

How COVID-19 Pandemic Affecting Loan EMI Repayment: A Study on Indian Banks

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Key words: COVID-19 pandemic, loan EMI repayment, NPA, customer perception during COVID-19, moratorium

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Abstract: This study aims to analyse the impact of COVID-19 Pandemic on the loan EMI repayment of India Banks. Primary data used thru the convenience sampling method to record respondent feedbacks. The data analysis technique used in the study like percentage, weighted average cost, Chi-square test and statically tools. The results show that COVID-19 has a significant impact on customer loan paying capacity and as well perception as the believe any future relief from the government. This research too helpful for banks to making their credit policy during COVID-19 Pandemic and also useful for future researcher. In this study, we describe how COVID-19 pandemic impact Loan EMI repayment.

INTRODUCTION

India facing serious shocks by the coronavirus in term of Health issues as well as economic issues. Our whole world is in trouble due to this pandemic and now India facing the second wave of COVID-19 which highly impacting the perception of everyone and especially borrowers. The nature of this disease is highly spreading and to stop its spread government impose social distancing, Lockdown, Self-Isolation at home or COVID Care and many restrictions among the country. The restrictions cause very serious economic issues, Financial problems and it highly decreases the loan repayment capacity of borrowers. The COVID-19 Pandemic is an external factor beyond the control of debtors or financial institutions.

In India, where 70% of the population are residing in rural areas and suffering from a credit crunch, micro-financing played an inevitable role in inclusive growth and ensuring financial sustainability among the lower-income development. A Micro-financial Institution (MFI) is a tool for social-economic upliftment and effective for poverty alleviation.

“In the case of the current crisis, the demand is not there, the supply is not there and hence, the underlying revenues are not there. This is therefore much more problematic. With the COVID-19 outbreak, the already struggling informal sector has been disproportionately affected”.

Financial institutions now facing very big challenges on both side of loan sanction and loan collection. They are continuously working towards reducing bad loans via improvement in their credit policy and customer awareness but this pandemic deeply impacted debtors loan paying capacity and perceptions. This cause increased bad debts especially small scale borrowers and SME's. Day by day increasing bad debts affecting banks operational issues.

NPA is a condition when the payment of the principal's instalment is not credited to the financial institute for a specific period. Usually, according to the mechanism of RBI, if someone fails to pay the instalment within 90 days, the asset in banking norms is considered as a non-performing asset. The leading causes of NPA or being default in the Indian banking system are internal banking framework, credit policy, inappropriate

contingency planning to mitigate the risk, lack of robust management policy for sanction loan and appropriate appraisal of management of the borrower. Further, the relaxing or comfortable lending norms, particularly for the corporate executives and improper or inadequate analysis of their credit rating and asset properly. Moreover, unforeseen emergencies like COVID pandemic and devastating ecology conditions like drought, flood being the primary reason for NPA in Indian ground being the internal and external reason for NPA's occurrence in Indian banking institutions.

Cornett, etc. shows that increase their cash holding to manage their liquidity risk before they supply loans in times of crisis. During lockdown when Indian economy stopped there is no demand and supply available in the market, public expenses mostly stopped, so that, banks deposits significantly increased and in other side NPS's rapidly increased, so, banks manage their liquidity by deposits. This scenario is not good for banks as to when deposits reduce banks will face operational and liquidity issues.

According to ICRA (Investment Information and Credit Rating Agency of India Limited): In India during COVID-19 Pandemic NPA level expected to increase 9.9-10.2% by 31st march 22 instead of 8.6% on 31 March 2020. Many banks, especially small banks informally stopped business due to operational issues, they are worried about the continuous increase of bad debts and market instability.

Indian banking sector endows with 12 public sectors banks working simultaneously with 22 private sector banks. The rural economy strengthens the rural credit sector by establishing around 96000 rural cooperative banks. Demonstrating the maximum growth rate compared with the other service sector as the RBI statistics reveals that the share of personal loan in total bank credit is 24% in the financial year 2020 compared to the 16.6% five years ago. Personal loans are increasing over 20% plus growth per year.

In this paper we will study, how COVID-19 Pandemic affecting loan EMI repayment during Covid-19

Objectives:

- To study the demographic profile of loan EMI delinquency customer during COVID-19
- To study the main cause of loan EMI delinquency during COVID-19
- To study customer perception towards Loan EMI payment during COVID-19

Literature review: Hardiyanti and Aziz^[1], in the paper researcher focused on "The Case of COVID-19 impact on the level of non-performing loans of conventional commercial banks in Indonesia" The study found that

COVID-19 has a very serious impact on NPA and economy. They consider COVID-19 as an uncontrolled external banking factor. Study said COVID-19 also impact on Inflation rate, Credit Interest rate, Loan to Deposit Ratio (LDR), Capital Adequacy Ratio (CAR), Operational cost etc. there is a need to formulate a new modified NPA resolution strategy for the country.

