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Reimagining Risk Management For Financial Institutions In The Post-Covid-19 World

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Abstract

The COVID-19 epidemic is a financial crisis in addition to a health and ethical calamity. When it comes to combating the COVID-19 epidemic, institutions are crucial. Banking institutions are the focus of the public's interest despite not being immediately affected by the new coronavirus in the same way as other large retailers. The financial engine of the economy, banks finance both businesses and private citizens. For the system to continue to function, their stability is required. In India, financial service are included in the list of indispensable activities. In the middle of the crackdown and health emergency, banking and financial institutions were under intense compulsion to keep routine operations. This essay examined the effects of COVID-19 on the finance industry.

Key words- nonperforming assets, black swan event, digital banking, cyber security, Fintech.

Introduction-

Business strategies for banks had already seen a great deal of stress when Covid-19 froze the global economy. Financial institutions have been having trouble because of fierce competition for customers' business and low profits. The interplay of all these factors has made it difficult for financial institutions to acquire enough money to support the projects. Financial institutions have shown their value and positive social influence, as well as the global commerce, by allowing ongoing financing for businesses and individuals during the global pandemic. It may not have been possible to enable government assistance programmes and macroeconomic stimulants without the need for a robust financial system. As the pandemic's next phase unfolds and the society adjusts to the "historical norm," banks will need to increase their profits more than before. Strong profits allow a bank, as we've previously said, to generate internal capital, which often leads to improved performance of bank shares. As a result, banks now have more funding options available to them on the financial markets. As a consequence of the COVID-19 crisis's forced adoption of extraordinary measures by governments and banks to avert a financial disaster, a new era of ultra-low interest rates that look to be at least partly permanent

has started. Social movements, climate change, and other rapidly evolving challenges are making globalisation riskier and unpredictable. Newer technologies have accelerated as a result of the unanticipated requirement to move almost all business procedures (and even the majority of social interaction) to separate networks during the pandemic lockdown this year. This is the backdrop against which all of this is taking place.

The RBI predicted that the condition of the central government's resources would probably become worse in 2020 and 21 as COVID-19 outages substantially harmed fiscal revenues and the quantitative easing increased pressure on expenditure. The research cautioned that federal appellate payments may increase the strain already imposed on public expenditure, increasing the possibility of unfavourable results.

After falling sharply during the first half of 2019–20, bank lending decreased again in the following period, with the decrease affecting all bank groups.

While the GNPA ratio of major banks declined to 8.5% from 9.3% and their provisioning net working capital PCR improved to 65.4% from 61.60% at the same time, their capital to risk-weighted assets ratio of major banks significantly decreased to 14.8% in March 2020 from 15% in September 2019.

Loan losses may increase by around 100 basis points in 2020, and the non-performing assets (NPA) ratio for the Chinese banking sector may increase by nearly 2%, according to S&P Global Market Intelligence.

COVID 19's effects on the banking sector

As the pace of technological advancement has accelerated, new risks have developed. However, persistent volatility makes prediction challenging.

Financial practises and certifications will be tested.

1. New dangers have evolved as a result of the rapid use of digital technology.

Banks need to eliminate barriers if technology is to advance swiftly. Due to the COVID-19 issue, banking organisations and their customers have been forced to use virtual techniques and resources to make up for closed branches, offices, and contact centres. The authors go through a few technological strategies banks are using to deal with the challenges and additional risks brought on by the COVID-19 issue.

An growth of corporate decision-making processes often made the switch to scalable technology possible. A supervisor said that the inconceivable had suddenly become possible. Now, a response must be finished in 18 days as opposed to 18 months.

More pupils have the opinion that the sector will undergo a lasting shift as a result of the current digital acceleration. One individual said, "Every company in the financial goods industry has some kind of strategic strategy, but this situation has turned into an incendiary device." The present has evolved from a previous day or period. As a result, organisations that operate more quickly could finish "more projects and transition from the project phase to production a lot

faster." Others see the current scenario as a strong use case for investing in technology and research, combined with a continuing transition to the cloud.

