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Corona Virus 2019 Impact on the Banking Sector

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Abstract:

The purpose of this paper is to contribute to the academic research in the management field, by exploring banking strategies implemented during complex crises, with a focus on the recent pandemic. To improve the comprehension of the economic consequences of the COVID-19 pandemic we analyzed the differences between the crisis from 2008-2009 and the crisis induced by the pandemic. The banking system has always been at the center of the crises, both in 2008 and in the 1930s, but this time the situation is different because now, we are facing a crisis that is related to systemic health issues. In the previous crises, banks were considered as part of the problem, but this time they are perceived as part of the solution. This approach increases the role of banks in the corona virus crisis and the strategies adopted by banks influence the whole economy. The pandemic has changed the world economy entirely and impacted tremendously most businesses. The banking system plays an essential role in this situation because it is a key component from an economic point of view. In recent years, the banking system has adapted continuously – it has been reinvented to keep up with customer expectations and the need for cost reductions. The COVID-19 pandemic has accelerated digitalization in the banking system although, the need for innovation and digital strategies have been an important factor in banking even before the pandemic had started. We present furthermore an opinion based on a narrative literature review and a summary of the most important elements that redesign the banking system during the COVID-19 pandemic context. The literature regarding the COVID-19 pandemic and its implications for the banking system is still developing since the pandemic is an unfolding new experience for the world.

Keywords: *banking strategies; pandemic; adaptive management; digitalization of banking industry; COVID-19; social responsibility.*

Introduction:

The lockdown to prevent the spread of the Covid-19 has stopped economic activity across many sectors, with important repercussions for firms and households. Firms relying on direct customer contact – such as hospitality and transport – are losing revenue sources; and households working in these sectors are losing employment income. The banking sector is also affected, although mostly indirectly. While banking services can be provided remotely and do not rely on direct customer contact, the linkage of the sector with the real sector as provider of payment, savings, credit and risk management services extends the negative effect of the Covid-19 crisis to banks and other financial institutions. At the same time, the banking sector has the role of supporting firms and households during this period of lower revenues and incomes, which has triggered important policy actions by financial supervisors and governments.

The COVID-19 pandemic has affected almost all countries and the rapid transmission of the virus has put pressure on the health and economic system. The impact that this pandemic will have may be greater than that of the previous crisis, but it is still too early to be certain. However, this crisis also represented an opportunity for the emergence of new services or the development of existing ones in the delivery sector such as food delivery services, platforms that mediated online meetings, online stores, or courier services. All online stores and services have gained more in this period of accelerated spread of digital technologies and micro-level initiatives (Karabag, 2020*)*. Social distancing affects the entire society and people need now more social and emotional closeness to get through these difficult times more easily (Ventriglio, Watson, & Bhugra, 2020). Also, World Health Organization (2020) is taking the impact of the crisis on people’s mental health very seriously.

Banks are an important pillar of the economy and the management strategies they adopt will influence the recovery of the economy after the pandemic. The banks play an important role in the economic world because they facilitate internal and international trade. Large disruption in this system would affect society as a whole. In this area, trust is crucial for the functioning of the banking system and economy (van Esterik-Plasmeijer & van Raaij, 2017). The importance of banks for economic and social prosperity is not in doubt (Berger, Molyneux, & Wilson, 2020; Liang & Reichert, 2020). They are the main providers of capital and financiers of the economy, companies, and individuals. Demirguc-Kunt, Pedraza, and Ruiz-Ortega (2020, p. 26) found “that the crisis and the countercyclical lending role that banks are expected to play have put banking systems around the world under stress, having a differential impact depending on their characteristics and pre-crisis vulnerabilities”.

To lower the negative impact of the COVID-19 pandemic, European and national authorities have taken lots of complicated decisions. In Romania, the National Bank of Romania (NBR) adopted a package of measures aimed at mitigating the negative effects of the crisis generated by the corona virus pandemic on households and Romanian companies. One of the main measures allowed banks to delay payments of the loans of the population with income losses due to the COVID-19 pandemic

(NBR, 2020). Many companies encountered losses due to the COVID-19 pandemic and they took advantage of these measures to delay payments of loans. At the same time, individuals have postponed their loans to a lesser extent than companies (Popa, 2020). This aspect confirms that the economic implications of the pandemic are very critical for all industries. The banking industry could ensure, due to the specifics of its activity, a key role in the proper functioning of economic and financial mechanisms, with an impact on macroeconomic developments and business dynamics. For the reasons described above, it is important to analyze banking strategies adopted during the pandemic. Having this framework in mind, the present article investigates the banking industry during the COVID-19 pandemic. The scope is to understand the coping mechanisms of banks during the pandemic crises, by comparing it with previous economic crises. This analysis allows us to outline the lessons that the current situations offer and how banks use them to adapt their digital transformation and financial resilience.