Tiwari *et al.*^[2], in the study researcher focused on "COVID-19 Impact on Cibil Report and Loan Repayment Capacity of Borrowers (Special reference to Loan Moratorium, Loan Restructuring and Loan default)" The study said good CIBIL score is very important to avail loan, a good CIBIL score can help you to avail the loan easily. Due to COVID-19 very large population fail to repay their loan EMI and it will cause of CIBIL Score drop. During COVID-19 bank and RBI offered some relief like Loan restructuring and loan moratorium. Study said, if most urgent required, so that, people should avail these reliefs as in loan restructuring your lenders reported to CIBIL as "Restructured loan". This flag can affect your future loan availing capacity as other lenders will take extra caution against your profile. Loan Moratorium will not impact your CIBIL score but it will increase your interest liability. Loan moratorium shows your week financial position, so that, in the future financial institutions can take extra caution against your profile. Overall both are relief measures but get it only in urgent need, don't get it unnecessary.

Prasanth and Sudhamathi^[3], in the paper researcher focused on "The Impact of Corona Virus on NPA and GDP of Indian Economy" researcher found COVID-19 is an unpredictable shock for the Indian economy, Specially for the Financial sector. India economy based on unorganised but COVID-19 highly impacted this sector. Central and state government has to found required challenges and provide immediate relief to the affected sector. With the government relief policy, we can expect V shape economic recovery soon.

Dev and Sengupta^[4], in the paper researcher focused on "COVID-19: impact on the Indian economy" The paper said that India has a very large population and very large population depend on informal sector labour but due to lockdown and other social distancing measures they are affected highly. Central and state government started providing relief but this is at the beginning it will take more time, first their focus is to fight against COVID-19 to save their people. Policymakers should start speedily relief to the formal and informal sector to come back to normal scenario.

MATERIALS AND METHODS

The population for this research is Loan debtors of the Hoshangabad district of Madhya Pradesh. The researcher selected 190 loans, delinquent customer, to

record their response statically. The researcher used the Convenience sampling method. The data analysis technique used in the study like Percentage, Weighted average, Chi-square test and statically tools.

Limitations of the study: The researcher has covered the COVID-19 Pandemic period with Loan delinquency, so, there is time-based limitation.

Hypothesis: On the basis of the literature review the following hypotheses are prepared:

- There is no positive relationship between the Demographic factor and Loan EMI Delinquency
- Future uncertainty has no positive effect on customer perception towards Loan EMI Delinquency during COVID-19
- The COVID-19 (Illness, Death in Family) has no positive effect on Loan EMI
- Delinquency during COVID-19
- The hope of loan waiver/Moratorium has no positive impact on customer perception towards Loan EMI Delinquency

RESULTS AND DISCUSSION

Demographic factor and loan EMI delinquency: Researcher analyses the demographic profile of the respondent. Demographic factor-like Age, Gender, Marital Status, Occupation, Monthly Income, awareness of loan, educational qualification details and purpose of loan. Table 1 clearly shows demographic static data.

Basis of data 60% loan delinquent customers are from male category and 40% delinquent customers are from female category. It shows that majority of delinquent customers are male. Results show that 36% respondent belongs to age group 30-35 years, in this age group having more loan delinquency followed by 24% in the age group of below 30 years. The results show that 60.52% of delinquent customers are married followed by 39.48% of Unmarried customers. Married customers having maximum loan delinquency it is indicate by data. We observed that Undergraduate 30.53% of customer having maximum loan delinquency followed by 25.79% belongs to School Level ,18.42% belongs to ITI, 13.68% belongs to Professional courses and 11.58% belongs to Post Graduate. Results show that Business profile borrower's having 29.47% maximum loan delinquency followed by salaried profile 23.16%, self-employed profile 22.63%, Daily wage earner profile 12.63% and agriculture profile 12.11%.Results show that 20000-30000 Rs Income group having maximum loan delinquency at 44.74% followed by 30000-40000 Income group at 23.68%, 40000-50000 at 11.58%, 10000-20000 Income group at 11.58 and below

Table 1: Demographic profile of respondent loan delinquent customers of Indian Banks

