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COVID 19-Trends in the Indian Financial System

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Abstract - The outbreak of Covid-19, one of the globally spread infectious virus, has disrupted the life of numerous individuals both in professional as well as personal sphere. Additionally, this phenomenon has not just been witnessed in India, but also at the global level where developed economies such as USA, UK, and other countries have been fighting with the same. Though the governments of each country have taken a plethora of measures to control the spread of Covid-19 by implementing the new norms like social distancing, self-isolation, and shutting down of business entities; nonetheless, its impact on the overall economy has been immeasurable. (Gurbax ani and Gupte. 2021).

Keywords: *COVID 19, Indian Financial System*

INTRODUCTION

The outbreak of Covid-19, one of the globally spread infectious virus, has disrupted the life of numerous individuals both in professional as well as personal sphere. Additionally, this phenomenon has not just been witnessed in India, but also at the global level where developed economies such as USA, UK, and other countries have been fighting with the same. Though the governments of each country have taken a plethora of measures to control the spread of Covid-19 by implementing the new norms like social distancing, self-isolation, and shutting down of business entities; nonetheless, its impact on the overall economy has been immeasurable. (Gurbax ani and Gupte. 2021)

The aftermath of Covid-19 or the Novel Coronavirus scare has had some jaw-dropping impact on various sectors of the economy. Needless to say, the financial sector is also left untouched by the same. As financial sector in itself in a multi-dimensional through its functionalities, there are a lot of areas in finance that have faced both positive and negative outcomes during the post-covid phase of the country. During the recovery and re-stability phase, some sectors witnessed a tremendous upward growth, while others had severe downfalls. According to one of the articles published in Invest India (https://tinyurl.com/82znahfd), an event of such high impact has created a catastrophic impact on both the economic and social aspect of the society. Furthermore, numerous economists and financial gurus have declared Covid-19 as the "Black Swan" of 2020; where global economies are still to pave their way towards the roadmap of their recovery.

In Indian context, the financial sector has witnessed some significant and numerous outcomes in a dramatic manner. For instance, in terms of fear of living, as an effect of increasing unemployment rates and the spiralling inflation, people's withdrawals from their pension funds have seen exorbitant increase. According to an article published in Mint (https://tinyurl.com/2y62rrxc) as on September 15, 2020, it stated that, "*Salaried employees withdrew a massive Rs.39,400 crore from Employees' Provident Fund (EPF) accounts between 25 March and 31 August as covid-19 impacted lives and livelihood of millions of workers.*"

On a similar note, another popular area of financial sector that is equity markets, though saw a sharp downfall in the beginning of the pandemic in the country, nevertheless, it also rebound with the same gusto and scaled up new heights. This excess movement in another spectrum of the financial sector genuinely raises a cause of concern among the investors. According to one of the research studies conducted by Gurbax ani and Gupte, 2021, said that they have witnessed a socioeconomic impact on the life of individuals due to Covid-19. They study was restricted to the area of Madhya Pradesh, India.

Through this paper, the authors attempt to study whether there has been an impact of Covid-19 on numerous financial sectors of the Indian Economy, namely, the stock markets (Bombay Stock Exchange and National Stock Exchange), public retirement schemes such as Provident Fund and PPF and mutual funds. Also, an attempt is made to understand whether, the impact is negative or positive in for the economy and the associated institutions.

II. RATIONALE FOR THE STUDY

Financial sector is a backbone of the economy and an important component that helps to keep the country moving on. As, any impact on the financial sector, creates a ripple effect from micro to macro level of issues, in the gamut of savings and investment, spending patterns and other aspects. Also, on one hand, though some of the financial sectors are facing a plethora of problems, yet, the others are enjoying the share of the pie.

One of the spheres of financial sector which too has faced the wrath of Covid-19 is the insurance sector which was loaded with claims beyond their expected proportion. The pandemic has raised numerous concerns in the insurance sector which can have both short-term and long-term implications (Khaitan S. 2020). According to the author, predominant challenges faced by the insurance companies were in the areas of income of these companies which were headed towards the south pole, depletion in the amount of reserves which were compiled with operational and procedural challenges. Further, the author also pointed out other concerns faced by the insurance industry. They were:

a. **Business Continuity:** wherein; an insurance company was facing the risk of its own existence.

b. **Employee Wellbeing:** Insurance, being one of the important and essential sectors, the companies had to strike a balance between the employees' well-being along with attending the customers. Therefore, the employees were also under a constant threat of being exposed to virus which again was a cause of concern for the company.

c. Capital Adequacy: Insurance companies being the ones who are regulated by numerous authorities, also had to ensure that they have sufficient adequacy in the capital to maintain the liquidity positions. This would help the companies to cover themselves from the ever-increasing claims without much impacting much on the financial statements.

