THE CONTRIBUTION OF THE FINANCIAL INSTITUTIONS/SECTOR IN ECONOMIC RECOVERY AFTER THE COVID-19 PANDEMIC

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***Abstract*: According to Wei & Han (2021), The COVID-19 pandemic had a devastating impact on the world, and no one was prepared for it. It had a large and immediate impact on the global economy. Global markets have gotten accustomed to economic shocks over the last century. The COVID-19 pandemic crisis, on the other hand, was unique in one essential way: it began as a global health catastrophe and swiftly developed into an economic disaster. The combined impact of all of these crises was unprecedented in many ways, and it had a significant influence on markets and people all across the world. Millions of individuals have been laid off or have been sent home without pay. Low or no sales have harmed small enterprises and companies in particular. (Goldstein et al. 2021). While facing significant tax revenue shortfalls, municipal and national governments have failed to meet health care and other service needs. The ability of many countries' health-care systems to meet the needs of its patients has been severely stretched. Because of regulatory reform initiatives, banks are now able to support the government sector in its emergency aid initiatives. These public-sector initiatives, as is well known, have had a substantial economic impact. The actions of investment management firms around the world, who are ultimately the buyers of primary debt and investors in equity issuance, have also been critical in allowing businesses and governments to continue operating during the COVID-19 crisis (Deev & Plhal, 2022). There are opportunities to learn, just as there are in any major crisis. Market participants have stated that they want to investigate whether there are any changes that might be taken to better prepare markets and businesses for the next crisis.**

INTRODUCTION

Banks and credit unions can help people who have lost their jobs, maintain commerce, small enterprises, and help to the stability of the economy. In these times of change and uncertainty, financial institutions that are working in right direction (Fiserv, 2022). They are working on a variety of plans, ranging from short-term strategies to keep their operations operating smoothly to medium- and long-term plans to help enterprises, clients, and members in dealing with the problems of this new, ever-changing world. More than 120 countries were under complete or partial lockdown three years ago in an effort to halt the spread of COVID-19. As the world seeks to strike a balance between the crisis's health costs and economic consequences (The World Bank's Blogs, 2021). People have already been vaccinated in many nations, but the fact that India and other countries with developing economies have had record numbers of illnesses in recent weeks suggests that the virus has not yet been eradicated. Even though this crisis did not begin in the financial world, it had a significant impact on it. Due to limited mobility and lower economic activity, financial institutions struggled to meet their restrictions and make money.

The private sector arm of The World Bank Group known as The International Finance Corporation (IFC) who aims at reducing global poverty has also asked banks in most of the countries where it works to help the world deal with the crisis by following government loan repayment rules and making big changes to their portfolios. In October, IFC started a study called *The early impact of Covid-19 on Financial Institutions* to effectively analyse the early impact of the pandemic on their client financial institutions. They asked how the crisis had affected their businesses, how they got money, and how their portfolios were doing. They also asked them what their strategies were and what steps they planned to take to reach their goals. (World Bank Blogs, 2021). However, government limitations and other crisis-response strategies have made it difficult to identify non-performing assets, giving the impression that credit difficulties are imminent. As a result, governments and development finance institutions should assist the financial sector in regaining its footing and becoming more digital, so that it can play a significant part in the economy's recovery. (Rizwan et al. 2020).

RESEARCH PROBLEM

The COVID-19 crisis is currently having a significant impact on developing economies. The COVID-19 crisis threatens to cause considerable delays in financing for sustainable development. Domestic resource mobilisation will fall as economic activity falls. Public development funds should be used as leverage to offset the short-term reduction in other sources of financing (OECD. 2020). With existing limited resources and the economic impact of the crisis, developing economies may struggle to obtain funds for meaningful economic and social rehabilitation. The COVID-19 financing gap cannot be covered with a single source of financing.

RESEARCH SIGNIFICANCE

Because the pandemic could harm the banking system, many countries' supervisory authorities agreed to take preventative and mitigation measures as early as late March and early April. Supervisory authorities, in particular, have reduced the pre-crisis statutory capital buffers, as well as the minimum capital ratio that banks must reach, and have made it illegal for banks to reduce lending when it is most needed (Economic Observatory, 2020). During the current crisis, supervisory authorities have also advised banks not to pay dividends or purchase back shares, which might further undermine their capital position.

Central banks have reduced interest rates and purchased longer-term bonds. This reduces the cost of refinancing for banks and provides them with the funds they require to continue lending to the real economy. The measures implemented by governments around the world are equally crucial for the banking sector. First, the government has made direct payments to corporations and governments to compensate them for the money they lost. Although this has no direct impact on the banking sector, it does allow borrowers to continue repaying their loans, preventing banks from losing money (Kanapeckiene et al., 2020). Second, direct measures to assist banks, such as loan guarantees, have a good impact. These guarantees imply that if the borrower fails to repay the loan, the government will cover some or all of the losses.