Gender	No. of loan delinquent respondent	Percentage
Male respondent	114	60
Female respondent	76	40
Total	190	100
Age		
Below 30	46	24
30 to 35	74	39
35 to 40	36	19
40 to 45	21	11
Above 45	13	7
Total	190	100
Marital status		
Married	115	60.52
Unmarried	75	39.48
Total	190	100
Qualification		
School Level	49	25.79
Under Graduate	58	30.53
Post Graduate	22	11.58
Professional Course	26	13.68
ITI	35	18.42
Total	190	100
Occupation		
Business	56	29.47
Agriculture	23	12.11
Salaried employee	44	23.16
Daily Wage Earner	24	12.63
Self Employed	43	22.63
Total	190	100
Monthly Income		
Below 10000 INR	0	0
10001-20000 INR	22	11.58
20001-30000 INR	85	44.74
30001-40000 INR	45	23.68
40001-50000 INR	22	11.58
Above 50000 INR	16	8.42
Total	190	100
Loan motivation source		
Bank	90	47.37
Friends	30	15.79
Media/Mail	35	18.42
Agent	25	13.15
Existing customer	10	5.26
Total	190	100
Purpose of Loan		
Agriculture	19	10.00
Personal Loan	52	27.37
Vehicle Loan	18	9.47
Home Loan	10	5.26
Education Loan	19	10.00
Small Business Loan (SME)	72	37.89
Total	190	100

Researcher Primary Data

10000 at 0%. We observed that maximum of 47.37% of Loan delinquency customers motivated by banks followed by 18.42% motivated by media/mail, 15.79% motivated by friends, 13.15% motivated by agents and 5.26% sourced by existing customers. Results show that small business Loan (SME) having highest loan delinquency at 37.89% followed by Personal loan at 27.37%, Agriculture/Education loan at 10% and vehicle

Table 2: Relationship between demographic factors and customers perception towards LOAN EMI delinquency

Narration	X ² values	Degree of freedom	Sig.	Result
Gender	3.370	2	0.643	Accepted
Age	80.958	20	0.000	Rejected
Marital status	3.370	2	0.643	Accepted
Education	8.322	16	0.939	Accepted
Occupation	44.454	5	0.000	Rejected
Monthly income	74.445	20	0.000	Rejected
Purpose of loan	8.322	16	0.939	Accepted

Researcher Primary Data

loan/Home loan at below 9.47%. The results explain answers to many questions themselves. Chi-square test results show a relationship between demographic factors and customer Perception towards loan EMI delinquency. The value of the Chi-square test between Gender and customer perception towards loan EMI delinquency is 3.370 with 2 degrees of freedom, which shows $p = 0.643$ is $>$ then 0.05, so, the Null hypothesis is accepted and there is no direct positive relationship between gender and customer perception towards loan EMI delinquency (Table 2).

The value of the Chi-square test between Age and customer perception towards loan EMI delinquency is 80.958 with 20 degree of freedom which shows $p = 0.000$ is $<$ then 0.05, so, the null hypothesis is rejected and there is a direct positive relationship between Age and customer perception towards loan EMI delinquency.

The value of the chi-square test between Marital Status and customer perception towards loan EMI delinquency is 3.370 with 2 degree of freedom, which shows $p = 0.643$ is $>$ then 0.05, so, the null hypothesis is accepted and there is no direct positive relationship between Marital Status and customer perception towards loan EMI delinquency.

The value of the chi-square test between Education and customer perception towards loan EMI delinquency is 8.322 with 16 degree of freedom, which shows $p = 0.939$ is $>$ then 0.05, so, the null hypothesis is accepted and there is no direct positive relationship between Education and customer perception towards loan EMI delinquency.

The value of the chi-square test between Occupation and customer perception towards loan EMI delinquency is 44.454 with 5 degree of freedom, which shows $p = 0.000$ is $<$ then 0.05, so, the null hypothesis is rejected and there is a direct positive relationship between Occupation and customer perception towards loan EMI delinquency.

The value of the Chi-square test between Monthly Income and customer perception towards loan EMI delinquency is 74.445 with 20 degree of freedom which shows $p = 0.000$ is $<$ then 0.05, so, the null hypothesis is rejected and there is a direct positive relationship between Monthly Income and customer perception towards loan EMI delinquency.

Main cause of loan delinquency during COVID-19:

The researcher framed 14 question and get recorded responses from 190 delinquent customers to understand mail cause of loan delinquency during COVID-19. Researcher use weighted average to measure effectiveness of causes (Table 3). These are following cause:

The researcher measure answer of these question by below form (5-Strongly Agree, 4- Agree, 3- 2- Disagree, 1- Strongly Disagree) results shows that Hope of loan waiver/Loan moratorium and government relief, Future uncertainty of COVID-19 cases and market stability, Business failure, Income reduction and Job loss are important cause of NPA during COVID-19 (Table 4).