We started the research for this article from these questions:

- How has the pandemic changed the world economy?
- What are the differences between the 2008 and 2020 crises?
- How is corona virus affecting the banking sector?
- What are the successful approaches of banks in the context of the pandemic?

This article consists of a narrative literature review that includes a brief literature review regarding the impact of the COVID-19 pandemic on businesses, a comparison of the 2008- 2009 economic crises with the 2020 COVID-19 induced economic crises, a literature review regarding responsible practices during the COVID-19 pandemic, conclusions and some recommendations to banks to adapt their strategy to the new way of working.

Research objectives and methodology:

This article summarizes the level of information available and correlates published materials regarding the consequences of the COVID-19 pandemic in the banking sector. The aim is to understand how the banking industry can cope with complex crises and to identify how complex crises challenge managerial practices in the banking industry.

At the same time, we analyze the particularities of the pandemic in comparison with the Global Financial Crisis from 2008-2009 and the impact of COVID-19 on certain sectors of the world's economy. In this way, we observe how the banking system tackles these challenges that take place during an uncertain period that humanity has never faced. We analyze if the banking system entered the pandemic more resilient and well-capitalized than it was before the previous crisis and summarize the lessons learned by banks.

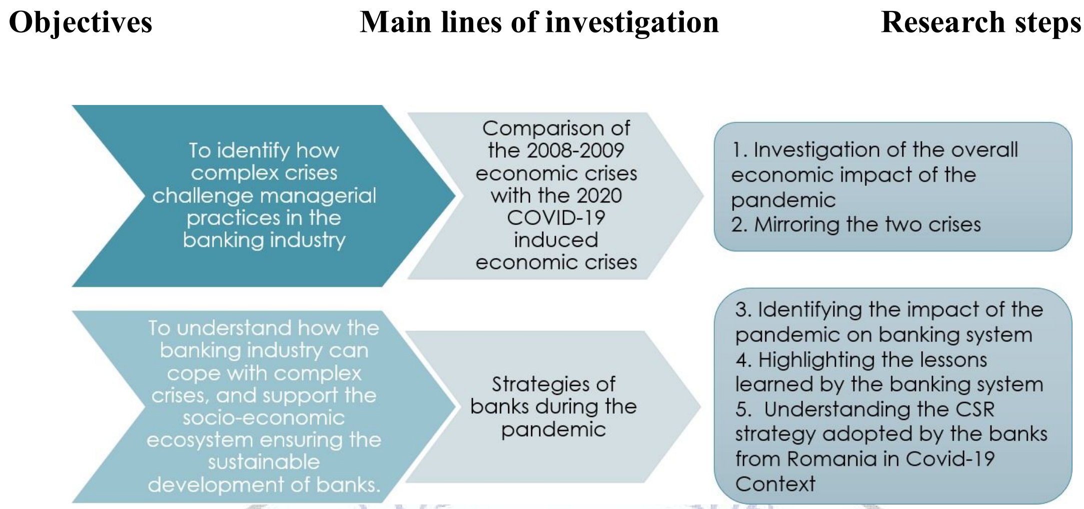

Figure1.Objectives of the study

For this paper, we included a part about corporate social responsibility because, during the pandemic, many financial institutions have been involved in CSR campaigns through donations or other ways to support the community. The pandemic situation creates high stress regarding financial resources, health, or job stability. In this difficult context, banks have played an important role to build consumer trust.