2. Estimating is still challenging owing to continuing uncertainty

Institutions need to stay on top of views since they are always shifting. Members give considerable thought to the conclusion of government lending initiatives as well as the imminent dangers that their banks will face. It is more difficult for banks to forecast the effect on their clients and portfolios because of the extraordinary measures taken to prevent the epidemic, the prolonged consequences on certain businesses, and the problem under study concerning the global improving economy.

As the economic effects of the epidemic become more obvious, banks are revising their risk models and stress scenarios in an effort to remain ahead of the market. The unpredictability of the workplace, however, continues to present problems. Although optimism that this would soon change, a lack of regulatory harmonisation may make benchmarking between peers across nations all the more difficult.

Many respondents suggested the need for ongoing investigative work on credit and fraud risk, even when stringent monitoring practises are not mandated by public programs. While some individuals are convinced that authorities will eventually own equity interest in companies like airlines, others are hesitant and want more information just on govt's function.

3. We'll look at banking practises and reputations.

What worked in the past may not work as well in the future. Participants discussed the risks for banks when government aid programmes for those impacted by the pandemic run out and the cost of the COVID-19 outbreak and economic downturns spread to additional customers.

By playing a crucial role in the crisis response, financial businesses may have improved morale and bank reputations. According to one CEO, the fact that banks have become a crucial part of society's infrastructure is good for the sector's image.

The techniques banks will need to create in order to accomplish the goals of this paper are something we wish to help them with. In the fourth quarter of 2020, we first provide a baseline accounting of the sales and clientele of the financial industry. How to use data and digital technology to boost the value banks provide to clients and investors is, in our view, the key strategic challenge facing banks today. Finally, we take a long-term perspective on the banking industry, analysing how banks will contribute to the main difficulties facing the economy, society, and environment in the post-COVID-19 era and forecasting how banks will need to adapt their products and business models.

Based on the research, Gavin Gunning, a research analyst for the credit agency, India's NPA margin "is projected to behave similarly to China's (1.9% 2%) but the credit costs ratios might be higher, rising by almost 130 basis points." saying Gunning

Banking firms need to be flexible in order to comply with the reality of the changing operating context. Banking firms are anticipated to reassess their risk appetite in the post-COVID-19 environment and select moderate assets given the rise in non-performing credit (NPLs). Prior to COVID-19, there existed a drive toward digitization, but COVID-19 will significantly accelerate this trend. Furthermore, it is anticipated that the whole banking value chain would increasingly embrace and use complex analytics. Banking firms (FIs) are expected to be forced by these regulations to become leaner and more adaptable, which will result in significant modifications to their approaches.

From the standpoint of a chief risk officer, risk mitigation is anticipated to shift from it being largely a compliance job to more of a business adviser oriented on preserving company value (CRO). In a range of crucial subjects, such as:

Credit risk

The risk characteristics of the afflicted companies and financing options need to be totally reassessed in credit worthiness frameworks. Increased attention must be paid to portfolios appraisal and real-time monitoring in significantly damaged areas in order to spot impending crisis and take preventative remedial action. Even in the face of severe circumstances, corporations may retain an acceptable supply by continuously reviewing situations.

A liquidity risk

Setting up a solid liquidity management strategy should be one of your top priorities in these uncertain times. Institutions must conduct assessments more often and improve their methods for stress testing and evaluating liquidity. There should also be a sound and tested plan for contingency financing in case of unexpected shortfalls.

Operations risk

Changes in working techniques need a full redesign of the management of technical risks, human capital risks, organisational reputational risks, and cyber risks. Additionally, business continuity management is essential given the haziness of the operational environment.

The goal of creating a strong pressure evaluation system should be to regularly assess the influence on good liquidity metrics, profits, and capital sufficiency. To stay current, the corporate strategy and related risk appetite need to be frequently examined and modified. Furthermore, strategic plan and investment and financial plans must always be aligned.

Preparing for recovery and redress

To ensure solvency, entities must continuously develop and update recovery options related to liquidity conditions. This will ensure their readiness for crisis management.

The remarkable chance to guide the growth of the functionality as a strategic partner for an organisation has been provided by COVID-19 to CROs. This possibility is referred to as a "black swan" occurrence. This is a potent weapon in the risk department's toolkit as every aspect of risk administration has to be repositioned to internal trust to be greater adaptable and

agile. Data and real-time information driven analytics are projected to act as the foundation of the new operations strategy as the financial system shifts away beyond outmoded beliefs.