AIM AND OBJECTIVES

AIM

To study the financial sector contribution to the economic recovery after the covid-19 pandemic

OBJECTIVES

- To identify the role of financial sector of economic uncertainty
- To analyse the financial sector support and COVID-19 recovery
- To examine the post COVID-19 recovery

RESEARCH METHODOLOGY

Secondary methodology refers to material derived from primary sources that scholars might use in their own research. It is a type of data that has already been collected. The data could have been acquired for one study and then made available to another researcher. As with the national census, the information gathered was for personal use rather than research (Johnston, 2017). In one research, secondary data may be the most relevant information, but not in another. This occurs when the same data is used in multiple studies. It is used as primary data in the first study and secondary data in the second study.

Secondary data sources include books, online portals, and government bodies. Secondary data is more easily accessible than primary data. You don't need to do much work or research to use these sources. With the proliferation of electronic media and the Internet, there are an increasing number of venues to find secondary data sources. The following are some of these resources.

LITERATURE REVIEW

ROLE OF FINANCIAL SECTOR IN A TIME OF ECONOMIC UNCERTAINTY

The COVID-19 virus is causing alarm all across the world. It is experiencing unprecedented changes in how people behave on a daily basis, as well as in the global economy and good global infrastructure. Financial institutions have been vulnerable in navigating the volatility and preparing our economy and communities for a shaky recovery, even as particular industries have been severely damaged by the accompanying economic upheavals (McKillop et al. 2020). When financial institutions take the initiative in times of chaos and uncertainty, they not only do the right thing, but they also pave the way for a brighter future for the public.

Maximising Effectiveness in New Working Conditions

Our way of life and work has been wrecked by the new coronavirus. Even now many financial institutions are allowing their workers to “work from home” for certain periods of time . This can introduce new dangers that must be carefully controlled. The first important steps have already been taken by financial firms, like ordering laptops for their new employees who will work from home. The next useful step could be to figure out where this new environment doesn't meet the needs for remote network access and security coverage. (Siahaan, 2020). Financial firms may also upgrade their collaboration software. Technology may help staff in providing better service to clients and members by speeding up procedures, increasing people's interference, and raising morale. For example, the process might be streamlined by incorporating a platform for loan officers to use to help virtual meetings and a digital tool for account holders to use to schedule appointments with loan officers.

In some ways, financial institutions are planning for the future on the assumption that business will be back to normal by then. They may, however, believe that present efforts to make work simpler will eventually result in better working ways. When financial institutions update their business continuity plans to account for multiple team members being absent at the same time, they can uncover long-term strategic ramifications (Fiserv, 2022). Banks and credit unions, for example, that maintain their own IT stack might consider employing a managed technology approach instead. Similarly, it will be evident how critical it is to deploy real-time fraud solutions and robotic process automation to reduce the need for human intervention in critical procedures.

Building Trust Through Strong Communication

A financial institution must be able to provide clients or members with access to vital account information, digital banking and payment choices, and safety and security processes in order to develop confidence. When fast-paced conditions compel financial institutions to shorten branch hours, switch to drive-through updating, or close branches temporarily, they must warn consumers as quickly as feasible.

People should be able to send digital money from their houses in more than one way. People who have never used a mobile app before, for example, can learn how to use it using video lessons and other e-learning resources. Staff can quickly answer questions and handle problems with instant chat support. Banks and credit unions could also consider changing the restrictions on ATM and remote deposit (Fiserv, 2022). Account holders will not have to cope with restrictions that lead to frustrated calls to support if changes are made explicit. As more customers and organisations use digital services, these efforts will aid in the development of stronger relationships and the management of call centre volumes.

Re-evaluating Digital Capabilities in Light of Social Distancing

Account holder's lives are made easier by having digital skills, especially now. Account holders, for example, can send money to friends and family even if they can't see them in person using person-to-person payments. When new features that facilitate digital engagement are introduced, it has the potential to change how low-cost digital channels are used and accepted in the long run.

Protecting Against Heightened Risk and Fraud

Fraud thrives in uncertain times when people are afraid of what might happen. Phishing attempts and domain registrations related to COVID-19 have skyrocketed. Criminals frequently claim that malicious attachments contain vital infectious material. It is critical to have security measures in place to protect assets from thieves who want to steal by preventing access to private data or threatening to halt the operations of a financial institution. Layering security is critical for protecting the entire IT infrastructure. This includes around-the-clock monitoring, administration, detection, and response.

Data sharing among banking channels and financial organisations may aid in the detection of fraudulent activity. Account holders can detect fraud with real-time notifications by monitoring account activity and immediately reporting any unusual activity.

