**History of Banking sector in US before and after Covid-19**

**Overview:**

The rise of commercial **banking** saw an increase in opportunities for entrepreneurs to borrow capital used to grow an enterprise. The small private **banking** **sector** saw a great deal of insider lending. Many of these **banks** actually spurred early investment and helped spur many later projects.

The history of the U.S. banking sector is marked by significant developments before and after the COVID-19 pandemic. Before the 20th century, the sector saw the establishment of early banks like the Bank of North America and the First and Second Banks of the United States, along with a mix of state-chartered and nationally chartered banks. The 20th century brought the creation of the Federal Reserve in 1913 to stabilize the financial system, and the Great Depression led to widespread bank failures and the creation of the FDIC in 1933. The post-World War II era experienced growth and stability, followed by significant deregulation in the 1980s and 1990s, including the repeal of the Glass-Steagall Act in 1999. The 2008 financial crisis, triggered by the housing bubble collapse, resulted in massive bank failures and the introduction of the Dodd-Frank Act in 2010 to enhance oversight and regulation.

After COVID-19, the banking sector faced immediate impacts such as the Federal Reserve cutting interest rates to near zero and implementing liquidity measures, while the CARES Act provided significant support to businesses and individuals with banks disbursing PPP loans. The pandemic accelerated the digital transformation of banking services and prompted a shift to remote work, leading to changes in operational structures and increased investment in cybersecurity. Economic recovery brought challenges related to loan defaults and uncertainty, but many banks entered the pandemic with strong capital positions. Regulatory adjustments provided temporary relief measures to ensure banks could support the economy. Long-term trends include continued consolidation, with larger banks growing and some smaller banks struggling, ongoing technological innovation in fintech, and an increased focus on environmental, social, and governance criteria, along with efforts to support local communities and small businesses for inclusive economic growth.

**Before COVID-19:**

* The US banking sector has a long history dating back to the early 19th century, with the first national bank, the Second Bank of the United States, established in 1816.
* The sector has undergone significant changes over the years, with the passage of the Glass-Steagall Act in 1933, which separated commercial and investment banking, and the Gramm-Leach-Bliley Act in 1999, which repealed parts of the Glass-Steagall Act and allowed for the consolidation of financial institutions.
* As of 2020, the banking industry in the United States had a total of $27.7 trillion in assets, according to Statista.
* The sector’s primary contributions to the economy are accepting deposits and providing loans, making it essential to the functioning of the contemporary economy.

**After COVID-19:**

* The COVID-19 pandemic has brought significant challenges to the banking sector, including a decline in loan demand, increased credit losses, and a shift towards digital banking.
* According to a report by PwC, the pandemic will come on top of the pre-crisis challenges of the traditional banking business model, including revenue pressure and low profitability, tighter regulation, and increasing competition from shadow banks and new digital entrants.
* The report also notes that digitalization will receive a large impetus, with new entrants challenging banks, providing many benefits but also new risks that will require regulatory responses and a level playing field between incumbents and new entrants.
* Regional banks, which have about two-thirds of their revenue tied to interest income, were already dealing with challenges before the pandemic, with their average ROE slipping in the second half of 2019.
* The pandemic has also accelerated the need for banks to restrict access to some physical facilities, with some employees working remotely and others not having suitable physical environments for remote work.

**Financial Crises and Their Impact on the US Banking Sector**

2007-2008 Financial Crisis:

* + Triggered by the collapse of the US housing market
  + Severe impact on the banking sector, leading to:
  + Liquidity challenges
  + Job losses
  + Loss of life savings
  + Home foreclosures

Regulatory changes and increased oversight followed, reshaping financial activity

**COVID-19 Pandemic**

* + Global health crisis affecting economies worldwide
  + Banks adapted to social distancing guidelines, leading to:
  + Branch closures
  + Changes in operations
  + Indirect effects on the banking sector, but no significant threat to efficiency and growth trajectory
  + Insignificant improvement in efficiency during the post-lockdown period

**Current State of the Banking Sector**

* + Composition of financial asset holdings by key sectors remained largely unchanged between 2007 and 2019
  + Persistent challenges include:
  + Revenue pressure
  + Low profitability
  + Tighter regulation
  + Competition from digital entrants

**Statistics:**

* Concentration ratio of the five largest banks in the US: 46.3% (2021)
* Return on assets (ROA) of US banks: 0.86% (2021)
* Return on equity (ROE) of US banks: 7.4% (2021)
* Delinquency rate on commercial and industrial loans: 2.1% (2021)
* Delinquency rate on residential mortgages: 3.2% (2021)
* According to a study by the Federal Reserve, the ROAA (Return on Average Assets) of US banks decreased from 1.23% in 2020 to 1.14% in 2021, indicating a decline in profitability.
* The same study found that the ROAE (Return on Average Equity) of US banks decreased from 10.23% in 2020 to 9.43% in 2021, also indicating a decline in profitability.
* According to a study by the World Bank, the COVID-19 pandemic has resulted in a significant decline in global trade, with the volume of international trade decreasing by 12.4% in 2020 compared to 2019.

