

MANAGING BANKING INDUSTRY CHANGES UNDER THE COVID 19 PANDEMIA

Vera Zelenović

University of Novi Sad, Faculty of Economics, Subotica, Serbia
vera.zelenovic@ef.uns.ac.rs

Milan Radović

University of East Sarajevo, Faculty of Economics Pale, RS, BiH
milan.radovic.rs@gmail.com

Jelena Vitomir

Faculty for Business Studies, Belgrade, Serbia
jelena.vitomir1@gmail.com

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Abstract: *The success of a change is valorized by a new state, and whether it will occur depends on several influential factors: environment, management, knowledge, the will to change, resistance to change, entrepreneurial spirit, motivation, risk. Managing change and making the right decisions is much easier when the path ahead of the manager is known. In contingencies, such as the global pandemic, Covid 19, banks' readiness to respond to challenges and manage change that threatens to overcome them is evident, which is the subject of this research. The aim of the research is to show the importance of banks in the course of starting to reorganize themselves and manage changes in a way that will enable them to survive in the market. For those banks that were not ready for changes, new business opportunities and customer satisfaction were lost, and employees were inefficient.*

Key words: *bank, globalization, pandemic, change management*

INTRODUCTION

In the broadest sense, according to Macvanin., N. (2009), change means the transition from one (existing) state to a new state (whether it is about individuals, organizations or society itself). Change is the most important event in a system, the success of change is valorized by the new situation, and whether it will happen depends on several influential factors: environment,

management, knowledge, will to change, resistance to change, entrepreneurial spirit, motivation, risk ... This process is neither quick, nor easy, nor simple; it takes decision, time, initiative to implement changes, for a new solution start working, to be maintained and to lead to a new quality. The functioning of the new solution is only a transitional phase towards further changes. There are also changes "on the fly", which we call innovations. Innovation is a small-scale change in this aspect. Although it is difficult to determine the boundaries when innovation exceeds the threshold of significance that determines that one can talk about change, there are still certain differences between these two phenomena. Drucker believes that "an organization, regardless of its goals, must to know how to solve yesterday's tasks and thus free up energy and resources for new ones, more productive tasks. If he wants to take advantage of opportunities, he must abandon the unproductive and discard the obsolete." That is the essence of any change!

Their position of changes are also state and Collins, J. C. 1., & Porras, J. I. (2002), saying that in today's reality the only paradigm of business management is change, as the only constant. The new millennium has witnessed several aspects of change including information technology, the struggle for top talent, information congestion, a diverse environment, changing user trends, and demographic, economic, and geopolitical drivers of change. The challenge faced by a successful and even visionary organization is how successful and

efficient it is in managing change by preserving the basic values and purpose of existence on the one hand, and managing changing cultural and operational practices and specific goals and strategies on the other.

In their research (Jayawardhena, C. & Foley, 2000), they believe that technology, and especially the Internet, are a key driver of internal changes. Internal changes has been greatly enhanced by both the Internet and leadership and organizational structure and innovation. Internal changes have caused major changes when it comes to the delivery of banking products and services. The synergy of all these forces will lead to major transformations of the banking sector. The future of the banking sector has even more to suffer when it comes to significant changes related to global advances in telecommunications infrastructure, lower operating costs and the growing consumer trend of self-service technology, including ATMs, network banking and other technology-oriented services and applications. Bogdanović, D. (2016) believes that managing change and making the right decisions is much easier when the path ahead of the manager is known. Then it is even possible to predict the change, which opens the possibility for managers to avoid certain problems or to solve them much easier, because then the change is an event that was planned and for which the managers are already prepared. Consequently, the skill of anticipating change is one of the most important skills that every manager should possess. Anticipating change means anticipating problems. This gives managers enough time to prepare for the given problems in order to solve them in the most efficient and least painful way. (p.9) Banks and other financial associations are developing digitization strategies, targeting individuals and individual projects to lead institutions successfully and sustainably into the digital age. The scope and level of ambition here are as different as the planned length of implementation. The belief is that digitalization is different from other current processes of change: it deals with almost all business units and processes and is important for all participants. Thus, the desired success depends not only on the technical feasibility, but especially on the willingness of the team to adapt. A key component on the road to the digital age is effective change management. Continuous changes in all business segments and overlapping of different projects represent new challenges to the required process steps for efficient change management and justify appropriate actions (Schuderer, M., Heiden, K.M., Schroeder, S. 2017):