Mutual Funds was also an impacted sector where the footprints of Covid-19 were left untouched. According to Association of Mutual Funds in India (AMFI) (https://tinyurl.com/ezef6ajv), Mutual Funds are defined as "*It is a trust that collects money from a number of investors who share a common investment objective and invests the same in equities, bonds, money market instruments and/or other securities. And the income / gains generated from this collective investment is distributed proportionately amongst the investors after deducting applicable expenses and levies, by calculating a scheme's "Net Asset Value" or NAV.*" As the value of mutual funds is dependent on the value of the underlying asset, movement in the stock markets changed the direction of investment for the mutual funds from equity-based funds towards debt-based funds. Consequently, the mutual funds though witnessed a decline during the months of April and May 2020, nevertheless, also saw a rebound once the economy started to reopen and the prices touched a new high.

The banking sector also which is again the backbone of the economy witnessed some dramatic instances with the similar to the insurance sector. According to a report published by Ernst & Young (EY, 2020), The major hurdles that were faced by the bank were increasing chances of credit risk, thereby, paving way for increase in NPAs, liquidity issues, and addressing going concern issues along with other issues. They also assessed that the moratorium given by the government to the borrowers, however, in this process, one of the cumbersome process faced by the banks was the bifurcation of the borrowers who were facing temporary credit difficulties versus the ones who were facing long-term financial difficulties. Also, in terms of liquidity, which again was a cause of concern for the banks. Due to increasing defaults and moratorium, the bank would face loss of revenue. This again would impact the overall stability of the bank raising concerns over the liquidity scenario.

Therefore, it is important for individuals to understand the impact of Covid-19 SARS which has created a ruckus and halted the pace of economic growth and development. Additionally, it would also help us to understand the depth of the problem that an economy is facing. Through, this paper, we would be able to analyze whether, Covid-19 has impacted the important financial sectors such as mutual funds, equity markets and retirement schemes mainly Employees' Provident Fund (EPF) and Public Provident Fund (PPF). Through this paper, the researchers would study impact on each of these sectors during the post Covid-19 tenure i.e., from June 2020 to December 2020. Moreover, it would be one of the first papers to analyze the impact of pandemic on the banking system of the country.

III. OBJECTIVE

Through this paper, an attempt is made to:

To understand the various trends in selected segments of financial sectors such as stock markets, Employees' Provident Fund and Mutual Fund Sector post Covid-19 in India.

To evaluate the impact of the COVID-19 on these various selected segments and assess whether the impact has been positive or negative and the reasons associated for the same.

IV. LITERATURE REVIEW

Covid-19 has impacted the life of many individuals both in professional and personal front. According to Gadded S., et. al. (2020), state that the country has seen the tenure of Covid-19, as a loss of opportunity as during the period between March 2020 to May 2020, many sectors witnessed almost zero productivity resulting into economic loss with zero cashflows. The authors even predicted that the government needs to start working towards country's economic depression and find ways to come out of the same instead of getting trapped. This can happen only when the economy starts to function along with movements in the capital markets, support of services sector and so on.

Also, one of the outcomes of the Novel Coronavirus that was seen is the increase in the proportion of unemployment among individuals. The increased unemployment also saw a rise in the withdrawals of Provident Funds of individuals which was seen as one of the negative growths towards the retirement funds. According to a special report Published by International Monetary Fund, titled, *Pension Schemes in the Covid-19 Crisis: Impacts and Policy Considerations*, in many countries, the pension and funds allocated for post-retirement benefits were drastically influenced by the Covid scenario. The report stated multiple reasons for the same of which the two important ones are:

1. Rise in the number of individuals quitting their jobs and starting to claim pension benefits.
2. Contraction in the employment or reduction in the real wages impacting the tax income earned by the government.

According to a report published by Mint (https://tinyurl.com/c5rebbsd) in April 2020, stated that, the employees' provident fund office on an average observed around 30,000-35,000 number of withdrawals of provident fund per working day. Also, the accumulated withdrawal amount till the end of April 2020, accounted to Rs.2,700 Crores. The number of withdrawals and the number of withdrawals mainly indicated the hardships faced by the people due to losing their jobs and the manner in which business houses were functioning. This amount saw a further spike of up to Rs.30,000 Crores by the end of July 2020, which was witnessed due to substantial job cuts and recession in the economy (https://tinyurl.com/59by6tpf). The increasing unemployment forced people to withdraw their savings and use it for their present consumption.

