AJMT

Asia-Pacific Journal of Management and Technology

Online ISSN: 2652-6840

journal homepage www.ajmt.org

Review Article

Aftermath suffered by RBI due to moratorium

Manisha Dey[1*]; Wang Juan[2]

[1]*Amity University Kolkata, India and Research Scholar of C.V Raman Odisha, India.*
[2]*Lincoln University College, Malaysia*

**Correspondence E-mail: manishakdey@gmail.com*

Abstract

Financial system is the backbone of the Indian economy. RBI holds the controlling power of the Indian financial system and takes measure to bring the stability by controlling the supply. Due to COVID 19 pandemic, Indian economy are going through very tough period and during this period main supportive hand raise by RBI by safeguarding the interest of the borrowers. The tool implemented by RBI was moratorium to support the borrowers by stake outing with know or unknown consequences. The paper focus on the current status of the Indian banks and the highlighted the negative and positive impact of moratorium on RBI. The paper highlights the measure taken by RBI to combat the stiff situation and also emphasis the role of RBI in reducing the risk of commercial banks.

Keywords: *RBI; Moratorium; Economy; COVID 19*

Introduction

Moratorium is the process where borrowers deferred the payment of EMI (equated monthly instalment) without any penalty charge against the non-payment to banks. RBI plays a pivotal role by giving relief to the borrowers facing liquidity crunch in this pandemic situation. On 27thMarch 2020 RBI brought circular to provide three-month moratorium of all types of term loan like home loans, vehicle loans, personal loans, agricultural loans, and crop loans as well as the dues on credit card were also available for the benefit of it. Again, on 22ndMay 2020 the moratorium time period got further extended to another three months relief to the borrowers.

Current position of Indian Banks:

Mega merger of the banks has already taken place where ten large PSUs banks got amalgamated into four biggest banks in 2019. The reasons behind the merger were to reduce NPA suffered by weaker banks and tostrengthen the financial position. With that other benefit include like increase in the lending capacity, risk management, operational efficiency, all these enhanced the capability of the banks to compete with foreign banks. But Covid 19 has created such a huge impact that it has overshadowed all these advantages and it has thrown new challenges in front of the financial institutions. The current scenario are as follows:

Risk of underlying assets under moratorium

As per the Financial Stability Report of RBI capital to risk weighted assets of the banks decline to 14.8% in March 2020 compared from 15% in September 2019. At present Rs 90 lakh crore stand due in the books of Micro, Small & medium enterprises (MSME) which is 20% of the total outstanding loans(Sinha, 2020).

Interbank market

Interbank market refers to currency market of international banks operation in financial centres around the world. The Interbank market is at high risk because of which there is a possibility of spreading economic crisis across the countries.

Problems of liquidity risk

Most of the non-banking financial companies (NBFCs)/Non-banking financial institutions (NBFIs) are the ultimate sufferer amidst the financial institutions. They are into the business of short-term liquidity which results in substantial gap between the cash inflows and cash outflows. This funding gap leads to bank borrowing which further increase the total borrowing from 23.1% to 28.9%. NBFCs is currently standing with gross payables of Rs 8.84 lakh crores and gross receivables of Rs 89 lakhs crores as per financial stability report (Panda, 2021).

Second largest borrowers in the financial system is Housing Financial companies (HFCs) with gross payables of R 5.91 lakh crores and gross receivables of Rs 0.45 lakh crores. These overleveraged non-financial sectors have to downside their bank credit which forges high risk in terms of their solvency.

Decision taken by RBI to counter coronavirus on the economy

RBI has constituted a team of 150 members who will face upcoming challenges and ensure the smooth functioning of the financial system. The following measures taken to combat with the current scenario are as follows: -

Adjustment in LAF rates

Liquidity adjustment facility is one of the important tools used in the monetary policy by RBI where bank can borrow money from RBI and also make loans to RBI. RBI has reducedthe repo rate and reserve repo rate to help the private and public banks to overcome from the financial crisis. RBI is trying to reduce the pain and stress level bearing by non-financial institution and housing financial institutions by reducing the repo and reserve repo rates.

Fix Range LAF Rates

Effective Date	Repo	Reverse
22-05-2020	4	3.35
17-04-2020	4.4	3.75
27-03-2020	4.4	4
04-10-2019	5.15	4.9

https://dbie.rbi.org.in/DBIE/dbie.rbi?site=home

As per the above data RBI has frequently adjusted the repo and reserve repo rates to bring liquidity into the financial system. Currently the repo rate is 4% and the reverse repo rate is 3.35% which has opened the doors for liquidity of Rs 1, 37,000 crores in the banking system.