- 1) Sense of urgency due to competitive comparison

- 2) Establishment of an interdisciplinary coalition
- 3) Developing a vision and strategy with a flexible target image
- 4) Developing skills of change and their implementation in practice
- 5) Employee trust and skill transfer
- 6) Emphasizing success at milestones
- 7) Continuous review of priorities
- 8) Constant changes as part of corporate culture

1. OBJECTIVE AND METHODS OF RESEARCH

The subject of this research is to see how banks react to the Covid 19 pandemic. Although the pandemic is still ongoing, it provokes and seeks decisions and changes almost on a daily basis, and what is already certain is that nothing will be the same after this pandemic. The aim of the research is to point out how important it is for banks to start restructuring and managing changes in a way that will enable them to survive in the market. It is also important to point out that the portfolio of changes is not ready, that it will require continuous changes in accordance with the global situation and changes in behavior and habits, both for individuals and legal entities. It is certain that the scope of changes will be affected by possible state aid programs, as well as regulations within banks. The biggest problem that arises in managing these inevitable changes is how long will this pandemic last, will it return and will medicine have an adequate response to it and when? These are all factors that will influence the creation of changes and the way they will be managed. Apart from books and professional papers, the sources for this research were the current primary internet addresses, where the analysis of their contents tried to reach certain conclusions.

2. PRELIMINARY RESEARCH IN THE USA AS A RESULT OF THE COVID 19 PANDEMIC

One of the biggest challenges facing banks today (and not just banks) today is how to respond to a challenge called the Covid 19 global pandemic? The duration of the epidemic, its global distribution in a globalized world, requires prompt responses and adjustments to the situation on a weekly basis and not infrequently on a daily basis. In such situations, the willingness of banks to respond immediately to the challenges and manage the changes that threaten to overtake them, if the answers are not adequate and timely. Given that states are preoccupied with establishing control over a pandemic from a medical point of view, it is not possible to avoid the side effects and consequences that a pandemic leaves on both the individual and the economy as a whole. It is still

early for analyzes from the financial aspects, but adequate answers from that aspect are also necessary in order to avoid the collapse of both the financial systems and the economy. Therefore, it is necessary, as much as possible, to try to investigate the current financial consequences that the pandemic has on both individuals and the entire economy, to design potential further trends and on that basis to manage changes in the best possible way. One of the preliminary researches was conducted in the USA, with the aim of understanding the consequences of the pandemic so far on both the individual and the economy as a whole. According to Cocheo, S., (2020), the impact of the coronavirus on the American economy is deepening, and more and more citizens will suffer from financial anxiety. The biggest concern is that where banks and credit organizations try to connect with messages related to potential relief for consumers, but they fail to reach them. The impact of the coronavirus pandemic on the American economy is on the front pages of all the news in the country, but nothing records such bad news as those that are directly related to the domestic, family financial aspect. New findings on the impact on individuals from ongoing consumer research conducted by JD Power show that the pain of closed companies, layoffs, wage cuts has not yet peaked, even as the nation awaits the peak of the virus at the local, state and national levels. The latest research done between 3-5. In April, the company asked how the COVID-19 crisis affected respondents' personal financial situation. The answers at the national level are as follows:

1. My financial situation is devastated 9%
2. Severely hurt my financial situation 19%
3. My financial situation was somewhat hurt 43%
4. It did not affect my financial situation 26%
5. Improved my financial situation 2%

From the presented research results, it can be concluded that the pandemic had a very severe impact on 28% of respondents, if we add those 43% whose financial situation was somewhat damaged, we come to the figure of 72%, without reaching the peak of the epidemic. This situation speaks in favor of the great economic crisis that certainly follows after Covid 19, while the scale of the crisis is still being assessed.

