HOW ARE GLOBAL BANKS RESPONDING TO THE COVID-19 PANDEMIC?

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Abstract

The COVID-19 pandemic has put pressure on financial systems and banks, which have had to review their management strategies and adapt them to the new global crisis. Banks’ responses to COVID-19 can be traced back to the introduction of a portfolio of corporate policies, such as: the creation of ad hoc teams for the prevention and control of the effects of the pandemic within the company; the adoption of measures to support the community in which the bank operates; the protection and support of its employees and clients. The goal of this research is to understand how bank governance is reacting to the COVID-19 era, to determine which were the most used measures to contain the crisis. The results of this analysis, in fact, can make it possible to define best practices for the corporate governance of banks in times of pandemic crisis and provide useful elements for reflection to the banking regulatory and supervisory authorities.

1. INTRODUCTION

The pandemic has made it all too clear that boards of directors should address the full range of factors that allow the company to create value over time. This expanded competence implies changes in the nature and scope of board roles and responsibilities.
In the case of banks, the issue of the role of companies and their boards in the context of the pandemic phase is amplified. Banks, in fact, are called upon to guarantee, through the provision of specific services, the proper functioning of the financial markets and the financing of the real economy.

In response to the health emergency, boards of financial institutions discussed new issues arising directly from the COVID-19 pandemic throughout 2020. The insights addressed by the boards during the year covered a wide range of topics, including corporate goals and values, the operational mindset to be adopted during the health emergency and the unwinding of extraordinary measures, with the involvement of key business functions, including risk management, compliance, legal and human resources.

The pre-COVID-19 literature on banks’ boards, developed over the past two decades, has often concerned the relationship between board characteristics and bank performance (Griffith, Fogelberg, & Weeks, 2002; Adams & Mehran, 2012; Peni & Vähämaa, 2012; Pathan & Faff, 2013; Love & Rachinsky, 2015; Salim, Arjomandi, & Seufert, 2016). In summary, these studies documented how companies with strong corporate governance mechanisms, including a sound board, are generally associated with better financial performance, higher corporate valuations, and higher equity returns. Furthermore, the importance of the relationship between environment, society and governance is growing in the literature.

Analysis of the recent literature allows us to draw the following insights into the role of the board of directors during the COVID-19 pandemic. Specifically, boards should: oversee business operations as they adjust to the new normal (Atici & Gursoy, 2020; Mathew & Sivaprasad, 2020; Patel & Patel, 2020); make appropriate capital allocations (Mathew & Sivaprasad, 2020; Patel & Patel, 2020); reassess dividends and executive compensation programs and review each type of expense (Mathew & Sivaprasad, 2020; Patel & Patel, 2020); be prepared to face these challenges by ensuring the adequate technological infrastructure (Atici & Gursoy, 2020).

However, such studies risk neglecting the evaluation of the non-financial measures put in place by the boards to tackle the pandemic. We believe that these measures are no less important than the financial ones as they can mitigate corporate reputational risk. Furthermore, recent literature on the subject appears to focus only marginally on the analysis of financial institutions during the pandemic phase (Talbot & Ordonez-Ponce, 2020, Tapver, Laidroo, & Gurvitsˇ-Suits, 2020).

The anti-COVID-19 measures adopted by banks to stem the negative effects on businesses and society due to the pandemic shock fit into this context. Understanding the trends behind the strategies
undertaken by global banks against the COVID-19 virus allows us to define best practices and standards of international relevance.

2. HOW ARE GLOBAL BANKS RESPONDING TO COVID-19?

To highlight some evidence on the role of global banks’ boards during the pandemic crisis, a significant sample of financial institutions was analyzed.

The dataset includes the most important financial groups designated by the Global Systemically Important Banks (G-SIBs). The 2020 list of Global SIBs consists of 30 institutions (Financial Stability Board, 2020).

The scientific analysis methodology adopted is based on content analysis. This methodological choice is consistent with the exploratory nature of the analysis carried out.

Qualitative information on the role of banks’ boards during the pandemic phase was gathered by analyzing the reports on corporate governance and the annual reports of the 30 Global SIBs. Our analysis focuses on 2020, the year of the outbreak of the COVID-19.