- Relaxation of working capital interest
  RBI has allowed deferment in payment of interest on cash credit/ bank overdraft and permitted the banks to convert the accumulated interest into funded interest term loan (FITL) whose repayment will start after 31st March 2021.

- Net Stable funding Ratio
  Net Stable funding ratio mainly is to promote resilience of the banks in the long run. The formula used to calculate NSFR is the Total available Stable Funding (ASF) by Total Required Stable Funding (RSF) which should always be greater than 100% as per the policy norms of RBI but due to present outbreak of pandemic disease RBI decided to adjourn till 1st October 2020 (RBI 2021).

- Special financing facility
  To inject more liquidity in the economy RBI announced special financing facility to Rs 50,000 crores for NABARD, SIDHI and National Housing Bank.

- Changes in NPA classification
  Announcement of 90 days relaxation in the loan repayment structure and further extension of the moratorium period outplayed the present NPA classification of the banks. These changes are providing the bankingsystem a huge relief from the stressful situation occurred due to pandemic.

Negative impact

- Where protecting the social harmony and health structure are the major concern, banks are taking measures to reduce the financial crisis and to increase the financial stability. MSME which is key pillar of our economy will find difficult in getting loan as this sector unable to meet the asset quality requirement of the banks.As per the test done by HDFC,9% of MSMEs are under the stress level.(Gopakumar, 2020).
- As per the report of *Fitch Rating* post Covid 19 non-performing assets are expected to increase to Rs 10 lakh crore which with increase stress level of the individual banks of India. As per the report of Fitch rating global economy fall to 2% and will take time to recover. (Fitch Ratings,2020).
- Relaxation of the interest payment on working capital leads to probability of increase the bad loans as well as non-performing assets for banks.
- Because of frequent changes in repo and reverse repo rate the banks have decreased the rate of interest in savings account and in term deposits.

Positive impact

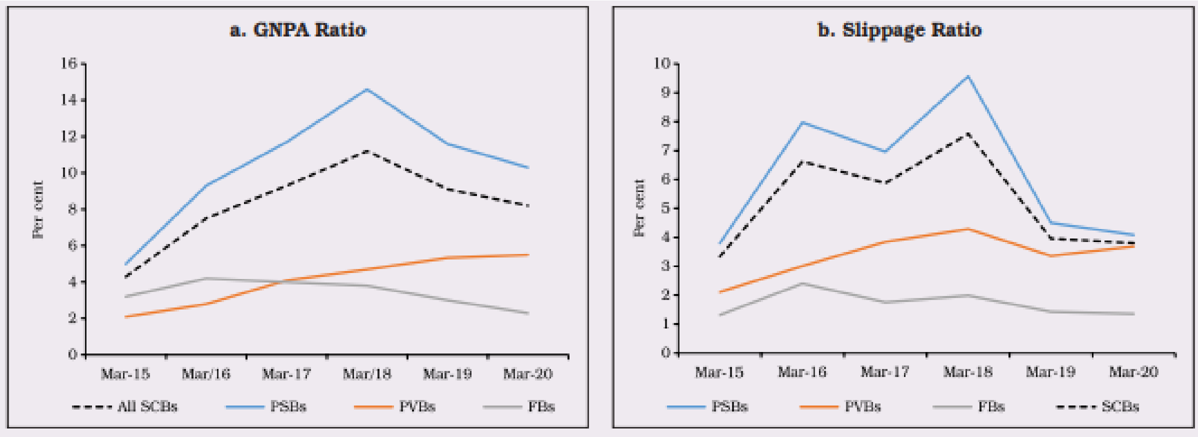
- As moratorium is a compulsory financial binding but still banks like SBI bank, the largest bank of India and Axis bank, the third largest bank has reported that only 10% to 12% of the borrowers have opted for temporary suspension of EMI and with that HDFC bank has reported that it is in single digit.
- Due to relaxation in LAF banks can easily takes the loans at low rate of interest.
- The financial institutions reduce their stress level due to deferment of Net stable funding ratio norms which is mandatory for the banks to kept stability in relation to composition of assets quality and off-balance sheet activities.
- Special financingfacilityassistances the voluntarysectoroftheeconomybecausethis sectorplaysessential roleandcontribute major portion in ourGross domesticproduct. IndiagovernmenthasdepositedRs28,256to Rs31.77 croresindirectbenefit transfer account toassistthepeople suffered during the pandemicperiod. (The Economic Times.2020). WorldBankhastakenvarious measures by providing $160 billiontowardshealth, economicand socialshocksfacingcountries over15months.(The World Bank.2020)

