REST Journal on Banking, Accounting and Business
Vol: 3(4), December 2024
REST Publisher; ISSN: 2583 4746
Website: http://restpublisher.com/journals/jbab/
DOI: https://doi.org/10.46632/jbab/3/4/5

The Impact of COVID-19 Pandemic on the Banking Industry and Its Customers

Shweta
Ismail National Mahila PG College Meerut, Uttar Pradesh, India.
*Corresponding author: *shwetakannojiya@gmail.com*

Abstract: *A number of areas within the global banking industry have been hit hard by the COVID-19 epidemic, including customer demand, digital transformation, risk management methods, and overall financial performance. Focusing on shifts in client demand for loans and financial products, the rise of digital banking, and banks' reactions to increased financial risks, this study examines how the pandemic affected conventional banking operations and customer interactions. The goals of the research are to look at how banks changed their services throughout the pandemic, how they dealt with risk, and how well they did financially. The research relies on secondary data analysis that scours academic journals, government documents, business reports, and bank records. Findings highlight a sharp drop in loan demand in the early phases of the epidemic, followed by a dramatic increase in demand for mortgage refinancing and corporate loans supported by the government. Online and mobile banking saw a meteoric rise in popularity as more and more clients made the switch. Lending restrictions and provisions for non-performing loans were tightened by banks in response to financial instability, which had a detrimental impact on their profitability. Better digital banking infrastructure, more robust risk management frameworks, and more adaptable financial products that can react to crises more effectively are some of the long-term consequences that the study emphasizes for the banking sector. At its end, the paper suggests ways financial institutions might be better ready for future disruptions and urges additional investigation into how fintech will play a role and how regulations will alter in the banking industry after a pandemic.*
Keywords: *COVID-19 pandemic, Banking industry, Digital transformation, Risk management, Consumer demand.*

1. INTRODUCTION

Background of the Study:

Since its start in late 2019, the COVID-19 pandemic has devastated practically every aspect of human life. The world faced its worst recession since the Great Depression due to its significant economic disruptions, which also threatened public health (Shabir et al., 2023). Countries imposed lockdowns, travel restrictions, and social separation to contain the virus, which slowed economic activity, raised unemployment, and shook the market.

The banking industry, essential to the economy, has been severely damaged by the crisis. Due to the pandemic's economic consequences, financial institutions had to adapt quickly. When businesses were closing, consumer spending was plummeting, and hospitality and tourism were nearly nonexistent, banks struggled to serve consumers (Korzeb&Niedziółka, 2020). The worldwide economic crisis harmed bank liquidity and asset quality, increasing lending risk and NPLs. As the epidemic accelerated the digital revolution of financial services, banks had to adopt new technologies to serve consumers remotely and co tactlessly. Customers' expectations and habits changed during the pandemic.

The closing of physical branches increased online banking demand. More convenient digital channels for consumer finance, loan applications, and other financial services were needed (Agnihotri et al., 2022). After the epidemic hit conventional banking, some financial firms had to reconsider their offers, including more flexible lending terms, better customer service, and new financial instruments to weather unpredictability.

Problem Statement:

The COVID-19 pandemic has disrupted banking, making life tough for clients and banks. Traditional banking collapsed when social distance standards banned face-to-face interactions. Banks had to switch to digital platforms swiftly. This sudden transition strained banks' technology infrastructures, forcing swift customer service modifications. The epidemic intensified consumers' financial problems, requiring loan extensions, emergency relief, and credit line deferrals. While dealing with these difficulties, banks faced higher lending and investing risks. The pandemic's unpredictability caused large-scale loan defaults and rising NPAs, threatening banks' financial sustainability. Bank capital markets and investment portfolios were also affected by the global economic crisis, complicating risk management. Banks had to manage these risks to maintain liquidity, meet regulatory requirements, and support clients during this unprecedented financial crisis. This crisis has challenged banks' risk management and operational resilience by slowing their response to widespread disruptions. The pandemic sped a long-term shift towards internet banking, but it has also highlighted financial inclusion gaps, making it difficult for older and rural people to use these services. Due to changes in consumer demand, a higher reliance on digital platforms, and an elevated risk climate, the banking industry needs new strategies and methods to survive the pandemic.

