

The future just arrived: The role of banks in a post-COVID world

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THE COVID-19 GLOBAL pandemic has brought forward the future. It has brought about humanity's biggest challenge in a century, to choose between life and livelihoods. In the immediate aftermath of the pandemic, banks have played a supporting role to clients and communities. Standard Chartered announced a commitment of US\$1 billion globally to support companies in the health delivery supply chain to combat the COVID-19 pandemic, and an additional US\$50 million to assist communities in presence markets, especially Africa.

Generally, banks have entered the COVID crisis much stronger and resilient than they did before the global financial crisis of 2008. This resilience is owed in part to the raft of regulatory reforms and stronger supervision since 2008, aimed at ensuring adequate capital and liquidity buffers against market-wide stress and also to avoid future taxpayer bailouts. Bank resilience notwithstanding, there is a catch! Well, several!

Many jurisdictions have placed fighting this pandemic at par with war by employing emergency measures and massive fiscal stimulus packages to provide relief to businesses and households and hopefully to bring the public health crisis under control. Relative to Q1 2020, total lockdown is now perceived as a blunt instrument in responding to the pandemic due to its potential for economic destruction and jeopardizing livelihoods. There is some convergence of views towards recalibrating easing of lockdown alongside placing high emphasis on both corporate and individual responsibility to obey public health recommendations and to observe good hygiene.

As the world emerges from lockdown, the nature and shape of the recovery is an important variable. Whether the recovery is a V-shape, U-shape or a W- shape makes a world of a difference to how banks will respond. We are only beginning to understand and measure the true economic cost of the pandemic, transmitted through lockdown and the deleterious effects on growth and the viability of some sectors. Many companies around the world face the grim prospect of possible collapse, necessitating tough survival decisions on rationalizations, write-downs of asset values and other corporate actions.

National governments need to determine the right balance between restarting economic activity and growth without compromising the capacity of healthcare infrastructure. The ability to do so would in turn influence the nature and shape of the recovery as well as which companies or sectors can survive the new reality, and which would fail. Then there is digitization. Digitization and the new ways of working will define who stays competitive, productive and can survive. Almost every sector or industry and even governments will need to invest in digital solutions to future-proof their survival and relevance.

While banks certainly have a critical role to play during and post crisis, the reality is there is no certainty or clarity on how events might unfold. In the meantime, a better understanding of the nature, virulence and measures to conquer the invisible enemy remains elusive, thereby drawing parallels with the expression "fog of war". The unfolding challenges and after-effects of the pandemic are not sequential or in any particular order. Neither will the responses be. Responses need to be diligent, intelligent and wise in order to safeguard the future. The pre-COVID bank resilience is a necessary and comforting condition but insufficient for post-COVID recovery unless banks themselves can successfully navigate the fog of this new war to avoid joining the casualty list that is beginning to grow around the world. They will certainly be dealing with elevated credit risk, strains to capital and liquidity and heightened operational and cyber security risk, among others. Livelihoods and economic security look fragile in the short run as the pandemic exposes cracks, fissures and chasms in the existing socio-economic order

globally. This systemic stress could precipitate a repurposing of legacy political, economic, social and security arrangements by national governments which could be consequential to businesses recovery and viability, household incomes and social cohesion. For the banks, it becomes a waiting game!