer experience.

3. Customer relationship and commercial models

- While COVID-19 may cause a real-economy crisis, the impact on the banking system and the bank-customer relationship can also be defined as a 'positive discontinuity' for the purpose of sector digitization and the ability to provide an excellent customer experience.
- Banks, even the most territorial and branch-centric, are being forced to encourage the use of channels that were never a strategic priority for them. This would be a particularly complex phase, which banks must address by demonstrating genuine proximity to their customers.
- Banking operators' clear understanding of their service gap, which has become more tangible than ever before with COVID-19, may make them even more inclined to accelerate the digital transformation path through partnerships and collaborations within the fintech community."

High volatility in stock markets depressed banks' valuation

"COVID-19 has caused significant insecurity and volatility in global financial markets. The financial sector has been one of the hardest hits, with bank valuations falling in all countries around the world (the P/NAV multiple fell from 1.00x on 31 December 2019 to 0.69x on 30 April 2020). At the regional level, North American banks continue to trade at an average P/NAV of 1.15x, while Asian and European banks (with the exception of the Nordics) are trading at significant discounts (average P/NAV of 0.56x and 0.52x, respectively).
During COVID-19, banking stocks were impacted. Most banks experienced a price drop in mid-March between 01 December 2019 and 30 April 2020. For the given period, the Euro STOXX banks index fell by 40.18 percent, followed by the STOXX North America 600 banks index (31.23 percent) and the STOXX Asia/Pacific 600 banks index (26.09 percent)."

Government Initiatives

Severe business interruption losses have been caused due to the COVID-19 pandemic and the several measures put in action to prevent the spread of the virus. This has largely affected economic output in various countries around the world causing a severe turmoil. Unless the government or higher authorities step in, policyholders will likely be responsible for paying the vast bulk of these losses. The COVID-19 pandemic significantly changed how people view life insurance and how insurance companies deliver their services. It altered how firms, particularly those in the insurance industry, conduct themselves in India. Also, for individuals, the pandemic served as a reminder of the value of life insurance during difficult times.

The world economy was in disarray and is projected to decline sharply. The global insurance industry has already suffered significant effects from the outbreak; between December 31, 2019, and April 9, 2020, the insurance index fell by 22.6 per cent. Within the exact time period, the insurance industry stock values in India decreased by 25.9%. The crisis's logistical and balance-sheet issues, which include disruptions in new business and policy servicing in addition to reductions in interest rates, are largely to blame for the insurance sector's precipitous collapse.

Corona pandemic has had an impact on the Indian banking industry. An outbreak of the new Corona Virus affects banks. As the virus spreads throughout India, borrowers and businesses face risky issues like an increase in unemployment, sluggish sales, and diminished profit. To provide some financial freedom to the customers during financial crisis, the national banks were motivated to formulate proper banking rules and regulations that were beneficial for both the parties, by the Reserve Bank of India.

The COVID -19 Pandemic has presented numerous difficulties for Indian banks. In light of the ambiguity surrounding the intensity, duration, and impacts of the epidemic and the ensuing effects on India's bank limitations on economic activity, the overall operating climate is unfavourable. India's Banks already struggled with low confidence among consumers and companies. The Indian Financial Market has been influenced by worldwide risk aversion.

The further analysis gives a general overview of the responses to COVID-19 that have been made by the government authority, insurance administrators and inspectors, and individual enterprises in the banking sector as well as the insurance sector.

I. Banking Sector Initiatives:

1. Shift to digital marketing

Apart from the downfalls resulted due to Covid-29 there is one positive change in the banking industry. This pandemic has encouraged banks to move to digital banking operations. Residents of India increasingly depend on call centres, internet banking, and telephone banking. In order to get things going, HSBC Banks in India divided the populace. Increasing numbers of customers are resorting to internet banking options for tasks like money transfers, creating bank accounts, etc. as social distancing and mobile transactions come into focus. This is what has encouraged banking institutions to provide greater online functions and multichannel systems that are digitally enabled.