To reach the aims of the study, we developed a narrative literature review through which we will present the relevant information for fulfilling our objectives. The narrative review has applications, appraisal of previous studies and the current lack of knowledge, along with rationales for future research (Ferrari, 2015). There are also some limitations, because the assumption and the planning are not often known, not reproducible (Ferrari, 2015). Narrative reviews are useful for obtaining an approach on a topic. And it is probably "the most common type of descriptive review in planning, being the least rigorous and "costly" in terms of time and resources" (Xiao & Watson, 2020, p.3). We can state that the "data extraction process, therefore, is informal (not standardized or systematic) and the synthesis of these data is generally a narrative juxtaposition of evidence" (Xiao & Watson, 2020, p.3). There are some differences between systematic and narrative reviews, "and the concept of being ''systematic'' is the main characteristic that differentiates SRs from other types of bibliographical reviews (such as narrative reviews, NRs)" (Prieto & Rumbo-Prieto, 2018, p.2). A systematic literature review refers to sequential steps to collect, know, comprehend, apply, analyze, synthesize, and evaluate quality literature to provide a firm foundation to a topic and research method' (Levy & Ellis, 2006, p.182). Although the systematic literature review is more complex and comprehensive, we aimed for a narrative approach, considering several elements such as up-to-date knowledge about the banking industry, and a critical analysis of the literature about the pandemic situation which affects the day-to-day lives. In the specific investigation of the banking strategies in the context of the pandemic, a systematic literature review would not be the most appropriate method, taking into account that theresearch processes have been greatly influenced by the crisis. In this paper, we want to provide a summary of the literature on the topic and highlight trends and patterns to understand the context in which the banking system changes due to the COVID-19 pandemic.

In this narrative literature review, we have summarized articles and publications that discuss the crisis induced by the pandemic, differences between the previous and the current crisis, and the way the banking system reacted. In this way, this narrative review consists of a critical analysis of the literature published in articles, books, and reports of audit companies**.** We highlight that the audit companies were very active during this period; they issued reports and opinions on macroeconomic forecasts. In addition to these, they have also developed the area of recommendations for companies so that they can get through this difficult period more easily. Some of them also issued a series of articles with useful information both for the population and for the managers facing challenges inside their team. In writing this article, we have analyzed materials published by: KPMG, Mckinsey, Deloitte, and PWC.

For this paper, we developed a database by undertaking a systematic search to identify all the relevant literature about the COVID-19 pandemic implications on the banking system. To answer the proposed research questions, we found the information by reading scientific journals, reports of audit companies, and the opinions of experts in the field. Toidentify these articles, a literature search was carried out, based on the following keywords: COVID-19 pandemic, banking strategies, crisis, the great recession, financial crisis.

The search was conducted in major databases (Scopus, Elsevier), as well as audit companies' websites that are relevant to investigating the current research problems. This article provides readers with up-to-date knowledge about the impact of the pandemic in the economic area and especially in the banking system. We selected the literature and decided which articles were to be included in the analysis by reading abstracts, articles and making notes. We identified around 150 articles from which we only selected the relevant articles to include in our research. We made the selection of articles having in mind our objectives and research questions for this paper; subsequently, we made a synthesis of the most important studies on the topic and used a content analysis because it is an effective tool for literature reviews.

A brief comparison of the 2008-2009 economic crises with the 2020 COVID-19 induced economic crises:

Throughout history, the world has faced others pandemics. The most severe pandemic in recent history was in 1918-1919, the Spanish flu (Guda, 2020). The COVID-19 pandemic is the most recent crisis that puts pressure on the healthcare system and it is also a test for the financial system, which causes problems with all sorts of macroeconomic indicators including" aggregate demand, production, supply, trade flows, savings, investments, and employment, which could deepen poverty and trigger a possible recession or depression" (Barua, & Barua, 2021 p.1). The economic effects of the COVID- 19 pandemic are different from the financial crisis of 2008-2009, when a large number of financial institutions collapsed and required government interventions all around the world. Vernick and Islam (2010, p. 55) found that" the banks that survived the crisis have turned in record profits in 2009, has benefited from government bailouts (direct and indirect) and the massive injections of liquidity into the financial system, along with the decrease in competition." From this point of view, it is important to analyze and observe the differences between the two crises and to summarize the lessons learned by the banking system.

Cheap credit and lax lending standards were the triggers for the housing bubble and the premise for the beginning of the Great Recession (2008-2009). The past recession from 2008–2009 was based on a shock in the banking system, just like many downturns in the past 50 years, such as stock-market crashes and debt defaults, which had financial-system origins. Now, the situation is different because it is based on o global pandemic which affected all the states of the world (McKinsey, 2020a) and is not generated by financial mechanisms. The crisis from 2008-2009 was related to uncertainty in mortgage loan markets, but now the uncertainty is related to the duration of the economic turndown (Jackson & Schwarz 2020).

