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The Twin Shocks for Banking Sector in an Emerging Economy: Corona-Pandemic and Digital Transformation

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ABSTRACT

Purpose-Coronavirus (COVID-19) epidemic jolted the corporate as well various other sectors of the economies. Since pandemic-stricken damage possibly threatens survival as well sustenance of financial institutions, economic stability security, and regulatory mechanism discipline across nations-developing or developed. As the corona crisis is most probably expected to continue and research studies in emerging economies are scarce about the COVID-19 epidemic and banking sector. Given this important gap in the literature, this study mainly focuses on theoretically investigating how banks coped to regulate their financial services in times of coronavirus as policymakers recommended that public needs for financial services need to be safely met by utilizing digital channels.

Findings-As this has now become an urgent priority for public service providers to digitally transform their services. But non-existence and/or availability of poor digital infrastructure makes it difficult for the banking sector to fully digitally transform itself and gain associated benefits.

Implications-The current study's useful insights are expected to inspire both scholars as well practitioners to understand COVID-19 and the emergent need for digital transformation as a twin shock for the banking sector from an emerging economy's perspective.

Keywords: Coronavirus, Pandemic, Emerging Economy, Financial Institutions, Digital Transformation

1. INTRODUCTION

The coronavirus (COVID-19) epidemic resulted in widespread economic disruption. This widespread disease has caused millions of businesses to shut down consequently threatening the global economy's short-term growth. The halt to the economy majorly

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caused a downward revision in the global economy's growth. As Governments across the world endorsed mitigation strategies to reduce coronavirus spread-prompt actions include national quarantines, social distancing as well shutdown of non-essential businesses-all jolted the corporate and various other sectors of the economy. In this similar connection, the World Bank as well the International Monetary Fund forecasted the spillover effects of a pandemic on various sectors of the economy (Ozili & Arun, 2020). Besides, the global cost of the pandemic projected by the Asian Development Bank states to lie between \$5.8 to \$8.8 trillion which is about 6.4% to 9.7% of the GDP of the world (Park et al., 2020).

Undeniably, COVID-19 created huge disruption in the financial markets. Extant literature advocates the fact that COVID-19 distressed economies upsetting almost all types of macro-economic indicators such as investments, savings, demand, supply, production, employment, etc. possibly elevated poverty as well triggered recession (Baldwin & di Mauro, 2020; Chen, Qian & Wen, 2020; ILO, 2020; World Bank 2020a). Since pandemic-stricken damage possibly threatens survival as well sustenance of financial institutions, economic stability as well security, and regulatory mechanism as well discipline across nations-developing or developed (Baret et al., 2020; Beck, 2020; Mann, 2020; Stiller & Zink, 2020, World Bank 2020c). Primarily banks suffer most compared to other financial institutions as they face a wide range of risks and are intimately connected with everyday activities (Stulz & Carey, 2006). Foreseeing it became very clear in the beginning that the prevalence of such pandemic could pose unprecedented as well unpredictable challenges for the entire financial system including banks as well banking industry.

Certainly, banks boost economic growth as they are the principal source for capital financing (short as well long-term). Especially in countries where the financial system is not yet fully developed, the role of banks in such countries cannot be ignored. However, pandemic considerably might affect the banks' performance, survival as well growth in economies having a dominant role (Damak et al., 2020). However, for banks to carry out their prime activities-essential functions effectively, they need to confirm stability. The instability of the banking system has become a major concern for all. In this regard

developing as well-advanced economies have put forth stability of banks as their prime agenda (Beck, Demirguc-Kunt & Levine, 2009). It is a common fact that financial sustainability ensures a sustainable growth. For this, Pakistan (an emerging economy) needs to ensure the stability of its banking system. Yet it is difficult to accurately predict the magnitude of the corona pandemic, insecurity prevails and in such adverse scenarios, the best measure is to stabilize the banking sector by ensuring banks' beforehand preparedness for safely meeting public needs for financial services.