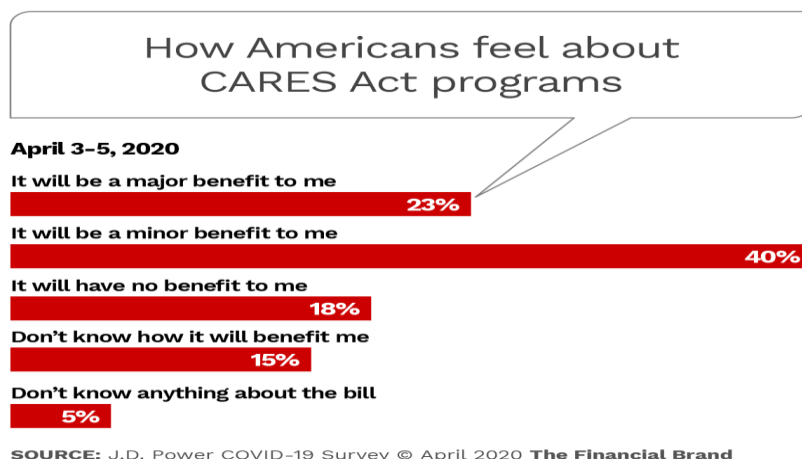
JD Power conducted the research after another full month of social distancing, voluntary isolation, and schooling and work from home. The survey found that 55% of respondents are slightly stressed due to their overall financial situation, while 27% say they are under a lot of stress. In terms of employment, respondents told J.D. Power this:

1. 25% work fewer hours.
2. 21% temporarily lost their jobs.
3. 14% have lower income from commission or bonus
4. 5% of respondents reduced their income from a tip.
5. 6% lost their job permanently.
6. 13% registered for unemployment

When we look at the results related to employment, we see that all groups of respondents are at a loss, the only question is the degree of loss, which ranges from the loss of working hours to registering with the unemployment office.

In the April 3 survey. In 2020, when J.D. Power asked what people expected to benefit from the Care Program Act, 58% saw no benefit or only a small benefit from the aid package. Only 23% of them said they expected some benefit from the law.

Graph 1. How Americans feel about the Cares Act Programs



SOURCE: J.D. Power COVID-19 Survey © April 2020 The Financial Brand

3. MANAGING BANKING INDUSTRY CHANGES UNDER THE INFLUENCE OF THE COVID PANDEMIC 19

After the Covid-19, banking industry will be much different than it was before the pandemic. Changing the way people use banks, the future of work, the use of modern technology and the value of brands will all largely depend on the time it takes to “get back to normal”. Looking to the future provides a good basis for what needs to be done today and how to manage change, which is inevitable.

Like most other organizations, banks are currently facing an environment of great uncertainty. Experts from the consulting firm Corporate Value Associates describe how Covid-19 affects banks and how they can strategically respond to a global pandemic. Covid-19 negatively affects the banking sector in four significant ways (Vessey, S., Ott, C., & Dimidschstein, F., 2020):

- 1) Violation of portfolio quality:
Banks will have to be extremely proactive to prevent an increase in credit defaults and a subsequent decline in the value of loan collateral that could trigger a wave of problematic asset sales. Offers of repayment leave combined with effective targeting of state support to companies in need are two basic tools available and banks are already working fast in this regard, all to save as many customers as possible, while “spreading the pinnacle” of those that cannot be saved.
- 2) Decrease in value in the balance sheet:
Interest rates may remain close to zero or negative for some time. Due to that, household deposits are relatively expensive, and the passive assets that finance them will show an increasingly negative contribution to profits. In turn, this will create an incentive to restructure the balance sheet by actively initiating the outflow of household deposits. The challenge is that, after a decade of low deposit rates, consumer price sensitivity to further rate cuts will be extremely low, and as we move into what could be another long-running global recession with rapidly rising unemployment rates, most mass market buyers will give the advantage of capital security over larger (risky) investments. The next question is that, if, for example, a large number of clients use their savings to pay bills at the end - banks will start to look more like non-bank lenders, but with significantly higher regulatory costs, further reducing margins. On the demand side, in the long

recession, the new volume of lending is likely to fall significantly anyway.