Table1. Comparison of the COVID-19 Pandemic Crisis and the Great Recession of2008-2009

Dimensions	The COVID-19 Pandemic Crisis	The Great Recession of 2008-2009
Origins	Exogenous, coming from outside the financial system (Borio, 2020a)	Financial-system origins
Impact	Simultaneous and generalized effects in most economic sectors; shutdown effect (Guda, 2020).	It was caused by the accumulation of imbalances in a certain sector; subprime mortgage crisis (Guda, 2020).
Financial losses	In about two months, the global capital market lost about $27 trillion, the biggest correction in history (Guda, 2020). The uncertainty is also much higher.	The maximum negative correction was reached after the fall of Lehman Brothers in 2008 (Guda, 2020).

	(OECD, 2020)	
Measures taken by governments and central banks	Governments and central banks have taken unprecedented measures. (Guda, 2020). It involves greater coordination with the citizens, public and legal authorities. Measures are related to health and wellbeing (at least in the most affluent countries), as well as to support businesses in difficulty.	Governments and central banks have taken measures at the level of hundreds of billions (Guda, 2020). These measures mainly aimed to save the banking system and the savings of the population.
Position of the banking system	Well capitalized compared to the last crisis (McKinsey, 2020a) and in a stronger position (Dooseman, Marchat, & Guillard, 2020).	In 2008 the banking system was fragile and there were more problems (Romanian Financial Supervisory Authority, 2020).
Social Impact	Fake news effect (Guda, 2020) Isolation can affect vulnerable individuals (Ventriglio, Watson, & Bhugra, 2020).	The Great Recession was the first recession covered in real-time by the media (Guda, 2020).
Recovery	Banks are seen as a solution (KPMG, 2020a). Governments "have provided massive fiscal support to protect firms, households, and vulnerable populations" (OECD, 2020, p. 33).	Banks were part of the problem.

Both crises have started in a certain sector (healthcare and financial) that generated numerous effects in the world economy. The economic impact of the COVID-19 crisis is different across regions. For example, regions with economies that are heavily dependent on tourism will be more affected by the corona virus than other regions (OECD, 2020). In the case of the Great Recession, we faced, as well, a synchronized deterioration in global macroeconomic conditions with different impacts on the world economy. The **origin** of both crises is the first dimension discussed. According to the Romanian Financial Supervisory Authority (2020) report, in 2020 the crisis was exogenous, coming from outside the financial system. At the same time, according to the same report, the financial system was better prepared at the beginning of 2020 to face the shocks, unlike in 2008, when it was fragile and there were more problems. The regulations that were adopted following the 2008 crisis have helped the financial system cope better with shocks. This exogenous shock has placed the financial system under pressure (Financial Stability Board, 2020). Banks are highly capitalized today as a result of the measures policymakers and central banks were forced to take (McKinsey, 2018).

Recovery Phase:

These different supervisory and fiscal policy measures have helped to avoid any bank failures over recent months. They have also helped to support the banking sector in its critical function of keeping the economy running.

But they will not avoid the losses that will result from the failure of some businesses, the necessary restructuring of balance sheets of others (implying write-down of some debt) and the inability of some households to serve their loan repayments. The critical question is who will bear these losses. In some cases, and to a certain extent, these losses might be covered by the government guarantees discussed above. In other cases, banks might incur these losses directly.

As banks will have a critical role not only during the pandemic containment phase but also during the economic recovery phase, sufficient capitalisation will be important as economies will have to reallocate resources across sectors from 'losers' to 'winners'.

For example, sectors that rely heavily on physical provider-client contact will decline in their importance, while sectors focusing on remote and/or digital service delivery will grow. Banks will have an important role funding the expansion of the winner sectors, but they can only do so if losses incurred on loans to shrinking sectors does not impair their lending capacity.

Once economies have returned to a 'new normal' and it has become clear which firms (and thus borrowers) are viable and which are not, it is important that non-viable firms are liquidated quickly, loan losses recognised swiftly and banks recapitalised where necessary, be it by private investors or with government support.

The long-term implications of the crisis:

It is a little too early to make clear predictions about the likely long-run effects of the Covid-19 recession on the banking system, but there are some trends that are already clear:

First, low interest rates, close to zero or even negative, are here to stay for much longer. This will certainly put further pressure on banks' profitability.

Second, the trend towards digitalisation might increase even further, as social distancing might become the new norm, and personal interactions between bank and client carry even higher costs. This might imply the closure of further branches and stronger reliance on telephone and internet banking.

