The Impact of COVID-19 on Global Banking Operations

Introduction

In December 2019, the city of Wuhan in China became the ground for the outbreak of the novel coronavirus, known as COVID-19, which later escalated into a global health crisis. By March 2020, the virus had evolved into a pandemic, profoundly impacting nearly every facet of human existence and societal functioning. The measures to contain the spread of the virus, including mobility restrictions, widespread closures of industries and workplaces, the rapid transition to remote work arrangements, closing of borders, and the material number of illnesses and fatalities, necessitated a profound migration of daily activities into virtual real. [1] This global upheaval has posed unprecedented challenges to the banking industry worldwide, fundamentally reshaping the operational landscape of both commercial and investment banks. Consequently, financial institutions have been compelled to adapt their operations to digital platforms while innovating new methods of customer interaction. As a result, customers have increasingly turned to alternative communication channels such as online banking and mobile banking, with non-traditional payment options gaining popularity. In response to these shifts, banks have made substantial investments in bolstering their digital infrastructure. [1] This analysis critically examines the consequences of the pandemic on banking operations, with a particular emphasis on the transformation of operational strategies, digital adaptation, and the evolution of risk management within the banking sector.

Changes in the operational strategy

The pandemic has instigated significant transformations within commercial and investment banks, particularly in their operational strategies. In response to the challenges of the pandemic, it is imperative for banks to uphold operational continuity while prioritizing the safety and well-being of both employees and customers. Consequently, commercial and investment institutions have found it necessary to enact adjustments within their operational frameworks. The implementation of lockdown, and social distancing measures has mandated the adoption of remote work protocols. Thus, employees were no longer able to operate physically from office premises, prompting banks to transition to digital technologies. This shift ensured seamless communication among teams, departments, and, critically, customers within the framework of remote work policies. Previously, customers would physically engage with bank branches, conducting transactions in person with staff members. However, the pandemic has curtailed such interactions, necessitating banks to forge connections with their clientele via digital platforms. Consequently, financial institutions have found it imperative to adopt innovations in remote and online banking services, digital payments, mobile banking, improvements in applications, as well as virtual advisory sessions. Furthermore, the ongoing pandemic has underscored the significance of continuity and flexibility in operational strategies, as financial institutions grapple with swiftly evolving market dynamics and shifting customer demands. Banks have streamlined internal processes and transitioned towards digital platforms to uphold operational efficiency, agility, and effectiveness. Overall, Covid-19 has catalyzed a shift towards a strategic, adaptable, and sustainable approach to effectively navigate potential uncertainties that may arise.

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1 P. Vilhena, S., & Navas, R. (2023). The impact of COVID-19 on Digital Banking. *Journal of Entrepreneurial Researchers*, *1*(1), 21–42. https://doi.org/10.29073/jer.v1i1.11

Digital Transformation

The pandemic has underscored the need for regulatory transformation within the banking sector. Embracing technological solutions tailored to evolving customer demands has become essential. Innovations are now indispensable. According to Bank Santander's report (2020), the British banking sector has seen the emergence of new competitors in recent years. Consequently, customer expectations regarding digital banking services have surged significantly. A substantial development was the emergence of chatbots and virtual consultants, which leverage artificial intelligence to circumvent human intervention. Through machine learning algorithms and the analysis of vast datasets, optimizing back-office operations became feasible. Cutting-edge bots that facilitate the adoption procedures of the technology exhibited on the channels direct will contribute to ensuring the banks' ability to continue operating. [2] Bank Santander has responded by making substantial investments in digital platforms, aimed at ensuring customers benefit from a comprehensive and cutting-edge banking experience. Financial institutions are poised to prioritize investments in artificial intelligence over the medium and long term, as per a survey conducted by the Bank of England (BoE). It is observed that the utilization of online banking and mobile banking in Europe experienced a notable increase ranging from 10% to 20% during the initial wave of the Covid-19 pandemic [3].

World Bank reports that (2022), in developing countries, the proportion of individuals with bank accounts rose from 42% to 71% by 2020. Presently, two-thirds of the global population utilize digital media. Recent statistics indicate that 40% of individuals have initiated regular payments through their accounts since the onset of the pandemic. Simultaneously, there has been a reduction in the gender gap among account holders. As of 2022, 74% of men and 68% of women possess accounts, marking a decrease in the gender gap from 9% to 6%. Nevertheless, an estimated 1.4 billion individuals, particularly women, remain unbanked, primarily attributed to factors such as poverty and limited access to education[4].

