

CHALLENGES FACING THE BANKING INDUSTRY POST COVID-19

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Abstract

The banking sector is vital to the global economy because it helps to make financial operations like borrowing, investing, and storing money easier. However, not all banks are able to survive in their respective industries due to several challenges that they need to encounter such as customer acquisition and retention, digital shifting, talent shock, and cyber security. Unfortunately, the COVID-19 crisis has further exacerbated these challenges. Significantly, one of the pre-crisis trends that accelerate the most after the pandemic is digital disruption. Therefore, in order to face these challenges, it is crucial for bank leaders to persist in making the necessary adjustments to adapt to the 'new normal', which for many represents a significant departure from pre-covid times.

Keywords: *Bank, Customer Retention, Talent Shock, Digital Shifting, Cyber Security.*

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INTRODUCTION

Due to Covid-19 pandemic, consumers banking activities has shifted to digital banking and the usage currently are still relatively high (Underwood & Aldrich, 2023), especially for Gen Z and Millennials (Dahlgren, 2023). As a result, traditional banking is no longer relevant (Ramamurthy et al., 2023) and digital banking revolution is made possible (Schultz, 2023). In fact, 74% consumers will focus on bank's digital banking capabilities before deciding on opening an account and would rather change to competitors if the service is inefficient (Meola, 2023). Unfortunately, some complex services could not be done online such as opening and closing account, applying loan (Dahlgren, 2023), scanning fingerprints, and blocking cards (Meola, 2023). Gen Z and Millennials expressed their dissatisfaction with digital banking services because they compare their experience on other fintech digital platform such as Amazon and Apple (Dahlgren, 2023). They would switch to competitors for better digital services (Dahlgren, 2023). Risk professionals acknowledge the need for technology (American Bankers Association, 2023) because it improves efficiency and reduce cost in the long run, but the

investment is indeed costly (Picker, 2023; Wheeler, 2023).

Indeed, successful business is determined by their customers because 65% of the income comes from them, but most businesses struggle to acquire and retain customers because lack of concrete strategy in place (Shulzhenko, 2023). Definitely, retaining customers involve cost but acquiring new ones will cost more (Shulzhenko, 2023). It is proven that every 5% increase in customer retention, profit will increase between 25% to 95% (Shulzhenko, 2023). Existing customer are believed to be more loyal, would spend more, and may be free marketers for the company (Shulzhenko, 2023). Customers have high expectations on service standards (Robison, 2022), and would turn to competitor (Dahlgren, 2023) just by having one bad experience (Herrera, 2022; Shulzhenko, 2023). Undoubtedly, attending feedback is a significant contributor in retaining customer (Herrera, 2022; Shulzhenko, 2023). Customers will search for exceptional services including interesting loyalty package (Herrera, 2022) that provide special offers and rewards (Herrera, 2022; Shulzhenko, 2023). They also demand advance technology that ease them in dealing with online services (Herrera, 2022). Due to various options available, banks are facing intense competition from competitors (Robison, 2022) because customers are free to switching according to their preference (Dahlgren, 2023). In addition, the rise of fintechs and new entrants are threatening banks because they offer broader financial products and services to customers (Gama-Rose, 2023).

Cybersecurity is a currently the ultimate concern (American Bankers Association, 2023) and a never-ending issue for financial institutions due to its role in the economy (Schultz, 2023). Financial institutions face treats daily and statistically tops the volume of cybersecurity incidents at 27% (Chang, 2023). According to a report by Boston Consulting Group, financial institutions are more prone to cybersecurity threats by 300 times compared to other industries (Chang, 2023). Even though tremendous improvement in capabilities were done, the treat level of cyber attack always matches the defence capability (Brooks, 2023). Specifically, during the pandemic, many businesses operate online and let their guard down too long which enable cyber criminals to grip the protected environment, and have the opportunity to carry out phishing attacks, intellectual property theft, and ransomware (Pitchkites, 2022). Unfortunately, organizations that have been compromised, the reputational damage is huge and irreversible (Sandstone Technology, 2023).

Another major issue is talent shock (Dietz et al., 2022). Recruit and retain employees are important because successful firms depend on people that constantly strive (Grensing-Pophal, 2023). Unfortunately, the ever-changing economic environment makes it challenging for employees to remain with the same firm due to the rise of inflation rate, volatile housing market, pandemic and other factors combined are pushing and pulling employees to different directions (Grensing-Pophal, 2023). During pandemic, employees were allowed to work remotely, and they started feeling comfortable with it (Schultz, 2023). Thus, they would rather quit and search other jobs that allow remote working (Dietz et al., 2022; Schultz, 2023). Furthermore, there are increasing numbers of remote work opportunities since companies hire employees from any part of the world and offer higher salaries (Grensing-Pophal, 2023; Schultz, 2023). Therefore, the biggest challenge in retaining skillful employees will be budget, because most firms do not have enough fund to offer (Wheeler, 2023). Nowadays, employees not only demand high compensations, but also the feel of belonging and desire sense of purpose (Grensing-Pophal, 2023). Due to that, employees also demand hybrid flexibility in controlling their schedule, stability and paid leave (McRae et al., 2023). Competitive talent landscape will continue to be significant challenge for businesses (American Bankers Association, 2023) because it is on a global scale (Grensing-Pophal, 2023). Talented employee is

demanded for bank's leadership (Abbott, 2023), so firms need to find, upskill invest, and keep these talents (Dahlgren, 2023).

As we enter the post pandemic world, banking industry still face several challenges that need to be encountered to maintain financial stability (Schultz, 2023). Among the challenges that create a volatile and unstable financial system include low interest rate and rise of debt level (Schultz, 2023). Previously, financial institutions offer low interest rates to make borrowing easier (Schultz, 2023). Unfortunately, after pandemic, the economic activity declined sharply (Schultz, 2023). This has created situation where borrowers have difficulties in paying debts, creating huge defaults and bankruptcies, thus, putting pressure on the whole banking system (Schultz, 2023).

Post pandemic environment has unexpectedly increase the inflation level. When the inflation is high, it eats into saving, making people divert their money into more profitable assets which can offset the rising living cost (Gibson, 2023). As a result, the bank deposit rates in the US have dropped 3 percent since the policy makers tighten the monetary policy (Gibson, 2023). In order to control and reduce the inflation rate, policy makers need to raise the interest rate, that will put a huge pressure on the banking system (Gibson, 2023). Certainly, the borrowing cost will increase, demand for loans will reduce, firms cut new projects and jobs, and customers spending decrease (Gibson, 2023).

Hence, from the issues that arise in banking sector shows that it will definitely affect the banking economic performance, especially during and also post pandemic crisis. Banking sector need leaders that are able to make sound decisions, that will help in maintaining the operation efficiency.

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