We analyse primary data with the help of static tools like weighted score and the given table clearly shows that the first main cause of loan delinquency during COVID-19 is "Business failure or market failure due to COVID-19" Second important cause of loan delinquency is "Income decreased due to COVID-19" third important cause of loan delinquency is "Hope of loan waiver/Loan moratorium or government relief" fourth important cause of loan delinquency is "Future uncertainty about COVID-19" and the fifth cause is "Unemployment of the borrower due to COVID-19" followed by Unexposed to Marketing and Products, unforeseen events in the family, illness, death etc. due to COVID-19, Misappropriation of funds, Investing lost during COVID-19, High EMI during COVID-19, High Rate of interest, Lack of follow-ups from bank during COVID-19, utilization of loan to repay the old loans, lack of education of borrowers.

Chi-Square test results show relationship between Hope of Loan waiver/Loan Moratorium or any GOVT Relief and customer Perception towards loan EMI delinquency. The value of the Chi-square test between Gender and customer perception towards loan EMI delinquency is 123.292 with 16 degree of freedom which shows $p = 0.000$ is $<$ then 0.05, so, the null hypothesis is rejected and there is a direct positive relationship between Hope of Loan waiver/Loan Moratorium or any GOVT Relief and customer perception towards loan EMI delinquency (Table 5).

The value of the Chi-square test between Income Decrease due to COVID-19 and customer perception towards loan EMI delinquency is 41.636 with 16 degree of freedom which shows $p = 0.000$ is $<$ then 0.05, so, the null hypothesis is rejected and there is a direct positive

Table 3: Respondent response towards loan EMI delinquency

Narration	5	4	3	2	1	Total
Income decrease due to COVID-19	55	34	29	27	45	190
Lack of follow-ups from bank during COVID-19	31	28	34	36	61	190
Business failure or market failure during COVID-19	48	44	23	43	32	190
Unemployment of the borrower due to COVID-19	71	49	34	29	7	190
Unforeseen events in the family, illness, death etc. due to COVID-19	29	33	26	40	62	190
High EMI during COVID-19	18	23	69	62	18	190
Lack of Education of Borrowers	8	8	45	44	85	190
High Rate of interest	38	24	61	42	25	190
Utilization of loan to repay the old loans	16	32	55	49	38	190
Unexposed to marketing and products	26	35	61	45	23	190
Investing lost during COVID-19	26	27	62	43	32	190
Misappropriation of funds	34	42	40	57	17	190
Future uncertainty about COVID-19	62	42	35	33	18	190
Hope of loan waiver/Loan moratorium or any GOVT relief	82	51	39	10	8	190

Researcher Primary Data

Table 4: Weight score of opinion about causes of loan delinquency

Narration	Weight score					Total score	Mean	Rank
	5	4	3	2	1			
Income decrease due to COVID-19	171	140	66	118	59	554	2.92	2
Lack of follow-ups from bank during COVID-19	55	136	63	106	56	416	2.19	12
Business failure or market failure during COVID-19	188	184	78	84	31	565	2.97	1
Unemployment of the borrower due to COVID-19	162	164	69	122	13	530	2.79	5
unforeseen events in the family, illness, death etc. due to COVID-19	168	95	63	144	55	525	2.76	7
High EMI during COVID-19	85	72	141	150	18	466	2.45	10
Lack of education of borrowers	45	56	96	82	79	358	1.88	14
High Rate of interest	150	112	27	108	54	451	2.37	11
Utilization of loan to repay the old loans	55	136	63	106	56	416	2.19	13
Unexposed to marketing and products	155	152	134	74	11	526	2.77	6
Investing lost during COVID-19	180	116	167	42	3	508	2.67	9
Misappropriation of funds	155	155	96	92	18	516	2.72	8
Future uncertainty about COVID-19	175	160	96	92	18	541	2.85	4
The hope of loan waiver/Loan moratorium or any GOVT relief	168	176	95	90	18	547	2.88	3

Researcher Primary Data

Table 5: Relationship between future uncertainty, COVID-19, hope, hope of loan waiver/Moratorium and customer perception towards loan EMI delinquency