2. PURPOSE OF THE STUDY

This study seeks to understand how the COVID-19 pandemic has affected banking and consumer behaviour. In response to consumer demand for banking products and services, such as digital banking, banks have changed their service offerings, lending policies, and risk management measures. This study will examine answers carefully. The pandemic's economic repercussions have caused non-performing loans, diminished profitability, and the need to protect liquidity in uncertain times for financial institutions. Their management of these difficulties will be examined in this research. The paper analyses these elements to reveal financial institutions' pandemic mitigation efforts and identify future crises that will require more innovation and flexibility. This study will show how the pandemic influenced the banking industry over time and give banks recommendations on how to be more resilient and better serve their customers in this digitally-driven, economically-unpredictable environment.

3. RESEARCH OBJECTIVES

- To regulate how the COVID-19 pandemic has exaggerated consumer banking demand.
- To evaluate pandemic risk management and lending by banks.
- Assess how COVID-19 has affected banks' profits and operations.

4. REVIEW LITERATURE

(Marcu, 2021) work aims to make a contribution to management literature by investigating banking practices used during complicated crises, particularly the recent pandemic. By comparing the COVID-19 pandemic crisis to the financial downturn that occurred in 2008 and 2009, we hoped to shed light on the pandemic's impact. In both the Great Depression and the current economic downturn, the banking sector has played a pivotal role; nevertheless, the current crisis is distinct from its predecessors since it is associated with broader systemic health concerns. Banks were seen as contributors to the problems during earlier crises, but now they are seen as contributors to the solutions. Banking institutions play an increasingly important role in the current corona virus pandemic, and the actions they take have far-reaching effects on the economy as a whole. The epidemic has had a profound effect on the majority of companies and has fundamentally altered the global economy. Since it is an integral part of the economy, the banking system is crucial to this scenario. The banking system has undergone constant adaptation and reinvention in recent years, driven by the desire to reduce costs and meet the rising expectations of customers. Digitalisation in banking has been sped up by the COVID-19 epidemic, but the importance of innovation and digital initiatives in banking has always been significant. Then, in the context of the COVID-19 epidemic, we summarise the most crucial aspects of the banking system reform and offer a judgement based on a narrative literature review. As the globe continues to navigate this new experience, the literature on the COVID-19 epidemic and its effects on the financial system remains in its early stages.

(Perwej, 2020)The spread of the COVID-19 pandemic has the potential to rank among the most significant threats to the banking sector in almost a hundred years. Banks will feel the pinch as a result of COVID-19's sharp decline in demand, decreased earnings, and production shutdowns. As businesses rush to address the effects of COVID-19 on financial services, the problem is worsened by a lack of qualified workers, immature digital readiness, and strain on the current infrastructure. With the new corona virus COVID-19 on the rise, financial institutions have a lot on their plates. Businesses and borrowers are bracing for a drop in profits, a slowdown in sales, and the loss of jobs as the virus spreads globally. Financial relief is expected to become a priority for banking consumers. The massive monetary losses caused by pandemics are one clear way in which they might affect monetary systems. In order to mitigate the direct financial effects of the corona virus, financial institutions must take precautions to prevent the spread of the virus among their staff and clients. Some bank staff are already being encouraged to work remotely by some institutions. Our goal in writing this article is to show how the COVID-19 epidemic affected the banking and finance industry. According to the Indian bank, the country's financial system could be in need of a thorough cleaning for years due to the recent corona virus outbreak. When it comes to providing capital to businesses and people, banks are right in the middle of things. Their reliability is essential for the system to remain operational.

