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# Small banks lose customers in a post Covid flight to safety

BY JOEL REBELLO, ET BUREAU | JUN 16, 2020, 04.20 PM IST

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Indian companies are fleeing small banks and moving towards larger lenders as slower economic growth, build up in non performing assets, liquidity issues and the demand destruction caused by the Covid 19 [pandemic](#) has shaken customer confidence in the banking sector, particularly on private sector banks.

The shaken customer confidence in fast-growing private sector banks has led to a flight to safety and a surge in customer deposits and corporate relationships for the bigger and more stable banks, such as SBI, ICICI, Axis and HDFC Bank a study by [Greenwich Associates](#) in associatio with Crisil said.

"For an Indian banking system already in turmoil before the outbreak of the global pandemic, the [COVID-19 crisis](#) represents an especially stern test. In response to the perceived threat, India's companies are fleeing to the safety of the country's largest banks," the report said.

The economic lockdown caused by the Covid 19 pandemic has hit the banking system which was already grappling with multi year low loan growth and a persistent rise in NPAs.

"Even before COVID-19, Indian companies were worried about the stability of some banks and their own access to funding and liquidity," said Gaurav Arora, Head of Asia at Greenwich Associates.

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India's GDP has been in slowdown mode since 2017 and the Covid 19 has fast forwarded it to a historic recession. Crisil estimates that the economy will shrink by 5% in 2020. The long lockdown and the RBI permitted moratorium on loans will also inevitably putting greater stress on the banking sector.

"Rescue of Yes Bank perhaps a final straw for the crumbling confidence in India's smaller private sector banks, the Yes Bank fiasco revealed deep-seated issues within the sector," he report said.

RBI's rate cuts to the lowest in two decades will erode bank margins in the midst of a crisis, and the moratorium on loan payments moves the banking industry into uncharted territory, with vast implications for bank revenues, loan-to-deposit ratios and the nationwide non-performing loans cleanup.

"It is unclear how smaller public sector banks will fare during the crisis. Excluding SBI, public sector banks have been gradually losing share of core corporate banking relationships, declining from 14% in 2017 to 12% in 2019. In terms of quality ratings from Indian companies, these banks lag private sector players by a wide margin and have been virtually left behind since 2017, as SBI steadily improved. Now, as the

Indian government merges public sector banks, they face challenging integrations. Together, these factors suggest that public sector banks other than SBI could be at risk of losing additional corporate relationships and market share during the crisis," Greenwich said.

Smaller private sector banks have also lost clients. Greenwich estimates that the proportion of clients using small private sector banks for domestic cash management dropped to 46% in 2019 from 49% in 2018.

Indian companies view ICICI, HDFC and Axis Bank as offering the market's highest levels of quality and service according to the report.

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