Results& Discussion:

Two main things commercial banks need to focus to overcome the stress level created because of Covid 19 pandemic are

a. Managing the non-performing assets
b. Measure to reduce the slippage ratio.
c. Operational risk

The stress level of the commercial banks has increased over the period due to moratorium. Due to Covid 19 relief measures assets quality of the banks got declined abruptly. The gross net performing assets of the banks and the slipping ratio of the Indian commercial bank's charts (Fig.1).



Note: GNPA ratio is calculated using annual accounts of banks and off-site returns (global operations).
Source: Annual accounts of banks and off-site returns.

Fig. 1. Assests Quality of the banks
https://rbidocs.rbi.org.in/rdocs/Publications/PDFs/0RTP2020_F3D078985540A4179B62B7734C7B445C9.PDF

The gross net performing assets of PSBs is highest as per the above graph followed by all SCBs. Slippage ratio takes in account fresh accretion in the books of bad loans of the banks. It is observed from the graph that PSBs slippage ratio was highest amongst the various categories of banks whereas foreign banks found to be in an advantageous position. From the graph revealed the increase in slippage ratio was low in comparison to past years.

To remove the NPAs from the books of accounts of the banks implemented reduction as well as write off strategies. If the banks reduce their NPAs then they clean up their balance sheet, take the tax advantage and finalise optimise the use of the capital.

Therefore, to reduce the burden of NPAs, banks write off those NPAs which are four years old where it needs to maintain 100% provisions.

(Amount in ₹ crore)

Bank Group	End-March	Standard Assets		Sub-Standard Assets		Doubtful Assets		Loss Assets	
		Amount	Per cent*	Amount	Per cent*	Amount	Per cent*	Amount	Per cent*
PSBs	2019	50,86,874	87.8	1,37,377	2.4	5,06,492	8.7	66,239	1.1
	2020	53,27,903	89.2	1,32,530	2.2	4,04,724	6.8	1,07,163	1.8
PVBs	2019	31,03,581	95.2	42,440	1.3	1,04,696	3.2	9,576	0.3
	2020	34,14,554	94.9	56,588	1.6	92,396	2.6	34,986	1.0
FBs	2019	3,94,638	97.0	3,190	0.8	8,019	2.0	1,034	0.3
	2020	4,25,857	97.7	3,273	0.8	5,775	1.3	1,161	0.3
SFBs**	2019	61,652	98.2	719	1.1	360	0.6	44	0.1
	2020	89,800	98.1	1,023	1.1	648	0.7	39	0.0
All SCBs	2019	86,46,745	90.8	1,83,726	1.9	6,19,567	6.5	76,894	0.8
	2020	92,58,114	91.7	1,93,413	1.9	5,03,543	5.0	1,43,349	1.4

Notes: 1. Constituent items may not add up to the total due to rounding off.
2. *: As per cent to gross advances.
3. **: Refers to scheduled SFBs.
Source: Off-site returns (domestic operations), RBI.

Table 1. Classification of Loan Assets by Bank Group
https://rbidocs.rbi.org.in/rdocs/Publications/PDFs/0RTP2020_F3D078985540A4179B62B7734C7B445C9.PDF

From the Table 1 it has been observed the public sector banks standard assets percentage to gross advances is lower as compared to other banks which somehow increases the percentage of loss assets. Small finance banks position is somewhat better amongst the bank group. More the assets fall under the category of sub-standard, doubtful assets and loss where the banks need to maintain at least 10% of provision, henceforth proliferate the risk level.

Another reason behind the outpouring of NPAs is the operational risk of the banks.