Nevertheless, a contrary move was witnessed by the stock exchanges. Though the stock markets witnessed an initial dip in their respective indices; however, their upward move was not only swift and quick but also it scaled new heights beyond the imagination of the individuals. For instance, the Sensex of BSE scaled and touched a height of 50,000+ score in the months of December 2020 thereby giving its investors some relief. According to a report in *The Print* (https://tinyurl.com/52p82vkf), some of the main reasons for the spiralling increase in the indices were stimulus packages announced by the government, reduction in the interest rates and maturity among investors. Additionally, the article stated that during the early phases of the pandemic, individual investors would have overrated the issues which over a period have got stabilized.

The same trend was followed by the Mutual Fund industry which followed the footprints of equity markets (AMFI Industry Trends, 2021). During the initial phases of the pandemic, when the overall economy was facing issues with respect to the haphazard functioning, many fund managers shifted their focus from equity-based investments to fixed-income based investments thereby hedging their portfolios. However, as the situation started to stabilize and the stock markets started to scale new heights, the fund managers also shifted their focus back towards equity-based investments. Also, the assets managed by the Mutual Fund Industry which had fell to Rs24.28 Trillion in May 202 due to pandemic, again had risen to Rs.31.84 Trillion by the end of 2020 again scaling a new height.

Therefore, our aim through this paper is to analyse the impact on various segments of the financial sector caused due to Covid-19 situation and check whether the impact has been positive or negative.

V. Hypothesis

H0: There is no association between Covid-19 and the different segments of financial sector.

H1: There is an association between type of impact and different sectors, namely, equity, provident fund, insurance and mutual funds caused because of Covid-19.

VI. Analysis

The analysis in this case is done as a case-to-case basis for each segment under the financial services sector.

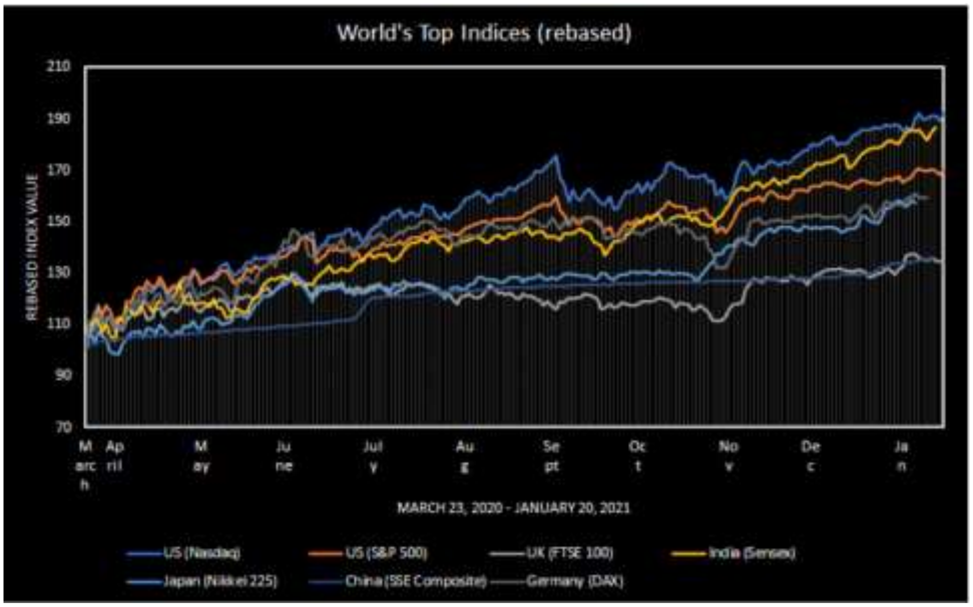
Stock Markets

The following graph shows the performance of the stock markets for the year 2020.