(Aliabad et al., 2022)The world's economy has taken a major hit ever since COVID-19 became a pandemic. On top of that, shoppers' habits have shifted in the retail sector. The purpose of this article is to analyse how the corona virus pandemic has affected shopping habits. This article will centre on retail banking services, with a particular emphasis on the banking industry in Jordan. A survey was administered to Jordanian consumers in the retail banking sector utilising questionnaires. A total of 240 retail customers were surveyed from 14 valid participants, allowing the study to meet its goal. This research provides fresh evidence of the conceptual model's acceptance of online banking and sheds light on how the pandemic impacted retail banking services. Consumers' perceptions of the pandemic's effect on their daily lives were positively and directly correlated with the factors measuring their attitudes towards online and mobile banking. This uptick in optimism was due to a number of factors, one of which being the general public's perception of the security of using digital and mobile financial services and phones. Additionally, we covered the various administrative and societal ramifications of mobile and online banking trust. Even when the epidemic has progressed to its latter stages, mobile and internet services may continue to dominate due to the development of new patterns of consumer behaviour. Banks in Jordan should step up their efforts to teach customers how to use their online banking services by launching more training programs, particularly financial ones. In addition to being more accommodating during negotiations for refinancing and loan terms, they should improve their communication with clients and provide new goods and services. (Wu et al., 2020)The worldwide economy has been hit hard by the COVID-19 pandemic. The three parts of the COVID-19 influence on China's banking sector are the immediate, the distant, and the systemic. Greater credit backing is required to bolster unique financial services for the control and prevention of pandemics. Special credit lines lower interest rates, deferred repayments, and long-term lending systems are all necessary to help medium-to small-sized businesses. Intelligent risk control systems can only be enhanced by a more rapid digital transition.

(Mistrean, 2021) In light of the new social developments and significant changes in human behaviour brought about by the COVID-19 pandemic, managing customer relations has emerged as one of the most pressing issues confronting banks today. The current economic climate is having an impact on all consumers and businesses, making consumers pickier about the goods and services they buy, the terms offered by banks, the prices they pay, and the connection between banks and their clients. Banks already have a formidable challenge as a result of the pandemic's new segmentation: how to decipher customers' changing habits in order to provide them with the products and services they need in an easy and efficient manner. In any case, banks need to be accommodating to the demands of customers who use their products and services right now if they want to keep their place in the market. The overarching goal of this research is to shed light on how the pandemic crisis has affected banking product and service consumption habits from a practical standpoint.

It wasn't until the 1980s that the correlation between happy customers and good service began to receive widespread attention. Researchers have not yet given up on their goal of determining the relationship between customer happiness and the five dimensions of quality service: tangibility, reliability, responsiveness, assurance, and empathy. In light of the current COVID-19 pandemic, this study reviews the literature to identify the gaps in our understanding of how service quality affects customer satisfaction in the banking industry (Nautwima et al., 2022). The literature study reveals contradictory findings, with certain aspects of quality service favourably influencing customer satisfaction and others negatively. There has been a lack of research on the phenomena, particularly in the Namibian context, despite the fact that evidence from the African context shows favourable connections between the factors. In addition, everything of the empirical evidence that has been considered so far has come from a quantitative viewpoint, completely ignoring any evidence that may exist from a qualitative one. Therefore, it's time to dig deeper into the topic and close the gap through additional inquiry. This allowed for the development of a theoretical basis for future studies. Consolidating the moderating influence of the COVID-19 pandemic on the relationship between quality service and satisfaction, the conceptual framework is based on the modifications made to the services that come with variations in client pleasure.

5. RESEARCH METHODOLOGY

This study analyses secondary data to evaluate how COVID-19 influenced financial firms and their clients. This study analyses current data to examine how banks have responded to the pandemic and customer demand for banking products and services. Secondary data will be collected from reliable sources such bank reports, government records, industrial reports, and scholarly journal articles. These sources reveal how the pandemic affected banking operations, risk management, client behaviour, and financial health.

The factors will include bank profitability, lending trends, NPLs, digital banking adoption, and customer service performance. We will analyse these data to determine how much the epidemic affects banking operations. The study will also evaluate customer behaviour and preferences, such as the rise of online banking and the need for financial products that address epidemic uncertainty. Data will represent the banking industry's crisis response through rigorous study of correlations, trends, and insights. This method can reveal how banks handled the pandemic and how the post-pandemic landscape may have changed forever.

6. ANALYSIS AND DISCUSSION

6.1. Changes in Consumer Demand for Banking Products:

The COVID-19 pandemic changed consumer demand for banking products and services. As economic instability and job losses increased, consumer banking conduct altered to indicate caution and adaptability. Secondary data from industry reports and bank surveys showed that personal, mortgage, and corporate loan demand dropped early in the epidemic. In the early months of the crisis, loan applications plummeted as borrowers delayed crucial financial choices due to economic difficulties (Ramasamy, 2020).

Government stimulus initiatives like loan moratoria and other financial aid increased mortgage refinancing demand. The record low interest rates and government incentives made refinancing more appealing, therefore people raced to do so. Small firm loans through government-backed schemes increased as companies struggled to survive the lockdowns. Banks across the country report a sharp rise in demand for pandemic-related financial support services such emergency relief loans and payment deferrals.