Third, the crisis will further strengthen competition for banks from 'fintech' (financial technology companies) and especially Big Tech companies, such as Alibaba or Tencent in China and Facebook, Google, Apple and Amazon in the Western world. These large platform providers are likely to come out of the crisis further strengthened, with a large cash pile and in a strong position (and possibly with a big appetite) to expand into financial service provision. This might put additional competitive pressure on banks in their core business lines.

These three trends started before the pandemic but they might accelerate due to the crisis. Consequently, we might see further competitive pressures on banks, thus requiring an innovative reaction by them.

Discussions and conclusions:

In this paper, we aimed to present an extensive literature review regarding the banking strategies in times of pandemic, how COVID-19 affected the world economy and the differences between the Great Recession and the COVID-19 crises. The corona virus has been a major event in the global economy since 2020. The economic recovery is facing difficulties as the virus continues to spread rapidly around the world. Considering previous experiences, the big banks were better prepared when the pandemic started because they had constantly consolidated their capital and are much more resistant to shocks. So far, banks have stood up well to the economic shock of the pandemic, they had the support of central banks and had quick responses in managing this crisis (KPMG, 2020a). The banking system was better prepared to support the lending needs of the real economy (Demirguc-Kunt, Pedraza, & Ruiz-Ortega, 2020) and, compared to the previous crises, the capital and liquidity buffers of banks were substantially stronger (Borio, 2020b).

The COVID-19 crisis challenges managerial practices in the banking industry through the new way of working in which managers may need new skills to motivate team members. Throughout this period, banks managed the mass transition to remote working highly effectively and maintained a presence in offices for vital functions (KPMG, 2020c). At the operational level, banks had some difficulties and a pressure point was a postponement of credit rates for company clients when they received many requests to implement it. These times have challenged their **resilience and adaptability** by accelerating the digitalization processes from the banking industry. The results are showing that banks try to keep up with customer expectations and to innovate products and services. Moreover, no one knows what tomorrow's future will look like, but it is clear that those banks that will soon modernize their IT infrastructure and provide online access to banking products and services will have benefits, because the customer experience is essential.

Now it is the time for managers to take a closer look at how they adapt their work environment to foster health, wellbeing, and flexibility, all key milestones for their evolution journey. They are transitioning into a working model that is better fitted into the new reality and are redesigning the office spaces for better collaborative solutions to make the best working environment for their employees.

The banking industry can cope with complex crises and support the socio-economic ecosystem, besides all restrictions due to the COVID-19 pandemic by keeping promises to 3rd party companies (construction, retail, restaurants, hotels, etc.) and helping them through the crisis (regular payments, new tenders). They dedicated themselves to supporting the economy and helping their clients to keep their businesses going, including the workplaces in these companies. Corona virus affected the banking system, although banks entered the pandemic with more capital and better liquidity. It will not be easy for them to face the following challenges regarding their financial resilience profitability from low-interest rates and declining asset quality (KPMG, 2020b). To keep their customers closer, they have digitalized many processes that bring benefits, but also new risks and challenges. The pandemic was a turning point for consumers, and many struggled with financial problems and rethought their lifestyles. This directly impacts the banks' sales and the products that the banks intend to launch. The banks' strategies are in the process of transformation and rethinking their entire flow of activities. Change is good - it can bring opportunities that bankers have not otherwise identified.

Looking beyond the immediate and ongoing effects of the COVID-19, the banking sector successfully crossed the lockdown period. The influence that the banking sector has on the prosperity of the economic system is essential. Banks contribute to building education, infrastructure, technology, quality of life, and progress. The stability and sustainability of the growing process are paramount.

The proposed analysis also presents some limitations, especially connected to information availability. In addition, there are no case studies or empirical research. Indeed, the paper provided an only general knowledge of the role of the banking system in the COVID-19 crisis, lessons learned and implemented actions. The literature regarding the COVID-19 pandemic and its implications for the banking system are still developing, so it is a constantly changing field.

From a future study perspective, we should evaluate if the efforts of banks are noticed by the public and how fast banks can adapt their strategies. An analytical study of the customer perception on banking strategies adopted in a pandemic is paramount to properly support future quantitative research. Following future quantitative research, we can observe the customer perception regarding the way banks adapted to the pandemic and how they perceived this approach of the banking system from a strategic point of view.

We live in a period in which the speed that things are evolving with is the only certainty, and banks have been and will always be in the public eye because they are an important organization when it comes to economic development.

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