Causes	X ² values	df	Sig.	Result
Hope of loan waiver/Loan moratorium or any GOVT relief	123.292	16	0.000	Rejected
Income decrease due to COVID-19	41.636	16	0.000	Rejected
Unforeseen events in the family, illness, death due to COVID-19	140.586	16	0.000	Rejected
Managerial deficiencies	8.322	16	0.939	Accepted
Future uncertainty about COVID-19	48.974	16	0.000	Rejected

Researcher Primary Data

relationship between Income Decrease due to COVID-19 and customer perception towards loan EMI delinquency. The value of the chi-square test between Unforeseen events in the family, illness, death due to COVID-19 and customer perception towards loan EMI delinquency is 140.586 with 16 degree of freedom which shows $p = 0.000$ is $<$ then 0.05, so, the null hypothesis is rejected and there is a direct positive relationship between Unforeseen events in the family, illness, death due to COVID-19 and customer perception towards loan EMI delinquency.

The value of Chi-square test between Managerial Deficiencies and customer perception towards loan EMI

delinquency is 48.974 with 16 degree of freedom which shows $p = 0.000$ is $>$ then 0.05, so, null hypothesis is accepted and there is no direct positive relationship between Managerial Deficiencies and customer perception towards loan EMI delinquency.

The value of Chi-square test between Future Uncertainty about COVID-19 and customer perception towards loan EMI delinquency is 140.586 with 16 degree of freedom which shows $p = 0.000$ is $<$ then 0.05, so, null hypothesis is rejected and there is a direct positive relationship between Future Uncertainty about COVID-19 and customer perception towards loan EMI delinquency.

CONCLUSION

The paper's primary intention is to found the actual impact of COVID-19 on increase of NPA and loan delinquent account in Indian banking system. The study also analyses the main cause of loan delinquency during COVID-19. The finding is based on the customer's responses, for which the qualitative method is selected to analyse the relevant information based on an empirical finding by conducting survey method. The bank's main function is to accept deposit from customers and provide cash to borrower's in the form of a loan. When the payment of the principal's instalment is not credited to the financial institute for a specific period that is 90 days, so, the loan becomes NPA. NPA affects banks profitability and liquidity. This study tried to found cause and customer perception of loan delinquency during COVID-19.

The researcher selected 190 loans, delinquent customer, to record their response statically. In the paper researcher use 8 demographic variables to the major relationship with customer perception towards loan delinquency and found that Gender, Marital status and education do not have a direct positive relationship with loan delinquency, efficient banks credit policy can reduce these factors to become a cause of NPA. Demographic factor Age, Occupation and, Monthly Income has a direct positive relationship with loan delinquency and customer perception. Banks should be more cautious about these factors. Banks can reduce NPA by taking more caution against these factors at the time of loan sanction.

The researcher framed 14 cause of Loan delinquency and customer perception and found that during COVID-19 "Business failure/Market failure" is the topmost cause of loan delinquency. Due to business failure during COVID-19 borrower's income stopped but they have many other important liabilities available, so, that they feel to unable repay their loan EMI. The second important cause is "Income decrease due to COVID-19" many borrowers are depending on many sources of income like rental income, family income, salary Income, Business Income and self-employed but now many types of income stopped or reduced. We found this is the most important cause of NPA. The third important cause is "Hope of loan waiver/Loan Moratorium or any government relief" we found this as the most important cause of loan delinquency as 62% of borrowers still believe that they will receive any relief from the government, so that, they are delaying loan EMI fourth

important cause is "Future Uncertainty" Public already facing a lot of trouble by COVID-19 and financial side also, they are worried about future stability and third and fourth wave of COVID-19. His regular income also stopped or reduced, so that, they are trying to save money for future problems. Now borrowers not taking his loan EMI as their primary liabilities. The fifth important cause is "Unemployment" COVID-19 increase unemployment, especially in the unorganized sector which important cause of loan delinquency and customer perception.

The Chi-square test shows that there is a direct positive relationship between Future Uncertainty about COVID-19 and customer perception towards loan EMI delinquency. There is a direct positive relationship between Income Decrease due to COVID-19 and customer perception towards loan EMI delinquency. There is a direct positive relationship between Hope of Loan waiver/Loan Moratorium or any GOVT Relief and customer perception towards loan EMI delinquency.

Study results proved that the COVID-19 has a serious impact on loan delinquency and customer perception towards Loan EMI payment. The COVID-19 is an external natural disaster where there is no immediate human control available which affects borrower's loan paying capacity which causes the increase of huge NPA in the Indian banking system. Government impose lockdown and many other restrictions to control COVID-19 cases but it has negative effects on economic growth, market growth, financial stability, future uncertainty and customers paying capacity.

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