PERFORMANCE OF NSE FOR THE YEAR 2020

Image Reference: https://www.theweek.in/news/biz-tech/2021/01/20/performance-of-indian-stock-market-in-2020-and-its-expectations-from-2021.html

The above image portrays the performance of the National Stock Exchange's (NSE's) Index Nifty for the year 2020 with related timelines. In this chart, we can see that in the first few months, though Nifty touched a new height, nonetheless; the position could not be maintained. However, as we move further of the graph towards the months of February, March, and April, we see a constant decline indicating the falling of the Nifty. However, the fall was attributed to numerous reasons such as budget, obsolete selling by investors and declaring of the lockdown. After this fall, the market has shown a steady recovery and has shown a rebound in terms of growth of indices since then. But the spiralling rise was witnessed in the stock markets during the months of September 2020 to December 2020 when during this period, the NIFTY its peak of 14,200 points and broke all its previous records. Also, a similar pattern of movement was witnessed in the BSE's Sensex which also reached a new peak of 50,000 points. The following graph shows the movement of Sensex along with other leading indices of the world.



PERFORMANCES OF WORLD'S TOP INDICES FOR THE YEAR 2020

Image Source: https://www.cnbctv18.com/market/sensex-performance-since-march-2020-lows-7989881.htm

The above graph shows that the Sensex has been the second-best performer in terms of other leading world indices. In terms of trend analysed of both the charts, it can be said that the Indian Stock Markets have definitely given a positive return to their investors. Though Covid-19 has had a negative impact on the economy, yet, there has been some relief in terms of Stock Market returns to the people who have sourced their earnings from the same. According to an article in Business Today (https://tinyurl.com/dcz3yrwd), Some of the reasons for this increase in the stock markets even though the economy is seen to be shrinking are:

a. **Disconnect from Business Fundamentals** wherein; the stock markets are seen to be disconnected from the business fundamentals and the macroeconomic fundamentals.

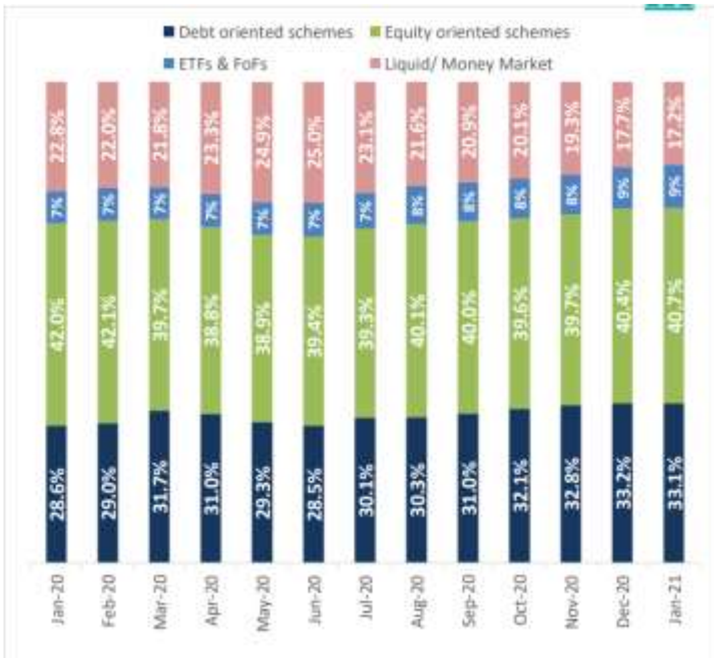
b. **Trade war against China** due to the LAC border standoff due to which the government decided to promote Indian products and industries thereby boycotting Chinese products. This again was a boost for the economy as it fuelled the local industries ranging from MSMEs to large corporations to manufacture and cater it to the local crowd.

c. **Liquidity Infusion from Institutional Investors** due to rate cut by Federal Reserve, many institutional investors were infused with liquidity that helped them to invest in equity channels and thereby capitalize their revenue.

Thus, from the above explanation it can be said that the equity markets have been impacted positively in the post Covid-19 recovery phase of the economy. Also, it has scaled new heights that has helped investors to make money.