If Indian banks are to overcome obstacles and succeed on the road to being digital-first, they must understand the shift they must go through in order to remain relevant in one of the world's most innovation-friendly countries.

I participated in a panel discussion that was organised by ETBFSI a few weeks ago in July on how Indian banks can prepare themselves for the future so they can handle challenges and profit from digitization while doing so.

According to Backbase and IDC's Fintech and Digital Banking 2025 Asia Pacific study, India's financial services will develop in their digitization, boosting the speed and security of the banking experience. I spoke about this throughout the panel. We discovered that 60% of Indian banks would struggle to develop a truly digital experience because of integration challenges, despite our prediction that 70% of Tier 1 and Tier 2 banks would often utilise third-party data and insights to allow customisation. If Indian banks are to overcome obstacles and succeed on the road to being digital-first, they must understand the shift they must go through in order to remain relevant in one of the world's most innovation-friendly countries. I made it obvious throughout the meeting that banks must take four important business factors into account: uniqueness, customer centricity, personalisation, and scalability. Indian banks will be able to clearly outline the changes they must make to their operations and culture in order to compete in the digital world that will materialise in 2025 if they strive for excellence in these four areas. One of these adjustments may be a paradigm shift inside the organisation to eliminate internal silos, or it could be a drastic departure from the norm in favour of a more modular design. Other options include upgrading staff to support the development of new digital goods and services or adding a stronger cybersecurity layer to protect their clients from data risks. As banks become ready to accomplish these goals, adopting a modern banking infrastructure is crucial. Banks will be able to tailor their solutions and customer experiences since they will be certain that their services will seamlessly integrate into their customers' whole financial journeys.

Assessing the outcome

In order to better understand the impact, financial institutions must stress test their portfolios for each of the aforementioned possibilities in light of the very unpredictable environment brought on by the pandemic. Given the current status of the economy and the market, further stress testing that will directly influence the decisions that big financial institutions make in real time is necessary. It will be necessary to adjust the loan loss provisions for different economic scenarios and identify the markets, populations, and clients that are most at risk. To remain relevant to their customers in the event that the pandemic spreads further and has a negative economic effect, financial institutions must take further measures to ensure business continuity. Additionally, banks and other financial institutions must be prepared for any post-lockdown situations. This is essential for developing a flexible contingency plan that offers banks the best resources for handling emergencies and helping their customers. The FIs will

undoubtedly need to raise substantial sums of capital due to the current issues in order to maintain both regulatory and growth capital. Even while it is unknown what the pandemic's long-term repercussions will be on the Indian financial services sector, banks and NBFCs will undoubtedly have learned a few lessons when things return to normal. They might include the most effective operational resilience-maintaining tactics for dealing with future pandemics. They could also include how to develop new operational models, such inventive methods for interacting with customers remotely and different work arrangements. The shift to the future infrastructure of digital channels and connections may also be accelerated by the epidemic. Quick action and "flattening the curve" Flattening the curve requires financial institutions to show resilience by reducing disruptions and ensuring that the financial impact of the pandemic is diminished over a longer period of time. In addition to the operational initiatives already underway, players in the financial services industry need to actively assess the operational, financial, risk, and regulatory compliance ramifications resulting from the continued uncertainties surrounding the epidemic. Banks and other financial institutions need to review their business strategy and have backup plans for different scenarios. Financial institutions must be ready for a variety of contingencies up until business is fully restored, prioritising the needs of both their customers and employees. The government's stimulus plan is expected to contain a plan for addressing more pressing economic problems. There will be delays and infractions, but these challenges will provide chances to improve customer relationships, make investments in cutting-edge technology, and change one's perspective on the future of work. Financial institutions need to create operational flexibility and business innovations, as well as analyse, test, and implement business continuity and emergency plans. Institutions that take attentive measures to provide customer and staff reliefs will be able to effectively differentiate themselves, and eventually grow and preserve themselves. If financial services businesses implement a meticulous short-, medium-, and long-term action plan, they will emerge from this crisis as stronger, more self-assured, and socially responsible organisations. By creating a pandemic pool, which is how institutions that use the downturn to sharpen their business models are likely to profit more from, we may undoubtedly be more prepared when we must deal with such a situation in the future. What is an epidemic pool? It is accumulating funds and creating a backup plan in order to partially offset the economic losses caused by a pandemic-induced lockdown. Let's think about how to structure this idea.

