

Post Pandemic Revival Strategies of Global Banking Sector: A Case Study

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Abstract

The COVID 19 brings a major transformation in every sector of business. Most of the business sector are worst affected during this pandemic period. Successful sustainable business strategy in the post pandemic period only can help revival of the business. The post pandemic has many consequences for instance pay cuts and layoffs etc. all the business sector in general and banking sector in particular. The financial services will be globally reformed at an unacceptable level across the world. Government across the world after 2008 crisis had made major financial reforms for greater transparency of transactions and reduce risk in order to make financial services more safer. Many banking sectors worldwide are going to reform their bank structure. The present study relates to giant multinational bank operating across globe HSBC under consideration. The post pandemic revival strategy HSBC is committed to implement its restructuring plan considering market structure, tax transparency, capital and liquidity. HSBC bank reported 48% fall in profit before taxes in Q1 2020 as compared to the last year. HSBC disclose declines of revenue in three major segments that is adjusted pre-tax profit collapsed by 84% in retail banking and wealth management, 70% in commercial banking business and 35% in global banking and market segment.

Keywords: Market structure • Retail banking and wealth management • Global banking and market segment • Commercial banking business

Introduction

The widespread of COVID 19 across the world have a material impact on businesses as well as economic of all sectors and banking sectors is no different from rest. In order to see the impact across the world, it is really essential we choose a bank for study which in all means is truly Global and its operations are not limited to few geographical boundaries. So I have chosen HSBC Bank Plc which is a leading International Bank and its customers are spread across all the continents of globe. The geographical area in which HSBC bank operates is highly impacted due to the restrictions on the movement of the populations. Due to the restrictions, HSBC has invoked business continuity plan in order to ensure the safety and well being of staff, customers at the time of disaster and continue critical business operation. In the above Table 1 post analysis of profit before tax major global banks it is evident that almost all the banks have been severely affected by the COVID 19 pandemic. It is revealed from the above table that Citi Bank is the most affected bank reported a loss before tax of \$ 3.5 billion

Table 1: Profit before Tax comparative of major global banks.

Global Banks (Profit Before Tax)	Q1 - 2020 VS Q1 - 2019			
	Q1 2020 \$M	Q1 2019 \$M	\$m	%
Barclays Bank	913	1,483	-570	-38%
Citi Bank	3,732	7,214	-3,482	-48%
HSBC Bank	3,229	6,213	-2,984	-48%
RBS Bank	623	1,216	-593	-49%
Standard Chartered Bank	1,222	1,384	-162	-12%

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for Q1 2020 with 48% lower profit before tax as compared to Q1 2019. HSBC Bank has also reported similar loss for Q1 2020 which is 48% lower profit before tax as compared to Q1 2019. The stories for major banks are no different while comparing Q1 2020 profit before tax with Q1 2019. RBS Bank reported a loss of 49% [\$ 593 million], Barclays Bank reported a loss of 38% [\$ 570 million] and Standard Chartered Bank reported a loss of 12% [\$ 162 million] for the same comparative period. In the above Table 2 and Chart 1 we can clearly see that the quarterly revenue for HSBC Bank Plc is lowest in last 10 quarters of operation. It shows that revenue of \$ 10.7 bn in Q1 2020 was lower by 23% as compared to Q1 2019. Reported profit before tax was \$3.2 bn in Q1 2020 which reduced by 48% due to higher reported ECL (Expected Credit Loss) and lower reported revenue. The performance for the first two months in Q1 2020 was normal, however in the month of March the performance decline due to the wide spread of the pandemic to the wider parts of the globe, affecting almost every country where the bank operates and also resulting in reduction in oil prices making the result more unfavourable. Not only the main bank but impact was in similar lines as revenue from share of profit in associates and joint ventures was also lowest in last 10 quarters. It reported revenue of \$421m from share of profit in associates and joint ventures in Q1 2020 which was lower by 29% as compared to Q1 2019.

Review of Literature

Prashanta Athma (2000), in his Ph D research submitted at Usmania University Hyderabad, "Performance of Public Sector Banks – A Case Study of State Bank of Hyderabad, made an attempt to evaluate the performance of Public Sector Commercial Banks with special emphasis on State Bank of Hyderabad. The period of the study for evaluation of performance is from 1980 to 1993-94, a little more than a decade. In this study, Athma outlined the Growth and Progress of Commercial Banking in India and analyzed

Table 2: Profit before Tax trend of HSBC Bank Plc for last 10 Quarters Sources: HSBC Bank Plc Investor update.

Details	In US\$M	Q4-2017	Q1-2018	Q2-2018	Q3-2018	Q4-2018	Q1-2019	Q2-2019	Q3-2019	Q4-2019	Q1-2020
Revenue		11,643	13,540	13,340	13,291	11,842	13,843	14,389	12,472	12,638	10,660
Share of profit in associates and joint ventures		556	598	783	597	558	592	732	512	518	421
Total Revenue in associates and joint ventures		12,199	14,138	14,123	13,888	12,400	14,435	15,121	12,984	13,156	11,081
Total operating expenses		(9,895)	(9,383)	(8,166)	(7,966)	(9,144)	(8,222)	(8,927)	(8,147)	(17,053)	(7,852)
Profit(loss) before tax		2,304	4,755	5,957	5,922	3,256	6,213	6,194	4,837	(3,897)	3,229