As the corona crisis is most probably expected to continue and research studies so far extensively highlighted the potential coronavirus (COVID-19) impact and/or implications for banks from the perspective of developed nations (Cecchetti & Schoenholtz, 2020; Stiller & Zink, 2020; World Economic Forum, 2020). However, in emerging economies little has been done so far to explore the considerable impacts of the COVID-19 epidemic on the banking sector. Given this important gap in the literature, this study mainly focuses on theoretically investigating how banks coped to regulate their financial services in times of coronavirus in an emerging economy. Since lockdown restrictions as well strict social distancing policies have changed the entire financial service system. In this regard, World Economic Forum (2020) recommended policymakers ensure that public needs for financial services need to be safely met by utilizing digital channels. As this has now become an urgent priority for public service providers to digitally transform their services.

Given its importance, the current paper intends to explore problems confronted by financial service providers in the digital transformation process in an emerging economy like Pakistan. As the current study map out this particular agenda in an emerging economy (Pakistan) thus could extract valuable information about banks dealing with COVID-19 aftershocks. Moreover, assuming the availability of limited literature in the context of Pakistan the study offers novel contributions to COVID-19 growing literature on banks.

2. LITERATURE REVIEW

Soon after coronavirus disease detection and the World Health Organization

declaration of it as COVID-19, countries around the globe imposed severe restrictions to reduce/stop its spread. As a result, companies throughout the world explored different ways to facilitate their customers. For this, banks not only in developed nations but developing and/or emerging nations too started to think related to offering services to facilitate respective customers in an easier as well convenient manner. One of the measures endorsed by policymakers is to go digital. Given the fact that global transformation has made the utilization of digital tools an integral part of business life. The eventual objective of this industrial revolution (Fourth Industrial Revolution-Industry 4.0) is to make all “smart”- more digital and less physical (Chou, 2019). In this regard, several businesses have chosen digital transformation strategies to improve all business dimensions (Hess et al., 2016).

2.1. Peculiar Times Call for Peculiar Actions

Even though the COVID-19 crisis created a disruption, uncertainty as well danger, however, it speeded up the use of digital technologies (Karabag, 2020). Beforehand the corona epidemic, business organizations were well aware of the importance of using digital technologies but several factors (such as cost as well complexity) slowed down the process of implementation (Scott, 2020). Then this contagious disease made it necessary for numerous companies to shift towards digital technologies on an urgent basis to mitigate its adverse effects and to serve adequately as well effectively. This was and still is a wake-up call for all to consider.

Though companies with the help of digital tools can become more customer-centric by answering market demands in efficient ways. But companies in less developed/emerging countries may face several obstacles which could keep them away from benefits associated with digital transformation. As numerous emerging countries are still in the race of developing their digital economies. Yet the major hurdle is building as well maturing digital infrastructure software which may confirm real-time connectivity (24/7). Moreover, within an organizational context, advancing awareness related to the significance of digital transformation as well improving concerned people skills can help in improving businesses’ ability to transform themselves digitally. Lastly, from the end users’ perspective, digital literacy along with willingness can allow digital transformation

implementation.

3. RESEARCH METHODOLOGY

3.1. Research Design

The research design of the current study is qualitative as it is one of the best ways to inquire about problems in times of uncertainty. To understand COVID-19 related enduring pressures' Interpretative Phenomenology Analysis (IPA) was carried out. As it serves to understand subjective explanations. Since it's grounded on phenomenology philosophy which allows knowing real-life experiences of participants' from their perspective. Moreover, utilizing this method permits to stare at participants' endured life experiences as well to develop logical connections/explanations about one's perspective and from the perspective of the social world (Smith, 2004).

3.2. Sample

The sample of the current study was 108 participants. The objective of the current study was to explore problems faced by banking employees' during COVID-19 in regulating their financial services digitally. Though random sampling was thought out as best (Wiesma & Jurs, 2005) however, it was not possible to connect with the total population of the banking sector in times of COVID-19. Thus, the current study employed a non-probability sampling technique i.e. purposive.