Furthermore, Eurobank (Greece) transitioned to an internal process and adopted a policy of paperless branches. Substantial investments have been made in digital platforms. This has enabled the introduction of new products to the Greek market, including the Eurobank wallet, e-commerce solutions, payment link, bio-card, and a tourism electronic platform. Additionally, the establishment of sector-based ecosystems and the evolution into a comprehensive provider of value-enhancing banking and non-banking services have been instrumental.[5]

Risk Management

In accordance with the findings outlined in the EY article of 2021, the adoption of digital transformation entails both advantages and inherent risks. For instance, amidst the Covid era, there has been a notable surge in criminal cyber activity, marked by increased incidents of fraud and

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2 Santarder. *Becoming a digital bank with a human touch.* (2020). https://www.santander.co.uk/assets/s3fspublic/documents/santander_uk_strategic_report_2020_2.pdf

3 Santander. (2021, April 29). *The impact of covid-19 on Artificial Intelligence in banking*. Santander Corporate Website. https://www.santander.com/en/press-room/insights/the-impactof-covid-19-on-artificial-intelligence-in-banking

4 World Bank Group. (2022, June 28). *Covid-19 drives global surge in use of digital payments*. World Bank. https://www.worldbank.org/en/news/press-release/2022/06/29/covid-19-drivesglobal-surge-in-use-of-digital-payments

5 World Finance. *The five main imperatives for banks in a post-pandemic era*. World Finance. (2023). https://www.worldfinance.com/banking/the-five-main-imperatives-for-banks-in-the-postpandemic-era

phishing attacks.[6] Banks have undergone significant shifts in risk management strategies to navigate the profound changes and challenges arising from the pandemic. Following the pandemic, banks encountered a multitude of risks including credit risk, compliance risk, operational risk, and market risk. This underscored the pivotal role of proficient risk management in safeguarding the financial stability of banks. With numerous businesses unable to operate, the looming threat of closure and insolvency posed a considerable risk. Such circumstances precipitate a ripple effect, adversely impacting banks. For instance, there is a surge in problematic loans and a proliferation of high-risk firms, consequently straining banks' balance sheets and diminishing their capital adequacy ratios (Mohsin. S, 2013)[7]. Consequently, enhancing the assessment and mitigation of the myriad risks stemming from the pandemic has emerged as a critical imperative.

According to insights provided by EY, the post-pandemic landscape underscores an expanded role for risk officers. Consequently, Chief Risk Officers (CROs) are tasked not only with overseeing day-to-day risks within financial institutions but also with considering broader societal shifts and public sentiments pertaining to the transition toward a low-carbon economy. Additionally, they must navigate emerging challenges such as heightened activity in digital currencies. In this context, data protection emerges as a paramount concern. The advent of the Covid era necessitated remote work arrangements for thousands of employees, thereby introducing significant risks. Therefore, one of the pivotal new responsibilities of the Chief Risk Officer (CRO) is to ensure the robust integration of data management and privacy considerations. [6]

Conclusion

The global Covid-19 pandemic precipitated profound transformations, reshaping economies, societies, and industries worldwide. Among the sectors significantly impacted, banks emerged as pivotal entities profoundly affected by these shifts. As the global impact of Covid-19 reverberated across all facets of society, both commercial and investment banks found themselves inevitably affected. Consequently, financial institutions, particularly banks, were compelled to confront unprecedented challenges and adjust to the evolving landscape. Alongside significant revisions to their operational strategies, banks embarked on integrating new channels and transforming their systems. Simultaneously, in response to the myriad risks precipitated by the pandemic, they diligently refined their proficiency in risk management. Looking ahead, the banking sector remains poised to adapt and evolve in light of the outcomes of the pandemic era, charting a strategic blueprint for banking operations in the years ahead. However, the lessons gleaned and the enhanced systems stemming from digital transformation have positively influenced the future trajectory of banking development. Despite the pandemic precipitating a crisis in the real economy, it catalyzed positive shifts in the dynamics and interactions between banks and their clientele. During this period, even traditionally overlooked bank branches were compelled to prioritize the utilization of alternative channels with their customers, previously not considered strategic priorities.

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6 Hobbs, B., & Guerreri, F. (2021). *How COVID-19 has changed the role of the chief risk officer*. EY. https://www.ey.com/en_gl/banking-capital-markets-risk-regulatory-transformation/how-covid19-has-changed-the-role-of-the-chief-risk-officer

7 Shabir, M., Jiang, P., Wang, W., & Işık, Ö. (2023). Covid-19 pandemic impact on banking sector: A cross-country analysis. *Journal of Multinational Financial Management*, *67*, 100784. https://doi.org/10.1016/j.mulfin.2023.100784