**Key decisions:**

* **Federal Reserve’s Emergency Lending Programs:** The Federal Reserve established several emergency lending programs to provide support to the banking sector, including the Primary Market Corporate Credit Facility, the Secondary Market Corporate Credit Facility, and the Main Street Lending Program.
* **Dodd-Frank Reforms:** The Dodd-Frank Act was implemented in response to the 2008 financial crisis and aimed to increase regulation and oversight of the banking industry.
* **Volcker Rule:** The Volcker Rule, implemented in 2013, prohibits banks from engaging in proprietary trading and limits their investments in hedge funds and private equity funds.
* **Basel III Capital Requirements:** The Basel III capital requirements, implemented in 2013, increased the minimum capital requirements for banks to ensure their stability and resilience.

**Due to this it also impacted the GDP and key points are as follows:**

* **GDP growth:** The US GDP growth rate declined to -5.0% in the second quarter of 2020, but has since recovered to around 2-3% per year.
* **Bank profits:** Bank profits declined significantly in 2020, but have since recovered, with many banks reporting improved profitability.
* **Loan defaults:** Loan defaults increased significantly during the pandemic, but have since declined as the economy has recovered.
* **Deposits:** Deposits increased significantly during the pandemic, but have since declined as the economy has recovered.

**Key Trends are as follows:**

* **Banking Sector Valuations:** The pandemic led to a significant decline in bank valuations, with the S&P 500 Financials Index falling by over 30% in 2020.
* **Loan Growth:** Loan growth slowed significantly during the pandemic, with many banks experiencing a decline in loan demand.
* **Digital Banking:** The pandemic accelerated the shift towards digital banking, with many banks investing in digital channels and services.
* **Regulatory Response:** Regulators provided emergency lending facilities, relaxed capital requirements, and implemented measures to support small businesses and individuals affected by the crisis.

**Key Changes:**

* **Increased Digitalization:** The pandemic has accelerated the shift towards digital banking, with many consumers and businesses adopting online and mobile banking platforms.
* **Consolidation:** The pandemic has led to increased consolidation in the banking industry, with many small and medium-sized banks being acquired by larger institutions.
* **Risk Management:** Banks have had to adapt to new risk management strategies, including increased provisioning for loan losses and enhanced risk assessment and monitoring.
* **Regulatory Changes:** The pandemic has led to changes in regulatory requirements, including increased emphasis on stress testing and capital planning.
* **Fintech and Digital Technologies:** The pandemic has accelerated the adoption of fintech and other digital technologies in the banking sector, including artificial intelligence, blockchain, and cloud computing.

The COVID-19 pandemic has had a significant impact on the US banking sector, with many banks facing challenges such as:

* **Increased Loan Losses:** The pandemic has led to a significant increase in loan defaults and delinquencies, particularly in industries such as retail, hospitality, and tourism.
* **Reduced Economic Activity:** The pandemic has led to a decline in economic activity, resulting in reduced loan demand and increased uncertainty.
* **Regulatory Relief:** In response to the pandemic, regulatory agencies have provided relief to banks, including temporary changes to capital requirements and stress test rules.
* **Digital Transformation:** The pandemic has accelerated the shift towards digital banking, with many banks investing in online and mobile banking platforms to improve customer experience and reduce costs.
* **Consolidation and Mergers:** The pandemic has led to increased consolidation in the banking industry, with many smaller banks being acquired by larger institutions.

**COVID-19 Impact**

The COVID-19 pandemic had a significant impact on the banking sector in the United States, leading to a period of unprecedented stress and uncertainty.

* **Global Economic Downturn**: The pandemic led to a global economic downturn, resulting in reduced economic activity, lower interest rates, and increased uncertainty.
* **Increased Risk of Default**: The pandemic led to an increased risk of default among borrowers, particularly small businesses and individuals, which put pressure on banks’ loan portfolios.
* **Reduced Lending**: Banks reduced lending to mitigate risk and conserve capital, leading to a decline in economic activity.
* **Government Intervention**: The Federal Reserve and other government agencies implemented various measures to support the banking sector, including cutting interest rates, injecting liquidity, and providing emergency loans.

**Post-COVID-19 Performance Bases**

The banking sector in the United States has shown resilience and adaptability in response to the COVID-19 pandemic. While the sector faced significant challenges, banks have implemented various strategies to navigate the crisis and position themselves for future growth.

* **Digital Transformation**: The pandemic accelerated the shift towards digital banking, with banks investing in digital platforms and services to improve customer engagement and reduce costs.
* **Risk Management**: Banks have continued to focus on risk management, with a greater emphasis on stress testing and scenario planning to prepare for potential future crises.
* **Capital Preservation**: Banks have maintained strong capital buffers to absorb potential losses and maintain lending capacity.
* **Government Support**: The Federal Reserve and other government agencies have continued to provide support to the banking sector, including maintaining low interest rates and providing emergency loans.

**Conclusion**

The banking sector in the United States has shown resilience and adaptability in response to the COVID-19 Pandemic. The sector has implemented various strategies to navigate the crisis, including digital transformation, risk management, capital preservation, and government support .The pandemic has accelerated the shift towards digital banking and emphasized the importance of risk management and capital preservation in the banking sector.