- 3) Liquidity flow:
As central banks try to strengthen the economy, the amount of money in circulation is growing. Except when banks are required to act as guides to state support to enterprises, banks' balance sheets are at a structurally competitive disadvantage when it comes to raising these additional funds, and much of that new liquidity will spill over elsewhere.
- 4) Increased social oversight:
The banking sector has not yet recovered in terms of the picture from the 2008/9 financial crisis. It will not be enough for banks to work evenly to support their customers when they need it. They will need to be closely monitored as they work in an environment where politicians can look for scapegoats if large numbers of businesses collapse and unemployment rises sharply.

However, traditional decision support tools - data analysis, forecasting and scenario planning - are of little use when the situation changes on a weekly basis and new information is constantly coming to the fore. With so much uncertainty, it is simply not possible to predict the future with any degree of confidence, even over a relatively short period of time. A strategy based on a single, hard-coded view in the next 12-24 months will be quickly overcome.

Instead, Corporate Value Associates advocates an approach based on two simple ideas (Vessey, S., Ott, C., & Dimidschstein, F., 2020):

1. First, instead of trying to definitely predict the future, work backwards (“replay”) from a wide range of plausible scenarios to identify regret-free moves that make sense no matter how the future turns, as well as optional moves that can be implemented as well as when it becomes clear that the world is moving in a certain direction.
2. Second, develop an agile strategic plan that delivers small steps, at short intervals, allowing for a turnaround as needed, rather than committing to a long, inflexible delivery program whose direction cannot be easily changed. Invest in setting a set of leading indicators, which are constantly monitored, so that the strategy can be adjusted as market conditions change.

We are witnesses by the opinion of Marous, J., (2020). that the entire financial ecosystem is swaying as banks and credit unions around the world deal with the impact of COVID-19 and that is why it is more important than ever to adapt their

business model in light of the new competitive landscape. The growth of fintech firms' influence has not diminished as we entered 2020, when venture capital funding for private U.S. fintech began a strong 2019, in which \$ 18 billion was invested compared to \$ 13 billion in 2018, according to the CB Insights and PvC. Much of the growth has focused on firms that have used data, analytics, and advanced technologies to provide and enhance consumer experiences.

Fintech firms around the world have also benefited from more flexible regulations in emerging and more developed countries, as organizations have sought to improve financial inclusion and serve the wider digital economy. According to the Ecosystem report, there were five key trends that were expected to shape Fintech's market during 2020. These include:

1. Greater investment in platforms that support financial inclusion.
2. Increased cooperation and investment in fintech firms by traditional banks.
3. Awareness of Asia as the center of the fintech universe.
4. The growing importance of advanced data and analytical start-up companies.
5. Regtech firms provide improved compliance automation.

Marous, J., (2020). further believes that the coronavirus epidemic will affect financial markets and consumer behavior like never before. At least in the short term, there has been a significant shift towards safer investments by consumers, which could negatively affect the financing of already existing and new fintech companies. This potential drying up of funding for non-traditional financial services firms could force many companies to find cooperation or investment partners with traditional banking organizations. Some fintech companies may have to close at an early stage.