Being There for the Community

Financial institutions can help make up for what the epidemic is expected to do to business by continuing to lend money to businesses and consumers. This is beneficial to both the economy and those in need. Many banks, for example, are deferring loan and credit card payments (McKillop et al. 2020). Some have agreed not to report late payments to credit bureaus and have stopped repossessing automobiles and homes.

Financial institutions are also making fresh loans to small firms and assisting people in refinancing their homes at affordable rates, allowing people who have lost or had their income reduced to continue receiving benefits. In these remarkable times, financial institutions might go even further by considering novel, unprecedented, and even never- before-done initiatives. (Siahaan, 2020). They might want to make a donation to a worthwhile organisation, sell gift cards to assist nearby businesses, plan a virtual fundraiser with donation matching, or even use branch sites as a drop-off point for donated food.

FINANCE INSTITUTIONS SUPPORTED THE FINANCIAL SECTOR AND COVID-19 RECOVERY

"The banking sector is also affected, but in a more indirect way. Despite the fact that banking services can be performed remotely and without direct customer contact, the fact that the sector is linked to the real sector as a provider of payment, savings, credit, and risk management services means that the COVID-19 crisis has a negative impact on banks and other financial institutions as well (Economic Observatory, 2020). Simultaneously, the banking sector has a responsibility to play in supporting businesses and households during this period of lower revenues and incomes, which has resulted in significant policy initiatives by financial regulators and governments. Financial institutions are significant because they provide a venue for people to acquire and sell money and other assets. This makes it easier to allocate funds where they will be most effective. In comparison to autarchy, the financial sector facilitates the distribution of capital, raising the degree of technology and, as a result, the rate of economic growth (Baily & Elliott, 2013). At the same time, the financial accelerator exacerbates business cycles by making revenue more volatile".

Operations were impacted, but liquidity has held thus far- More than six months after the peak lockdown months, when many of our clients were forced to close their offices and branches for many weeks, eight out of ten financial institutions reported that their operational levels were much lower than before the crisis. Loans experienced the same fate. Despite initial concerns about the high level of volatility and uncertainty, more than nine out of ten financial institutions were able to maintain their liquidity positions due to excellent deposit performance, proper provisions, and access to emergency liquidity from central banks and investors (Nurunnabi, 2020). So far, the IFC's prompt response has resulted in approximately
$4 billion in trade financing and working capital.

Digital transformation became an urgent necessity- During the crisis, it was critical for all of us to build remote management and digital interface. Despite the fact that most financial institutions prioritised digital transformation, the poll clearly shows how the pandemic enhanced the requirement for massive digital transformation operations (Wójcik & Ioannou, 2020). More than half of clients considered investments in back-end process digitization and digital channels such as mobile and Internet banking to be critical or urgent.

Lending slowed down, but this time it is different- The drop in lending was not caused by a "drying up" of money in the financial system, as happened during the 2008-2009 Global Financial Crisis. Institutions most likely had sufficient cash on hand, but the lack of new business is most likely due to a significant drop in demand caused by restrictions on how businesses and households can move money. Demand has most likely been low for a long time due to factors such as debt moratoria and government transfers (Nurunnabi, 2020). There will most likely be more demand in the future, particularly for medium- and long-term loans.

The epidemic did not raise a liquidity issue by the end of 2020. However, even while the sector appears to have maintained its liquidity flow in recent months, the risks remain as the crisis worsens. To reduce these risks, the public and private sectors must work together. Governments and investors must support financial institutions if they are to fund important initiatives and contribute meaningfully to the country's economic recovery. This will demand the active support of governments and humanitarian groups for the administration of non- profit assets and balance sheets. Development finance institutions are especially important in low-income, unstable, and conflict-affected markets because they support technological investments and work to reduce the risk of lending to MSMEs, women-owned businesses, and low-income households—all of which are critical to the recovery of the economy and social order.

BANKS LED THE POST-COVID-19 RECOVERY FOR CONSUMERS

After COVID-19, financial insecurity will make it very important for banks to boost consumer confidence and help make the working world more stable. As an impact of COVID-19, more people are concerned about their financial security than ever before. More than eight out of ten people are concerned about their finances, and a quarter of them believe they will be worse off in a year. 25 percent believe it will take them years to get back to a stable financial situation (EY, 2020). Job insecurity is one of the most common worries, and it has an impact because more than 70% of respondents are concerned about how COVID-19 might affect their job. People are making changes to their lifestyles and spending habits to get their finances back on track because money is tight.