A. Mutual Funds

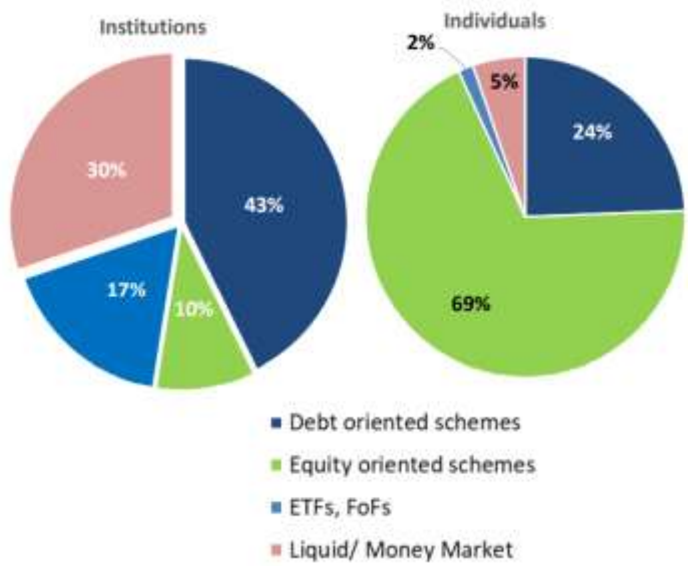
Mutual Funds being an investment instrument, whose value is derived from the value of an underlying asset, has exhibited similar behaviour as compared to equity markets. In the beginning of the Covid-19 pandemic in India, the equity markets took a dip, the mutual fund industry too saw a dip due to the same reasons. But, as the economy strode towards the path of recovery, which was supported by the equity markets when they touched their new high, the mutual funds too started to perform better, and their value started to increase. The following charts shows the investment patterns of different mutual fund schemes for the year 2020.



SCHEME WISE COMPOSITION OF ASSETS IN MUTUAL FUNDS

Image Source: Industry Trends January 2021, AMFI

The above given image from AMFI shows the composition of assets across various schemes of mutual funds. It shows that the equity-based funds whose proportion showed a downside impact during the months of March 2020 to May 2020, then increased and showed an increase up to 40.7% towards December 2020. However, the proportion of debt funds in the overall composition of assets has almost remained constant throughout the year though it saw a surge by 2-3% during March and April 2020 when the equity markets were bleeding. However, one of the noteworthy points to be seen is the increase in the proportion of liquid fund composition as compared to other funds. The investment in liquid funds shows a cyclic trend indicating that when the stock markets where not giving adequate return, many investors chose liquid funds as their investment avenue to park their funds when the equity markets were not performing up to the expected level. As soon as the stock markets bounced back, the investors withdrew they investment in liquid funds and started to invest again in equity funds. So, let us understand a step further about the investments in liquid funds by analysing the composition of investor's holdings.



COMPOSITION OF INVESTORS' HOLDINGS

Image Source: Industry Trends January 2021, AMFI

The pie chart depicts the composition of mutual funds investment by two different categories of investors, namely, individuals and institutional investors. The chart shows that individuals investors still prefer to invest more in equity-oriented schemes while, the institutional investors have spread their investments across various types of investment schemes, mainly into debt and liquid funds. This amount can be used by the companies as and when required for their investment.

Thus, it can be said that even the Mutual fund industry witnessed a positive trend in the post Covid-19 phase of the economy with a boom and the investors were able to make good returns on their investment.

B. Insurance

The insurance sector has witnessed a negative impact due to Covid-19 and its associated catastrophe. As the insurance business is primarily divided into two categories, namely, life insurance and general insurance business, the issues faced by both these concerns are highlighted as follows.

BI. Life Insurance Business:

In case of life insurance, the number of claims surged beyond the expected magnitude of Covid-19. This was because of increase in the mortality rate. Also, there were a erosion in the ULIPs policy witnessed as lot of individuals were surrendering the policy. Additionally, the companies were facing losses due to bleeding in the equity markets where the companies were facing a mark-to-market losses. (ICRA Report on Covid-19 Impact on Financial Services Entities)

BII. General Insurance Business:

The general insurance business witnessed an increase in the number of claims mainly in the health insurance portfolio, As the proportion of health insurance is higher in general insurance area the companies were facing losses due to high number of Covid claims as the increase in the hospitalization expenses surged by approximately 500 times. (ICRA Report on Covid-19 Impact on Financial Services Entities).

Therefore, the trend witnessed in the insurance sector was negative as the insurance companies were primarily coping with the losses in terms of claims and surrendering of the policies.

BIII. Provident Fund

The Employees provident Fund also witnessed a lot of withdrawals due to loss of jobs and employment. The companies were facing several issues related to job cuts, increasing inflation and fear of living. According to one of the articles in Mint (https://tinyurl.com/2y62rrxc), PF withdrawals approximately amount to Rs.30,000 Crores. This clearly indicated that there was a negative trend witnessed in the PF sector due to excess withdrawals.

VII. Conclusion & Inferences

Thus, on a hindsight, it can be said that there Covid-19 has left numerous impacts on the society either in the positive or negative way. Some of the sectors witnessed a growth while others witnessed a negative growth. However, the study also lays down further scope to check the degree of impact of each of these areas on the economic health of the country and the measures through which the country can take to bring the economy back on track.

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