Also negatively, especially for fintech companies in the payment system, is the expected decline in transactions at all levels of the economy around the world. This also means less fees that companies collect on the pay side of the fintech sector, which affects profitability as well as estimates for traditional pay companies as well as fintech firms. What is positive in all of this is that consumer desire for digital banking services is likely to increase, forcing many traditional financial institutions to accelerate efforts in the field of digital innovation. As a result, many "backward" banks and credit unions can seek out fintech companies to help bring better digital banking

solutions to market. This increase in demand for digital solutions could save financial firms at a time when traditional financing may not be an option. In addition, weak economies can force government organizations and regulators to encourage the spread of fintech solutions. For example, South Korea plans to temporarily ease regulations on fintech and ten other industries in March in a bid to boost its economy due to a coronavirus outbreak. The World Health Organization has also encouraged contactless payment. Finally, for those fintech, regtech, and advanced data analysis companies and analytics companies that can stop the current coronavirus storm, more venture funding is more likely to be available. According to many reports, private companies and venture capital will have significant cash at their disposal once the market stabilizes.

4. MANAGING BANKING INDUSTRY CHANGES IN EU UNDER THE INFLUENCE OF THE COVID PANDEMIC 19

Deloitte is in its report from April 9, 2020. set out measures applicable to the EU banking sector, with the aim of better managing changes caused by unforeseen circumstances. On March 27, 2020, the European Central Bank (ECB) adopted a Recommendation on the distribution of dividends in response to COVID-19. The recommendations are as follows:

1. Until 1 October 2020, credit institutions shall not pay dividends, nor commit to an irrevocable obligation to pay dividends for the financial years 2019 and 2020, and to refrain from repurchasing shares for the purpose of rewarding shareholders.
2. Credit institutions that are unable to comply with this recommendation because they believe they are legally obliged to pay a dividend should immediately explain the underlying reasons to the joint supervisory team.
3. This Recommendation applies at the consolidated level of a significant supervised group and at the individual level of a significant supervised entity, if such a significant supervised entity is not part of a significant supervised group¹.

Also, as Deloitte further states, on March 31, 2020, the European Banking Agency (EBA) issued a Statement on the distribution of dividends, share repurchases and variable fees. In response to COVID-19, the EBA supports all measures taken so far by Member States to ensure that banks provide a solid capital base and provide the

necessary support to the economy. Furthermore, the EBA recommends that the competent authorities ask banks to review fees, practices and rewards on fees to ensure that they are in line with what is being promoted, sound and effective risk management, which should reflect the current economic situation. The EBA recommends compensation and, in particular, its variable part be determined at a conservative level. In order to achieve appropriate adjustment under the risks associated with COVID-19, most of the variable fee may be (a) deferred for a longer period and (b) paid into equity instruments.

CONCLUSION

In today's reality, the only paradigm of business management is change, as the only one constant. The challenge faced by a successful and even visionary organization is how successful and efficient it is in managing change by preserving the basic values and purpose of existence on the one hand, and managing changing cultural and operational practices and specific goals and strategies on the other. One of the biggest challenges facing banks today, in real time, is how to respond to a challenge called the Covid 19 global pandemic? The duration of the epidemic, its global distribution in a globalized world, requires prompt responses and adjustments in the situation. After Covid-19, banking will be much different than it was before the pandemic. Changing the way people use banks, the future of work, the use of modern technology and the value of brands will all largely depend on the time it takes to "get back to normal". Looking to the future provides a good basis for what needs to be done today and how to manage changes, which are inevitable.

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SUMMARY

The future of the banking sector is undergoing changes, especially when it comes to significant changes associated with advances in telecommunications infrastructure, lower operating costs and a growing consumer trend in self-service technology, including ATMs, network banking and other technology-oriented services and applications. A key component in the journey to the digital age is effective change management, which means continuous change across all business segments. According to Marous, J. (2020), before COVID-19, the banking industry talked a lot about digital transformation, but only less than 15% of banking organizations considered themselves leaders of digital transformation. In fact, during the protracted recovery and prosperity experienced more than a decade after the financial crisis, very few organizations showed a genuine interest in building a bank ready for digital transfer. When the coronavirus pandemic hit the world, without exception, everything changed ... overnight. Organizations were forced not only to offer consumers alternative digital banking, but also to employees. For those organizations that were not ready, new business opportunities and customer satisfaction were lost, and employees were ineffective. In banking, there has been greater collaboration with the use of video technologies, accelerating innovation that has before taken months or years.