3.3. Tool

To gather data, semi-structured interviews were conducted. The researchers attempted on their part to confirm the tool's content validity as the semi-structured questions covered almost every aspect of coronavirus itself as well as problems confronted by banking employees while going digital. A slight modification during interviews was made (keeping in view the responses of participants) without disturbing the key structure of the interview. Sample questions were: How did you manage your work demands in times of coronavirus?; Did you get any type of support (emotional/financial) from your bank during COVID-19? ; How did you manage to provide financial services digitally when Pakistan lacks the required infrastructure? etc.

3.4. Data Collection Procedure

The respondents were contacted online. They were informed briefly about the objective of carrying out research, voluntary participation as well guaranteed confidentiality. Interviews lasted almost 30-40 minutes, tape-recorded and transliterated. Then participants were again contacted to analyze under or over presentations or missing contents (if any) ensuring validity of reported information.

3.5. Data Explanation

The data explication for the current study was conducted by adopting Hycner, (1985; 1999) steps which were:

- a. Bracketing and bracketing and phenomenological reduction
- b. Delineating units of meaning
- c. Clustering of units of meaning to form themes
- d. Summarizing each interview, validating it, and where necessary modifying it
- e. Extracting general and unique themes from all the interviews and making a composite summary

4. RESULTS AND ANALYSIS

The current study findings revealed twin shocks for the banking sector of Pakistan. One is Coronavirus itself and secondly pressures from the policymakers to provide financial services utilizing digital channels. In this connection, about 89% of the respondents showed their concern about coronavirus spread. As per participants:

“I love banking, but pandemic outbursts made us save our lives first.”

“Pandemic is painful, as it threatened the lives of many. So first we have to save us and others then comes how to provide financial services safely”.

“It has now become our priority to attempt on our parts to reduce its spread, its threatening”.

“Unfortunately, we are living in the less developed part of the world which is deprived of many necessities considered crucial for the people’s life survival. So, we have to help ourselves, our motto is to stay safe and keep others safe too. Allah helps

those who help themselves”.

A few more respondents stated that:

“Saving lives is more important than prioritizing provision of financial services. But we are attempting on our part to facilitate customers in safe mode”.

“Most important is reduce its spread but we cannot deprive people of meeting their financial needs too”.

As far as participants’ responses about digital infrastructure and software are concerned. About 92% of the respondents’ considered it as a threat because of poor digital infrastructure. As per them:

“Help Pakistan grow digitally specifically banking sector”.

“COVID-19 restricted banks to alter ways seamlessly to mobilize digital services during lockdowns, but we are still thinking towards going digital whereas other several countries had made it their national priority”.

“Miserably Pakistan’s performance is getting worse and worse, we continued to get the lowest scores (GSMA Mobile Connectivity) in South Asia. Why Governments are not taking measures to revisit policies”.

One of the participants disclosed that:

“Do you know that none of the public sector organizations is spending on digital infrastructure here except NTC (serve Government’s needs only)?

“No infrastructure development means non-provision of financial services digitally. So how to handle both-COVID spread as well seamless financial services?”

The respondents’ responses related to digital literacy as well awareness needs to heighten policymakers' attention. As per their responses, about 97% of the respondents declared it very alarming as maximum people are digitally illiterate. As per them:

“Lack of knowledge and awareness is detrimental; people won’t be willing to gain associated benefits unless and until they are being taught”.

“Educate people first, then revisit policies regarding infrastructure development. Otherwise, all efforts can go in vain”.

“It’s unfortunate to realize this bitter truth that people who would provide services digitally and people who would get services digitally-all are digitally illiterate. So, we

need to focus on both sides”.

5. DISCUSSION

Keeping in view the findings of the study we can say that no doubt digital infrastructure provides access to digital content as well services to persons, businesses as well governments. It can help facilitate exports; the flow of goods as well ensures the provision of services to the public. Thus, during acute pandemic conditions, it is considered an essential component of a country's economy. The backbone of digital infrastructure is telecommunication networks. It facilitates the country's connectivity with the rest of the world through international networks, supports the transport of signals within cities, and ensures the deployment of “last mile” network access for users.

Despite this fact that digital transformation can optimally facilitate financial and other services. However, in Pakistan, the case is very different, because Pakistan is among those Asia-Pacific countries that represent a lack of digital infrastructure. As it has been already evidenced, in most Arab as well African countries, the main hindrance towards going digital as well network readiness is infrastructure (Dutta et al., 2019).