2. Reform package for Covid-19

By creating provisions and Asset Classification Norms, the RBI established a number of restrictive frameworks for combating the COVID-19 Pandemic Disruptions. The announcement states that the RBI would focus on preventing financial hardship for business owners so that they could continue operating in a favourable climate while also easing debt reduction requirements and improving accessibility to working capital management tools.

3. Liberty in payments - term loans and working capital provision

All commercial banks, cooperative banks, and non-banking financial organisations, including regional rural banks, small finance banks, and neighbourhood banks, (other financial sources and lenders) are allowed to even offer relief in the payout of all Equated Monthly Installments (EMI), in particular regard to debt instruments that include agricultural loans, for the three-month period from 1 June 2020 to 31 August 2020. The remaining term of such a loan shall be handed to the Committee for scheduled repayment.

The Reserve Bank of India decides to provide working capital services such as cash credit and overdrafts. Commercial banks decided to move the start date of the payment grace period from 1 June 2020 to 31 August 2020. Regarding interest gathering for all of these initiatives. Financial institutions have the option to convert accrued interest for the deferral period up to August 31, 2020, into a funded interest term loan (FITL), which has a repayment deadline of no later than March 31, 2021.

4. Classifying assets

The Reserve Bank of India chooses to amend the borrower's credit policy and transform interest accrued into a funded interest term loan in order to specifically address the COVID-19 Crisis. In accordance with the guidance in the prudential framework that will take effect on June 7, 2019, the RBI is working to resolve stressed assets, which is not expected to result in a reduction of the Asset Classification.

5. Quantitative measures by RBI

In light of adverse effects due to the Covid-19 pandemic, apart from the above mentioned and several other programme implementations, RBI also brought changes among several other measures that it controls such as:

a. For the purpose of structural strengthening, RBI gives clients guidelines on how to set operating restrictions.
b. In addition, the RBI reduced the REPO Rate by 90 BPS.
c. RBI REPO Rate was further decreased by 2-3%.
d. Indian Reserve Bank Continued to decrease the REPO rate to almost nothing.
e. RBI continues to employ 25.000 carorers. RBI's Long Term Repo Operation (LTRO) adds more domestic liquidity via dollar SWAPS LTR.

II. Insurance Sector Initiatives:

1. Putting business continuity plans into action

Activation of Business Plan Continuity (BCPs) by many insurance companies took place during the course of the Covid-19 pandemic mainly due to the other measures implemented by authorities across the world to reduce the spread of the virus. Major changes included providing digital services, setting up remote working facilities, etc. The majority of insurance companies likewise moved quickly to restrict staff members' access to overseas travel. Insurance supervisors are actively promoting appropriate steps by insurance companies and channel partners to confront any delivering services inefficiencies and are closely observing the implementation of BCPs with the goal of making sure that policyholders can obtain insurance benefits and send assertions despite emergency situations. Several states have set great coordination among various financial and insurance supervisors to establish a common agreement on BCP execution and associated risks.

2. Promoting the delivery of insurance services digitally

Prior to the pandemic, many businesses seemed to have had misgivings about their own technical prowess and labour capacity. However, amid the blur of pandemic-related responses in 2020, those concerns turned out to be largely unfounded. Executives advanced digital transformation because they had increased faith in what technology is capable of. They say that as part of their recovery strategy for COVID-19, they invested in cutting-edge technologies including blockchain, cloud, AI, and IoT. Customers are more frequently using online channels to purchase and update their life insurance because of the growing emphasis on social distancing and digital transactions. Insurance providers are now providing omnichannel solutions that are digitally enabled and have improved online functions.

3. Easing the burden of administration (supervisory activities)

Governments have largely handled the situation by taking action to relieve insurers' administrative burdens from legislative and oversight obligations to enable them to continue providing insurance services. Additionally, these techniques aided insurers in improving the risk assessment of their Covid-19 financial exposures. Officials have outlined requirements for insurers, such as the judicious use of dividend and variable payment programmes to preserve equity. Enhancing their resistance to significant uncertainties brought on by potential Covid-19 fallout is the goal. Other capital-related policies should lessen oversight demands and lessen the counter-cyclical financial advisory propensity of insurers. These actions include adjusting financing needs, activating the countercyclical lever, and expanding the regulatory involvement ladder.