The outbreak also boosted investment and savings product demand. Clients seeking financial protection in uncertain times choose savings accounts, fixed deposits, and other low-risk investments. As consumers became more frugal and focused on financial safety nets, bank figures show household savings accounts climbed. Pandemic-induced economic panic has shifted demand for safer financial products away from riskier ventures.

6.2. Risk Management and Lending Practices:

Banking faced new and difficult dangers during the COVID-19 pandemic. The economic crisis created financial uncertainty, forcing banks to reassess their lending and risk management policies. Many borrowers were unable to make loan payments due to income changes, so the rising number of NPLs was a serious issue. According to industry surveys and bank reports, nonperforming loan rates rose worldwide, causing financial institutions to tighten lending criteria and minimise credit risk (Roy, 2020).

In response to rising default rates, many financial institutions tightened lending standards, especially for high-risk customers. In pandemic-stricken sectors including retail, hospitality, and tourism, personal, credit, and small business loan acceptance rates dropped, indicating this trend. Banks prioritised creditworthiness, cash flow predictions, and collateral in underwriting. The banking industry also became more selective about extending new credit to established customers with good credit.

Regulatory agencies also established lending moratoria and debt payback exemptions to boost financial stability. Although these approaches reduced major defaults in the short term, banks' facilitation made loan restructuring and recovery harder in the long term. According to financial institution and central bank data, banks' bottom lines and capital reserves suffered from high loan loss provisions (Kulińska-Sadłocha et al., 2020). New factors like the unstable global economy, changing customer behaviour, and interest rate swings forced banks to rethink risk management.

6.3. Digital Banking Transformation:

Online banking grew rapidly throughout the pandemic, causing major financial sector changes. Customers quickly switched to online and mobile banking as traditional branches closed or were restricted. Sector statistics show a sharp rise in digital banking for bill payment, fund transfer, and account management. Some banks were better prepared since they had invested in robust digital infrastructures, while others had to swiftly upgrade their digital products to meet client expectations.

According to financial institution studies, online transactions surged by over 40% in some regions, with mobile banking app usage at historic levels. As they digitally transformed, banks prioritised customer service advances because to the pandemic (Mishra et al., 2021). Numerous banks offer new services like contactless payment options, automated loan applications, and Chabot support. These improvements allowed clients to manage their funds online, reducing the need for face-to-face interactions, per public health recommendations.

As banks used more digital channels, cyber dangers increased, highlighting the significance of cyber security and data protection. Many financial organisations have invested much in cyber security to protect sensitive client data and transactions. Despite the resumption to regular branch hours, many customers prefer internet banking, demonstrating that the epidemic has permanently affected consumer behaviour. The epidemic may have accelerated baking’s digitisation, which is now part of the industry's growth strategy.

6.4. Financial Performance:

The COVID-19 pandemic hurt banks' profitability, liquidity, and asset quality. As mentioned, NPLs increased, making balance sheet management harder for banks. According to banking industry reports and financial disclosures, some financial institutions had to enhance loan loss reserves, cutting revenues. Falling interest income and soaring credit expenses caused some significant banks' net revenue to plummet during the epidemic's peak. In the early stages of the outbreak, banks were naturally apprehensive about liquidity due to the quick economic decline (Mishra et al., 2021). Global central banks lowered interest rates and launched quantitative easing to infuse cash into the banking sector. These actions stabilised bank liquidity, allowing them to lend and boost the economy. The long-term low-interest-rate environment hurt interest margins, squeezing banks' profitability. Loan defaults hurt banks' finances. Loan defaults rose at several financial institutions, especially in small businesses, retail, and hospitality, which were hardest hit by the recession. Bank revenue was hurt by rising defaults and falling lending activity. Digital transactions, investment banking, and wealth management generate fees, helping some banks recover. Many banks survived the pandemic, and some even improved when it ended (Elnahass et al., 2021). This recovery was driven by government support, market improvements, and credit risk stabilisation. As the world economy recovered, banks' asset quality and profitability improved, but debt restructuring and economic volatility persisted.