What potential uses does the pandemic pool have?

Today, any losses suffered as a consequence of the pandemic-induced closure are not covered by the business interruption insurance obtained together with the standard property insurance. It's possible that pandemic insurance may soon be a necessary extra coverage for commercial property policies. This cover will go into effect once the government issues a pandemic lockdown declaration. Many recurring costs for businesses, such employee salaries and building rent, may be paid by this add-on as a result of the lockdown. A maximum liability cap and an indemnity insurance for the first, purportedly two to three months of the closure may be included in this. With the help of stability, companies may recover from the pandemic and prevent salary cutbacks, layoffs, and company losses.

This is available for retail purchase as an add-on cover to a homeowner's or renter's insurance policy. Customers will be given the opportunity to choose this; it is not necessary. In line with this add-on, if the customer loses their job as a consequence of the pandemic, the insurer may, subject to a limit on liability, pay the client's monthly EMI for their home loan for the first two to three months. Mortgage payments made during the lockdown will ease a person's financial burden.

How will this pandemic pool be funded?

This pool may be financed via a public-private partnership, with contributions from both the public and private sectors. To avoid the requirement for companies to see the payment to this pool as a separate expense, we can think about include it as one of the CSR components for all enterprises. We were able to build the pool to a substantial extent in this way. After that, it should be clear that the corporate CSR fund may also be used to cover the costs of adding pandemic add-on coverage to business property insurance. As a result, the company is not burdened by the premium for this pandemic protection, which goes toward the pandemic pool. Reinsurance coverage is another option we may consider, but only in a limited way. This can be the situation if a business wants to choose a liability limit that is higher than three months. Let's assume that the pandemic pool can cover the first two to three months of the lockdown; at that point, reinsurance help, such an excess loss treaty, may be enlisted. General insurance companies may also participate, as is now the case with the terrorism/nuclear pool. Until the pool's funds are sufficient and it is self-sufficient, the government may gradually lower its contribution and focus more of its efforts on halting the virus's spread. When the pool excess fluctuates, we can also think about increasing the insured's liability limit.

Every crisis has a hidden lesson to impart to us, allowing us the opportunity to grow from it the next time we face a situation similar to it. The pandemic pool is one such lesson that may help stop the demise of our economy and society. I'm certain that we can respond to a pandemic without it harming our economy if we have a pandemic pool in place. By halting its current domino effect on everyone of us, we can strengthen our community and promote a quicker economic recovery the projected boost that the government's stimulus package will provide.

There has already been a lot achieved. Banks in India have prioritised maintaining key people at branches and have temporarily redeployed staff to deal with customer phone and internet requests. They have also implemented doorstep banking and mobile ATMs for customers who need additional help, such as senior citizens and other clientele. In order to continue live connections with consumers who have been adapting to social distance norms, financial institutions are likely to use video collaboration tools, new chat and messaging software, and other fintech technologies. Using generally accessible consumer applications, some people have already accomplished this.

Numerous institutions have made investments in technology and digital transformation during the last few years. However, a lot of them still depend heavily on verbal interactions and manual processes. Therefore, we anticipate witnessing increased energy in the Indian financial services market as banks make a conscious attempt to up their digital game. This is crucial because

COVID-19 is likely to have a lasting impact since banking has an impact on many facets of our economy.

However, the majority of banks have addressed COVID-19's urgent concerns, which concern protecting

How we act as customers, citizens, and employees in India and throughout the world will change as a result of COVID-19. As people's focus shifts more and more toward their health, businesses will need to understand how they may engage in a new health ecosystem that is likely to govern consumers' thinking in the future. The idea that "every company is a health business" is already beginning to permeate across the financial services sector, making it one of the few long-lasting advantages of COVID-19.

The Indian banking sector avoided making riskier personal loans as well as lending to small and medium-sized businesses. Monthly bank credit data from the Reserve Bank of India show that overall non-food credit rose 6.8% in May compared to 11.4% in May of the previous year. Credit growth to industry declined to 1.7% from 6.4% a year earlier.

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