The analysis of these reports made it possible to identify the main intervention measures adopted by the boards, which can be classified into four macro-categories: teams for COVID-19 prevention and control; supporting communities; protecting and supporting employees; protecting and supporting clients.

With reference to the first category, we found that more than half of the banks analyzed had set up a specific work team to manage the initial negative consequences triggered by the pandemic, with the full support of the boards. These teams improved risk forecasting and business continuity management, also by developing guidelines on pandemic prevention and control, to respond effectively and promptly to the health emergency.

Global banks also provided financial support to communities in the form of donations to organizations and associations, to counter the pandemic and reduce the cost of financial services provided to them. In some cases (about 20% of the sample analyzed) the chairs and the executive directors made a personal contribution to the fight against the pandemic, donating part of their remuneration to charity, in addition to voluntarily waiving any annual cash bonus for 2020.

With reference to employee protection and support, global banks acted in various ways in 2020. Prevention and control measures were coordinated to protect employees, office space and bank branches. In particular, work from home was implemented globally: it emerged that on average over 90% of staff were able to work remotely at the same time. Managers were encouraged to create virtual team networks to stay close to their employees and offer guidance and support. Furthermore, numerous measures were implemented aimed at listening to employees.
and psychological support to reduce work-related anxiety in a period of high and prolonged uncertainty.

With regards to client protection and support measures, global banks continued to provide relief to clients through programs aimed at supporting financial hardship caused by COVID-19. These measures can be divided into the following categories: granting of state-guaranteed loans; access to health care and health protection; access to digital technology; financial support and promotion of entrepreneurship; access to ad hoc offers and services.

Global banks played an active role in designing and executing COVID-19 government financing support programs, thereby facilitating access to government financial aid.

Among the health prevention measures, it should be noted that bank branches organized work shifts and reduced activities that required physical grouping. Protection and quarantine measures were adopted, as well as the promotion of technological solutions such as contactless payment in stores and contactless identification for assistance services.

As regards access to digital technology, global banks have strengthened digital channels, such as mobile banking, online banking, and ATMs during the COVID-19 phase. Furthermore, the push towards greater digitization has led banks to finance, among other things, several important projects in this area (e.g., the spread of fiber optic cable).

Regarding bank lending, specific credit policies to counter the pandemic were introduced (for example, deferred repayments on loans, credit extensions and loan renewals, commission-free banking services).

In addition to the above, some global banks launched investment funds to support start-up companies related to the medical sector, to help solve social problems that have become even more prevalent because of the pandemic.

Finally, with reference to access to ad hoc offers and services, retail banking has been particularly active in supporting SMEs and helping them to better manage the pandemic. Favorable conditions were also applied to those companies engaged in the prevention and control of COVID-19.

3. SOME CONCLUDING REMARKS

Since the beginning of the first quarter of 2020 banks’ boards have had to address new management and strategic issues triggered by the COVID-19 pandemic.

In the context of this research, we analyzed the reports on corporate governance and the annual reports of global banks operating during the 2020 financial year, trying to understand the role of the directors in containing the effects of the pandemic crisis on company management, as well as defining the related underlying trends.
It was thus possible to identify some of the main measures adopted by global banks to tackle the COVID-19 era, such as: creation of team leaders for the management of the pandemic; formulation of guidelines on pandemic prevention and control; dissemination to employees and clients of information on the pandemic and related knowledge on prevention and protection; provision of credit on favorable terms to clients who have suffered the greatest effects of the pandemic; reduction of charges for financial services provided; measures to support work and production; measures on the safety and health of employees and clients; donations to organizations and associations fighting the pandemic.

In responding effectively and in a timely manner to the health emergency, global banks prioritized the health and safety of clients and employees. Regarding the latter, their protection concerned the implementation and dissemination of smart-working and the incentive to conduct online meetings, as well as support to avoid certain psychological effects triggered by these drastic changes in organizational models. With reference to client support policies, those of a financial nature assumed a decisive role (e.g., by favoring access to subsidized loans). However, measures of a non-financial nature (such as supporting access to healthcare and protection, as well as simplified access to digital tools) also played a leading role in the fight against the pandemic.

This short work could be developed by future research, perhaps using case studies and interviews with board members, to further investigate the measures and strategies undertaken by banks, also by extending the observation period and the sample analyzed.

REFERENCES