(Cases in number and amount in ₹ crore)

Area of Operation	2017-18		2018-19		2019-20		2019-20 (April-September)		2020-21 (April-September)	
	Number of frauds	Amount involved	Number of frauds	Amount involved	Number of frauds	Amount involved	Number of frauds	Amount involved	Number of frauds	Amount involved
Advances	2,525	22,558	3,604	64,548	4,611	1,82,117	2,441	1,10,639	1,664	63,950
Off-balance Sheet	20	16,288	33	5,538	34	2,445	22	2,059	14	439
Forex Transactions	9	1,426	13	695	8	54	3	52	1	0
Card/Internet	2,059	110	1,866	71	2,677	129	1,234	53	1244	49
Deposits	691	457	593	148	530	616	274	484	245	148
Inter-Branch Accounts	6	1	3	0	2	0	2	0	2	0
Cash	218	40	274	56	371	63	208	24	132	21
Cheques/DDs, *etc.*	207	34	189	34	202	39	98	13	76	48
Clearing Accounts, *etc.*	37	6	24	209	22	7	15	6	4	1
Others	144	247	200	244	250	174	113	44	106	25
Total	**5,916**	**41,167**	**6,799**	**71,543**	**8,707**	**1,85,644**	**4,410**	**1,13,374**	**3,488**	**64,681**

Notes: 1. Refers to frauds of ₹1 lakh and above.
2. The figures reported by banks and financial institutions are subject to change based on revisions filed by them.
3. Frauds reported in a year could have occurred several years prior to year of reporting.
4. Amounts involved are as reported and do not reflect the amount of loss incurred. Depending on recoveries, the loss incurred gets reduced. Further, the entire amount involved in loan accounts is not necessarily diverted.
Source: RBI.

Table 2. Frauds in Various Banking Operations Based on Date of Occurrence
https://rbidocs.rbi.org.in/rdocs/Publications/PDFs/0RTP2020_F3D078985540A4179B62B7734C7B445C9.PDF

From the table 2, it is found that number of frauds increase by 82% in the year 2019-20 with comparison to 2017-18. This increase number of frauds happen due to frequent occurrence of operational risk such as

- Internal fraud like employee's theft, internal trading,
- External fraud like robbery, cheque kiting
- Employment practices and workplace safety like workmen compensation, general liability
- Clients, product and business practices- Misuse of confidential customer information
- Damage of physical assets- terrorism, earthquakes
- Business disruption and system failure- Software failure
- Executive delivery and process management- Data entry errors, vendor dispute. (RBI,2019-2020)

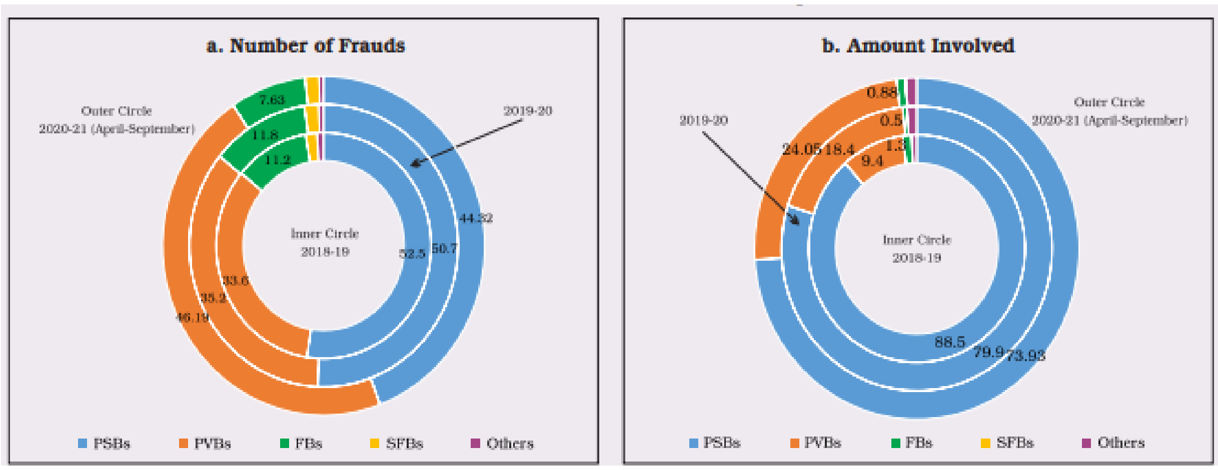


Fig. 2 Share of Fraud Cases: Bank Group-wise
https://rbidocs.rbi.org.in/rdocs/Publications/PDFs/0RTP2020_F3D078985540A4179B62B7734C7B445C9.PDF

From the Fig. 2 it has been observed that number of fraud cases are very high in case of public sector banks and private sector banks. More than 80% of the total amount involved were reported by PSBs. Total Rs 1, 13,375crores of loss occurred in the year 2019-20 because of various operational risk. (RBI, 2019-2020).