Financial wellbeing can boost confidence and drive recovery- Confidence will be the most important aspect in the economy's recovery and things "returning to normal." People will need a way to express their preferences for how much to spend, save, and participate in order to participate in their everyday lives, jobs, and society as a whole. Banks can contribute to this increase in confidence by making modifications to their products and services to fit the needs of clients who are less uncertain of what to do. The development of more personalised and holistic value propositions that take into consideration a variety of variables will be critical to this. Subscriptions are desirable due to their accessibility, affordability, and adaptability since they allow customers to quickly obtain the products and services they require and modify them as their lives change.

Supporting businesses running on empty- When the lockdown is lifted, it will be obvious that a new world awaits. People and corporations must both deal with challenges. The economy is improving, but there have been significant changes in how people desire to purchase services and how they are set up and structured to do so. According to our EY Future Consumer Index, the economy may take a long time to recover, and some areas may be hit harder than others:

In context to the Travel & tourism sector, more than half of customers said they intend to travel less and less frequently in the next two years. More than a third of those polled said they will use vacation rental services less frequently in the next two years, and 40% said they will stay in a hotel less frequently. Moreover a quarter of those polled believe they won't feel secure going to pubs, sporting events, movies, or gyms for several years.

Leading recovery can also restore trust in the financial sector

After COVID-19, there was an uneven economic recovery, with different places and sectors varying at different rates and times when growth accelerated and then slowed down. Given how unstable many people and businesses' finances are, it's clear that they'll need a lot of help to get through the upcoming long downturn. Banks have a chance to lead this recovery by promoting financial health and utilising new ways to help businesses get back on their feet. By doing this, banks can not only help the economy get back on its feet, but they can also restore trust in the industry and make it a better place to work.

Because the recovery will take time, banks must assist customers and the economy in regaining their footing. Giving people personalised and flexible goods and services can help build their confidence and keep them coming back. Building networks and sifting through data to find insights will be part of the more creative support that businesses, particularly those in hard-hit industries, will require to get back on track and begin growing again. Banks that take the lead now can help the economy recover while also building themselves and restoring trust in the financial system.

RESEARCH FINDINGS

Banks are essential to the economy because they connect savers and borrowers. Normally, businesses depend on frequent access to bank loans to undertake long-term investments and ensure they have enough working capital to meet basic needs such as paying personnel. Bank deposits are a stable and reliable way for households and businesses to save money and pay for goods and services (Marcu, 2021). The pandemic demonstrated how banks assist both households and businesses by effectively and efficiently introducing credit into the economy. Banks are even more vital to the economy now because business profits have fallen and households and businesses are looking for stable ways to receive money and a safe place to keep their money due to the uncertainty.

Large banks were important in supporting businesses, families, and the economy as a whole during the COVID-19 pandemic. "Large banks were the most important and fastest-acting suppliers of financing in key areas during the COVID-19 pandemic (Collins et al. 2022)".

This rapid response from March to June 2020, which were important months, aided in immediately stabilising markets and restoring confidence. This section of the paper focuses on the important initial few months of the pandemic,to present a clearer picture. Businesses were given a lot of credit for helping to mitigate the economic impact of the pandemic. During the pandemic, the loans assisted businesses in remaining open as much as possible, paying their staff, and ensuring that important goods and services were available to the public (Marcu, 2021).

There was a lot of uncertainty during the pandemic, so households and businesses sought to keep their money somewhere safe, stable, and easily accessible from afar. As a result, banks have been able to quickly lend money into the economy in order to support jobs and economic activity. As effective gateways for government support programs, they used their huge distribution networks to quickly get government-backed loans to businesses (Collins et al. 2022). The pandemic had a significant impact on the economy, but the rapid distribution of stimulus money helped to mitigate the damage. They established their own programs to support businesses and households experiencing financial difficulties as a result of the pandemic. They accomplished this by providing several types of financial aid to its customers.

CONCLUSION AND RECOMMENDATIONS

According to the paper, the current economic scenario is analogous to the COVID-19 financial crisis due to significant economic stimulus packages and the threat of negative interest rates. . During the worst of the crisis, banks were chastised for exacerbating the situation. Financial institutions have the opportunity to demonstrate their stability and dependability. Steps to alleviate growing worries about fraud, make it easier to get and use digital technologies, and assist small firms and individuals who are financially impacted. These vital years will assist local communities get back on their feet, and financial institutions will be remembered as important members of their communities for a long time to come.

RECOMMENDATIONS

- Banks should try to offer flexibility on a portfolio level instead of a product level to help their clients better manage their money.
- Accessibility of digital channels is still crucial, especially for vulnerable clients who lack internet access or are unfamiliar with its use.
- As banks improve their digital skills to adapt to this crisis, they now have a chance to systematically collect relevant data and make connected experiences.
- Knowing how to set up an understandable digital capability for general guidance via phone, video conferencing, or chatbots, as well as when to deploy specialised, dedicated personnel for specific customer segments or questions, is required.

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