Furthermore, Pakistan's overall quality of available infrastructure is relatively poor. Pakistan stands on 105th rank out of 140 countries as far as the quality of its overall infrastructure is concerned (WEF Global Competitive Index-GCI). Moreover, internet infrastructure has not yet fully developed across Pakistan. In this scenario, a survey conducted by GSMA Intelligence (2020) highlighted that Quetta city (9 out of 32 districts) which is the provincial capital of Balochistan does not have internet infrastructure. Many other un-reported regions are lacking this facility. No doubt, Pakistan is striving to become a digital economy, however, its existing digital infrastructure needs significant action-oriented changes which would boost its actual potential to respond to unprecedented challenges like COVID-19. Pakistan is good at providing digital government policy but very poor at its implementation which negatively impacts its ranking (Arfeen & Saranti, 2021).

Factually, the COVID-19 crisis compelled banks as well customers to use digital technologies to confront COVID posed challenges. Bankers are facing twin shocks- the

rapidly changing technology landscape and crisis environment has put bankers in a difficult situation to balance the traditional approach to risk management in an emerging economy. As this has become a sudden necessity for banks to not only use digital tools but they need to quickly expand as well improve their digital capabilities. But under the non-existence or availability of poor digital infrastructure, it is difficult for the banking sector to fully digitally transform itself and gain associated benefits. So, Pakistan needs to take strategic decisions to resolve issues related to decades-old infrastructure to not only facilitate banks as well other sectors of the economy.

Moreover, the building of digital infrastructure is not just the need for time. As lack of knowledge and awareness related to the importance of digital transformation can be another hurdle in an emerging economy like Pakistan. When people do not know the benefits associated with digital transformation, they would not embrace digital transformation. Additionally, the workforce who would operate digital technologies needs to be properly skilled. As this can be the greatest barrier in the way to going digital. As required skillset to use digital tools are greatly desired.

Digital literacy enables an individual to cope with a digitally-oriented environment. Digital literacy includes a set of skills that not only enables an individual to use digital tools/devices but other skills (cognitive and emotional) which ensure successful handling of the digital environment (Eshet, 2004). In times of coronavirus pandemic, it became an urgent need for everyone to digitally literate themselves for self-survival and success. However, as far as digital literacy rates are concerned, Pakistan stands on the second-lowest level, ranked lower than Iran, India, Sri Lanka as well Bangladesh (Khan, Shahzad & Mahar, 2018). Nonetheless, the situation after COVID-19 has also led Pakistan's government to make this their highest priority. The Presidential Initiative in this regard to offer courses on Artificial Intelligence, mobile web computing, cloud-native, IoT, etc is an attempt to prepare their workforce for Industry 4.0. At the Provincial level, different programs have been launched by the government to propagate digital literacy but are still unable to yield optimal results. Regardless of the government's initiatives and efforts for digitalization, Pakistan is still lagging in digital literacy competition.

In this digital era and to excel in the digital world employees as well customers have

to be proficient as well digitally competent enough and this can be only done by acquiring and updating digital skills. In this modern world of technology in a time of COVID-19, survival necessitates digital literacy and command on it, as everything now has become digitalized. Talking specifically about the banking sector, the situation of Pakistan concerning digital infrastructure and digital literacy is not favorable, thus making it difficult for banks to go with the tide.

6. CONCLUSION

Soon after the COVID-19 outbreak, many day-to-day activities like learning, shopping, office work, etc. have moved online. The spread of the corona pandemic discouraged face-to-face interactions. Since employees from almost every sector were asked to work from home to meet their job obligations. Particularly talking about the banking sector, the COVID resultant lockdowns has forced banks as well customers to use digital tools. However, Pakistan's digital infrastructure and several other factors seem to abstain from digital transformation.

Though the epidemic has demonstrated the significance of using digital technologies. But poor digital infrastructure, network access, and connectivity make it worse for the banking sector to provide services effectively. But the need for time has compelled governments to learn from hard lessons and take solid measures to provide quality digital infrastructure to develop and support a digital economy.

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