7. CONCLUSION

This research has examined how the COVID-19 pandemic affected client demand, bank risk management, digital banking adoption, and bank performance. The key findings reveal that the pandemic changed conventional banks, resulting in a sharp decline in loan demand, a rise in savings, and a surge in internet banking use. Banks tightened lending rules, handled more non-performing loans, and reorganised risk management systems to cope with the uncertain economy. The acceleration of digital transformation has enduring repercussions on bank clients. The bigger ramifications of these shifts are that financial institutions will need to invest in their digital infrastructure and cyber security to meet rising online service demand. The outbreak has highlighted the need for banks to be more flexible and creative in future crises. With fewer in-person encounters and more online banking, customers should anticipate digital banking to rise. Future research might examine how faintish companies changed the banking industry following the epidemic and how it affected financial inclusion, especially for marginalised areas. To gain more insight, investigate how regulatory frameworks have altered in response to these advances and how digital banking innovations have fared in different areas.

8. RECOMMENDATIONS

1. To meet increased demand for online banking, banks should invest in effective digital platforms. Banks must improve cyber security, mobile banking apps, and digital payment systems to deliver smooth, safe, and efficient services.
2. Banks must enhance risk management to weather future crises. This plan includes improving economic shock models, increasing capital buffers, and developing fast loan restructuring procedures.
3. Banks should offer flexible loan terms, payment postponement, and crisis-specific relief packages to adjust to economic concerns. These adaptive solutions will assist clients handle financial crises and help banks retain clients and control credit risks.

REFERENCES

[1]. 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.

[2]. Korzeb, Z., &Niedziółka, P. (2020). Resistance of commercial banks to the crisis caused by the COVID-19 pandemic: the case of Poland. Equilibrium. Quarterly Journal of Economics and Economic Policy, 15(2), 205-234.

[3]. Agnihotri, D., Kulshreshtha, K., & Tripathi, V. (2022). Emergence of social media as new normal during COVID-19 pandemic: a study on innovative complaint handling procedures in the context of banking industry. International Journal of Innovation Science, 14(3/4), 405-427.

[4]. Ramasamy, D. K. (2020). Impact Analysis in Banking, Insurance and Financial services industry due to COVID-19 Pandemic. Pramana Research Journal, 10(8).

[5]. Roy, S. (2020). Economic impact of Covid-19 pandemic. A preprint, 1, 29.

[6]. Kulińska-Sadłocha, E., Marcinkowska, M., &Szambelańczyk, J. (2020). The impact of pandemic risk on the activity of banks based on the Polish banking sector in the face of COVID-19. Bezpieczny Bank, 79(2), 31-59.

[7]. Mishra, A. K., Patel, A., & Jain, S. (2021). Impact of Covid-19 Outbreak on Performance of Indian Banking Sector. In ISIC (Vol. 21, pp. 25-27).

[8]. Elnahass, M., Trinh, V. Q., & Li, T. (2021). Global banking stability in the shadow of Covid-19 outbreak. Journal of International Financial Markets, Institutions and Money, 72, 101322.

[9]. Marcu, M. R. (2021). The impact of the COVID-19 pandemic on the banking sector. Management Dynamics in the Knowledge Economy, 9(2), 205-223.

[10]. Perwej, A. (2020). The impact of pandemic COVID-19 on the Indian Banking System. International Journal of Recent Scientific Research, 11(10), 39873-39883.

[11]. Aldiabat, K., Al-Gasaymeh, A., Alebbini, M., Alsarayreh, A., Alzoubi, A., &Alhowas, E. (2022). The COVID-19 pandemic and its impact on consumer's interaction on mobile banking application: Evidence from Jordan. International Journal of Data and Network Science, 6(3), 953-960.

[12]. Nautwima, J. P., & Asa, A. R. (2022). The impact of quality service on customer satisfaction in the banking sector amidst Covid-19 pandemic: A literature review for the state of current knowledge. International Journal of Management Science and Business Administration, 8(3), 31-38.

[13]. Mistrean, L. (2021). Behavioural evolution of consumers of banking services in the COVID-19 pandemic situation. The Journal of Corporate Governance, Insurance, and Risk Management (JCGIRM), 8(1), 84-100.

[14]. Wu, D. D., Olson, D. L., Wu, D. D., & Olson, D. L. (2020). The effect of COVID-19 on the banking sector. Pandemic risk management in operations and finance: modeling the impact of COVID-19, 89-99.