Covid-19 impacts: On sustainable future in banking

Crisis, a word made up of two characters; the first, representing threat, and the second, representing the opportunity. The COVID-19 pandemic has brought much economic activity including financial institutions around the world to a stop, making a global recession appear inevitable and could become a depression if policy makers don't act fast enough and subsequently that could send financial markets from a drawdown to a meltdown.

Governments, central banks and policymakers worldwide are engaged in damage-control of the economic losses at the moment and preparing for confronting the upcoming economic crisis with expansionary monetary and fiscal policy such as profit/interest-rate cuts, liquidity injections, tax relief, and industry bailouts etc. Also, this crisis is not simply about liquidity. It is primarily about solvency; at a time when large segments of the global economy have come to a complete stop.

Financial sector of Bangladesh principally suffering while managing NPLs and we are assuming NPLs may increase in between & after COVID-19 pandemic. And it is the peak time for every bank to assess and reassess overall lending portfolios and monitoring invested portion carefully. Disorganization in NPLs management can pessimistically affects the fund flow of the bank such as liquidity pressures and credit crunch.-Also,-it-eats-earnings-of-the-banks.

In addition, a 6.00% deposit rate and 9.00% lending rate add up additional pressures on financial sector of Bangladesh during COVID-19 pandemic in consideration with cost of funds, classified loans, overhead cost, regulatory issue etc as procuring deposit at 6.00% is still challenging and subsequently banks are producing lean earnings.

For example, if a bank earns lower earnings due to lower profit rate it will declare lower dividend to investors which will impact on the stock market negatively and subsequently international rating of the bank will be lower as banks earn lower comparative to previous year which will increase reimbursement charges and downsize international ratings of the banks. Also, negatively impacts on government revenue collection which may augment government borrowings and increase national debts. We have seen that majority of the banks records negative growths in terms of profits and few banks records operational losses for the first half of 2020 in comparison with first half of 2019. Remember, market rate of demand and supply will be-determined-by-the-market-itself.

As such, few recovery actions should be taken i.e. forming contingency team with specific tasks to attain strategic goals for a sustainable future in banking sector of Bangladesh:

* Banks needed to strategize and be ready to face the upcoming banking challenges to ensure economic sustainability. Measures for addressing contamination risk, preparing for probable infrastructural change through technology adaption, needing to assess credit portfolios and payment services, reviewing current and upcoming liquidity status, utilizing stimulus packages, financing for liquidity injection into the economy, taking care of reputation risk and building trust and confidence. Buying back of government securities, reduction in repo rate, reduction in Cash Reserve Requirement and increase in Investment/Advance Deposit Ratio of banks can act as liquidity-injections-in-the-mark

* In line with, monetary, fiscal, and financial policies should aim to cushion the impact of the COVID-19 shock and to ensure a steady, sustainable recovery once the pandemic is under control. A continuous international coordination will be

essential to support vulnerable countries, to restore market confidence, and to contain financial stability risks. Remember, we have no way but to consider two key issues to recover financial sectors; firstly, to help protect the world's most vulnerable economies, and, secondly, for the long term, to strengthen the eventual recovery of the economy.

Ensuring due preparation to accelerate economic recovery in the post COVID-19 situation where the board and top management have critical role to play. Crisis preparedness would be a key to bring stability. A watch group should be formed for data assessing and make ready the bank for preparing a reliable situational analysis when needed.

Making an allowance for, growth and sustainability of a bank depends not only on the policy of the bank itself but also the overall growth of the different wings of the economy. As most of the income generating sectors of Bangladesh is at risk and under threat to lose of businesses, banks have the possibility to face a critical situation ever.

Adaptation of technology would be necessary while managing COVID-19 uncertainty and for ensuring business continuity; and restore online-based education and training platforms to continue with the capacity development programs which can limit cost of the banks and reducing contamination risks as well. Remember, peoples do not need banks, the need banking. As such, it is high time to ensure every client in the umbrella of virtual banking i.e. innovation in technology.

Making full use of capital and liquidity buffers with restrictions on dividends to rebuild the process. Indeed, where the bank capital adequacy is affected, supervisors should take targeted actions, including asking banks to submit credible capital restoration plans. Authorities may even need to step in with fiscal support either direct subsidies or tax relief to help borrowers to repay their loans and finance their operations, or to provide credit guarantees by government. Economic stimuli packages are to/be disburse/disbursed to the affected industries, traders, enterprises, and individuals based on banker-customer relationship and there is a higher probability of non repayment of the loan i.e. credit risk. Government may provide credit guarantees to make a great success of the stimulus packages.

COVID-19 significantly worsens of both profit/interest income and non-profit/non-interest income of banks and financial institutions and also augment NPLs to a reasonably high extent which can lead to capital adequacy and solvency challenge significantly. As such, management of the banks bestow full fledges importance in capital adequacy and solvency indicators of the banks.

COVID-19 can create opportunity to support clients and affected communities and can improve reputation & image of the bank and vice versa i.e. increase reputational and country risk. Digital marketing and reaction of the banks employees in the current environment are also important indicators as many of us are isolated under social distancing rules.

Remember, susceptibility of the banking industry may make the existing condition in deteriorate situation and thus may prolong in financial revival. Liquidity crisis, non-performing loans, run of banks, unplanned operational expenses and non-recovery of loans can lead to a bank in negative deposit growth and subsequently drop-down in a deteriorate situation. Innovation in the products and services, most importantly, innovation in technology across the enterprise should be ensured to remain-sustainably-better-in-the-market.

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