Policy Recommendations

A. Insurance Sector

The following are some recommendations that the government could implement to further aid the growth in the insurance sector –

1. The development of agricultural insurance markets: The major objective is to assist governments in making sure low-income farmers are financially safeguarded against natural calamities like droughts. Numerous concepts are being investigated, such as the FONDEN, a system to promote the quick rehabilitation of federal and state infrastructure damaged by unfavourable natural disasters, the African Risk Capacity - an African Union Specialized Agency formed to assist African governments in strengthening their capacities to effectively prepare for, respond to, and plan for extreme weather conditions and natural disasters, the Kenya Livestock Insurance Program, and the Mexican CADENA program - a social safety net programme for small subsistence farmers for whom commercial crop insurance isn't always the best option or most affordable option. It can help in:
    - Increasing the creditworthiness of farmers and increase access to inputs and credit for agriculture. Agricultural insurance may serve as a motivating factor for increased output. It can be used by farmers as security for loans from agricultural lenders, giving them access to the credit markets they need for investments like fertiliser and improved seeds, which can increase production.
    - Securing financial resources for those affected — farmers and governments alike — before a natural disaster occurs can assist governments in effectively mobilising financial resources for relief spending. This enables governments to avoid ad hoc finance approaches that are ineffective for helping farmers hit by disasters.
    - Provide as a social safety net for the poorest farmers, who are frequently the ones most negatively impacted by natural disasters.

    The government can:
    - Government support is essential to overcoming the aforementioned obstacles in many low- and middle-income nations, which defines successful agriculture insurance markets. The government's supportive role in these public-private partnerships (PPPs) is crucial in two areas: data and financial premium assistance.
    - The gathering, management, and quality-auditing of the data required for agricultural insurance purposes can be supported by governments. For instance, local governments in India gather information on crop yield through extension workers, keep it in a government-owned database, and give it to insurance companies to use in the pricing of their agricultural insurance products.
    - Governments can provide financial premium support by giving low-income farmers subsidies in order to increase the uptake of insurance. Farmers may develop a risk-management mindset as a result of subsidies since they are

enticed to contribute to the cost of insurance if the government will foot the rest of the bill.

- Distribution of products (for instance, by increasing its connection to agricultural loans), capacity building, offering insurers public reinsurance, and setting up a responsible legal and regulatory environment.

2. The difficult financial situation of public-sector general insurers should be addressed, and the incoming administration should achieve the ideal balance between fostering the expansion of the insurance sector and defending the rights of policyholders. Addressing low capital levels is important, and putting in place a risk-based capital structure is a related concern.

3. The use of technology in the insurance industry is another area that needs regulatory oversight. One illustration is the emergence of "InsurTech," which aims to simplify and improve the understanding of the claim process. In this regard, if a thorough framework is developed for the industry, keeping in mind the accompanying obstacles, the Indian insurance market can benefit from the wise application of technology and innovation.

4. There are currently about 110 InsurTech start-ups in India. Through simplification and rationalisation of regulations for the establishment and operation of InsurTech enterprises, this number can be greatly increased. Moving forward, the insurance industry should push big data technologies such as cloud computing, artificial intelligence, and machine learning through the proper channels. Underwriting, claims management, insurance renewals, and fraud management may all benefit from this. In order to improve insurance coverage among lower-income households in tier II, III, and IV cities, regulatory standards for microinsurance providers must be loosened.

B. Banking Sector

The government should:

1. Through a strategy and the best use of digital technology, increase access to banking in every district. The government should invest in banking innovation.

2. The interaction with the clients is better when the services and banking procedures are flexible and easily available. Reducing the income tax rates on fixed deposits is another way to stimulate the banking industry.

3. The establishment of a unique regulatory body and taxing system to address numerous cryptocurrencies issues.

4. Create less regulation and more supervision - As banks and regulators around the world adjust their business models to assess and manage risk uniformly, the regulatory approach to measure risk and assign risk weights indicates diminished "genetic diversity" in the financial system.