Conclusion:

The case study reveals the present situation of Reserve Bank of India and measures taken by them to combat with the banking system problem is remarkable. Banking system is one of the most vital part of our economic system encircling with these other economic activities. The case study highlights the major impact of Covid 19 on the Indian financial system and its affairs. One of the key elements used by RBI to tackle the current pandemic is moratorium which is a greatest relief given to the borrowers.

It also put emphasis on the ongoing issues of the financial institutions and also spotlight the major effector of Indian banking system. The case also highlighted the reason behind the increase in stress level of banks due to Covid 19 as well as number of fraud and damage arose because of operational risk. It has tries to describe the problems of the RBI while going through the path of uncertainty and risk exposure attached in every minute changes on the policy can provoke political or credit risk in the economy.

Former RBI governor Raghuram Rajan said that "Full economic recovery takes very long time "Henceforth what more will happen is enfolded and RBI needs to be more proactive in reinforcing the economy.(Rajan, 2020).

Acknowledgments:
The authors would like to thank the Amity University, Kolkata and C. V. Raman Global University for giving necessary permission to conduct the study.

Conflicts of Interest:
The authors declare that the research has been conducted in the absence of any

commercial or economic associations that could be construed as a potential conflict of interest.

References

Adhikari, A. (2020). *No, Thank You': Less than10% bank borrowers avail 3-month EMImoratorium.* Business today.

Al-Abed, A. A. A. A., Mehmet, N., Gökler, M. E., Elengoe, A., Ünal, E., & Mollahaliloğlu, S. (2020). *Knowledge, attitudes and practices regarding COVID-19 among the Turkish and Malaysian general populations during lockdown: A cross-sectional online survey*. The Ethiopian Journal of Health Development, 34(4).

Dayal, (2020*). RBI releases the Financial Stability Report,* July 2020. https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=50122.

Fitch Ratings (20 Apr 2020). *Fitch Takes Action on 5 EMEA Trade Finance Banks on Coronavirus Disruption.* https://www.fitchratings.com/research/banks/fitch-takes-action-on-5-emea-trade-finance-banks-on-coronavirus-disruption-20-04-2020

Gopakumar, G. (2020, 03 Nov). *MSME scheme aids banks' asset quality*. Mint. https://www.livemint.com/industry/banking/ms me-scheme-aids-banks-asset-quality-11604368435291.html

Nor, N.A.U.M., Solehan, H.M., Mohamed,N.A., Hasan, Z.I.A., Umar, N.S., Sanip,S. & Rani ,M.D.M.,(2020). *Knowledge, attitude and practice (KAP) towards COVID-19 prevention among Malaysian adults during the period of Movement Control Order (MCO): An online cross-sectional survey.* International Journal of Research in Pharmaceutical Sciences, 11(SPL1), 1458-1468. https://doi.org/10.26452/ijrps.v11iSPL1.3693

Panda, S. (2021). *Asset quality of NBFCs may deteriorate further: Financial stability report.* Business Standard.

RBI. (2019-2020). *Report of trend and progress of banking in India.* https://rbidocs.rbi.org.in/rdocs/Publications/PDFs/0RTP2020_F3D078985540A4179B62B7734C7B445C9.PDF.

RBI. (2021). *Basel III Framework on Liquidity Standards – Net Stable Funding Ratio (NSFR) – Final Guidelines.* https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11278&Mode=0.

RBI. (n.d.). *Guidance note on management of operationalrisk.* https://m.rbi.org.in/upload/notification/pdfs/66813.pdf.

Rajan, R. (2020, July 8). *'Full economic recovery to take very long time,' says Raghuram Rajan on COVID-19 impact.* Business Today. https://www.businesstoday.in

Sinha, S. (2020). *Basel III Framework on Liquidity Standards – Net Stable Funding Ratio (NSFR).* https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11836&Mode=0, RBI/2019-20/187.

Sinha, S. (2020). *COVID-19 – Regulatory Package.* https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11902&Mode=0, RBI/2019-20/244.

The World Bank. (October 23, 2020) *World Bank Group's Operational Response to COVID-19 (coronavirus) – Projects List.*https://www.worldbank.org/en/about/what-we-do/brief/world-bank-group-operational-response-covid-19-coronavirus-projects-list

The Economic Times. (Apr 16, 2020) *Covid-19: Govt to transfer financial assistance only through DBT mechanism.* https://economictimes.indiatimes.com/news/politics-and-nation/covid-19-govt-to-transfer-financial-assistance-only-through-dbt-mechanism/articleshow/75185835.cms

Verma, S. (31 May 2020). *Explained: What RBI's extension of loan moratorium means*. The Indian Express.