   This poses a concern since, instead of minimising risk, it increases it. The Basel system as a whole has this significant fault since it is founded on the concept of risk rather than the concept of uncertainty, although we live in an uncertain world. It has increased systemic risk as a result. To deal with uncertainty there is a need of more supervision, not more regulation.

Typically, we increase the number of restrictions after a number of negative events. In an uncertain world, flexibility is necessary, not a sophisticated, inflexible structure, which is what you are developing. Making more and more regulations opens up more room for discretion because someone now needs to be aware of the rules and know how to apply them. You actually need supervision.

Conclusion:

The Pandemic has come as a surprise to the Indian insurance industry. To overcome the disruption caused by the Pandemic, insurers must act decisively. In recent years, India's growth has been aided by a robust insurance sector. The government and IRDAI should return to the task of rebuilding the insurance industry. The insurers should provide regular updates to the regulatory authorities. The strategies, including business lines and products, must be re-evaluated to reflect the impact of the Pandemic on the business. Customers' expectations of what products and solutions they require require insurers to adapt. Channel strategies will have to be revised. New operating models that were previously thought to be unattainable will be prioritised in planning. Automation investments, including AI and RPA, must be increased.(*IMPACT OF COVID-19 PANDEMIC ON THE INDIAN*, 2021)

As a result, healing takes longer, and some restrictions might start to become standard. Due to this component of societal recovery, insurers are required to support businesses by resuming halted activities during the transition while also abiding by the COVID-19 constraints, which experts say are very likely to shield them against a second wave of infection. I Insurance companies must prepare for paradigm adjustments, concentrate on providing value, and back their motive-driven actions with new behavioural patterns like leveraging a wider system and releasing the power of effect. In the post-pandemic era, these new recommendations might be put into practise. Insurance companies will need to test new models, update their current ones, adapt to new geographies, and develop new products in order to survive in this market. Singh and Kaur, 2022)

Financial institutions give their staff a comfortable, healthy work environment and retrain them in new procedures and methods. Through digital channels, they are enhancing their customer-centric strategy. To ensure business continuity, the RBI creates policies. Work together to enhance the procedure and the clientele's experience. According to growth and risk profiles, sectors and client segments should be reprioritized. The COVID-19 epidemic has altered the scenario, and the government is enjoining individuals to develop original business plans for the altered economic climate. committed to utilising cutting-edge technologies to build a robust digital ecosystem (Bobade & Alex, 2020)

Critical circumstances such as these demand strong and effective policymaking in Health, business, government, and the community given the difficulties of a new recession and economic crisis. Immediate but carefully thought-out support measures must be started and adjusted for those who might become lost in the system. Mid- and long-term solutions are needed to stabilise and inspire the economy throughout current slump. a comprehensive social-economic development strategy made up of sector-specific programmes and infrastructure that help businesses ensure the success of those with reliable and sustainable business models.”

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Bifurcation of work/ Declaration of the member contribution

Group of 5 member

Member 1 : ABHISHEK MODALI - Abstract, Introduction (1 page), Research Objective and Research Methodology (together 1 page), Conclusion (1 page) + 2 Literature Review (1/2 page each; LR total 1 page) **= Total 4 page**

Member 2 : AKSHAY MAIYA - 5.1 Objective 1 (3 pages excluding graphs , tables, figures) +2 Literature Review (1/2 page each; LR total 1 page) **= Total 4 page**

Member 3 : AMAN APTE - 5.2 Objective 2 (3 pages excluding graphs , tables, figures) +2 Literature Review (1/2 page each; LR total 1 page) **= Total 4 page**

Member 4 : AASHVI SHAH - Government Initiatives (3 pages excluding graphs , tables, figures) +2 Literature Review (1/2 page each; LR total 1 page) **= Total 4 page**

Member 5 : AADITYA SHAH - Policy Recommendation (3 pages excluding graphs , tables, figures) +2 Literature Review (1/2 page each; LR total 1 page)