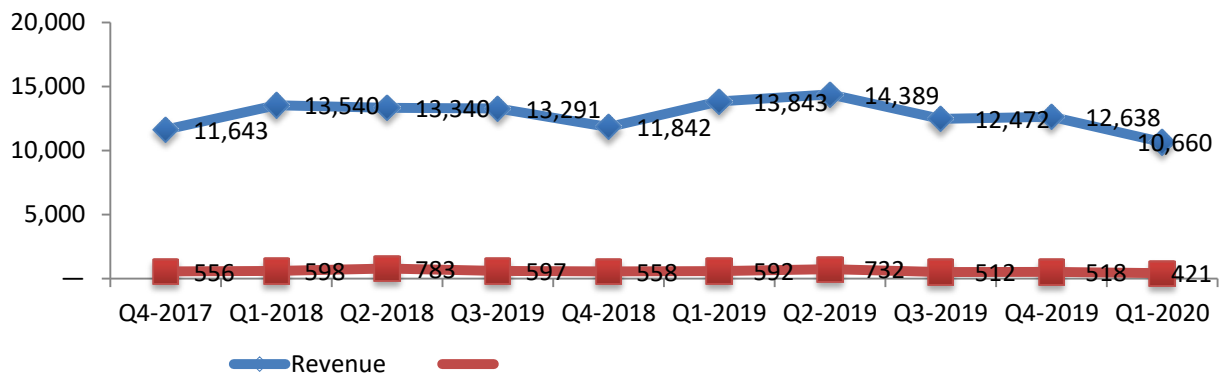


Chart 1: Revenue trend of HSBC Bank Plc for last 10 Quarters Sources: HSBC Bank Plc Investor update.

the trends in deposits, various components of profits of SBH, examined the trends in Asset structure, evaluated the level of customer satisfaction and compared the performance of SBH with other PSBs, Associate Banks of SBI and SBI. Statistical techniques like Ratios, Percentages, Compound Annual rate of growth and averages are computed for the purpose of meaningful comparison and analysis. The major findings of this study are that since nationalization, the progress of banking in India has been very impressive. All three types of Deposits have continuously grown during the study period, though the rate of growth was highest in fixed deposits. A comparison of SBH performance in respect of resource mobilization with other banks showed that the average growth of deposits of SBH is higher than any other bank group. Profits of SBH showed an increasing trend indicating a more than proportionate increase in spread than in burden. Finally, majority of the customers have given a very positive opinion about the various statements relating to counter service offered by SBH. [1] studied financial reforms in India and China. These countries were selected due to their similar development patterns. He argued that after banking sector reforms India was able to overcome the problems of bad debts by allowing new entrant in the market. While China tried to restore its state owned banks by way of asset management institutions. [2] demonstrated a positive impact of the banking reforms on economic growth, especially in those countries where institutional environment was conducive. Khan, Qayyum and Ahmad (2005) examined structural constancy of financial intensification in the presence of financial sector reforms which were integral part of liberalization process of economy. They demonstrated that financial debt and real interest have a positive impact on economic growth in long run. They ascertained, on the basis of their findings, that financial development has a vital and positive impact on the economic growth of a country. Galbis examined financial sector reforms in eight developing countries, where financial sector reforms were implemented along with other structural reforms. The aim of these reforms was to improve monetary control and provide healthy and sound financial system. He recommended that all countries should continue with policies to improve monetary policy and should strengthen prudential regulation and supervision, privatize and restructure the financial institutions. Research on the macro level efficiency of the banks has gained some attentions, but most of the researchers preferred European region, hence ignoring the south Asian region. However, [3] analyzed impact of banking sector reforms on economic growth of Pakistan and explored positive relationship between banking reforms and economic growth. [4] empirically analyzed the relationship between financial suppression and economic growth using panel data of 53 countries. They found that higher the financial suppression lower will be economic growth.

Research Methodology

For this research, researcher used mostly secondary data. The secondary data are collected from different sources such as internet, books, articles & public investigations. To analyse collected data, different statistical tools and techniques have been applied for analysis and interpretation of result.

Objectives of the Study

The following are the objectives are undertaken:

1. To study the performance of HSBC bank .
2. To study the revenue of different segments of HSBC bank.
3. To study the profit before tax of different segments of HSBC bank.
4. To study the revival strategy by banking sector

Analysis and Interpretation

The impact of corona virus has a long last effect in revenue and profit before tax on the bank. The below tables and charts shows the revenue and profit before tax of HSBC bank. To overcome this various stringent actions needs to be taken to achieve revival and come back to normalcy. As everyone agrees this time the revival strategy has to be different from what we have been doing earlier. The situation which we are facing today is entirely different from the past crisis or recession, so our measures also have to be unique. As this seems to be a situation which is there to remain for time to come, so we cant only have short term strategies just to contain but also to have many permanent solution. Different sectors need to plan their own strategies to and undoubtedly banking sector will also have to have their unique set of strategies with a revised target operation model. Banks have to change the way they work, they have to redesign their products to meet the customers new requirement and also keep back alternate solutions for lot of external risk which would be out of our control. Within banking sector also there are specialised function and each bank target a particular segment of customer. They have to build their revival plan consider the requirement of both customer and segment they operate in. The operating norms needs to be changed with respect to liquidity, credit quality, operations and controls. Though focus was already in place to promote products through digital channels majorly loans and payments, however we can see going forward this could be very well extended to services like cash-collection, recovery process. And very soon operating models are going to get transformed to increase their focus on engaging clients though this more effective digital platform. The entire banking sector has more or less transitioned to work remotely, which is definitely going to shape the cost structure in period to come. There will be higher focus on automation leading to self service around services like customer query resolution, feedback, facilities, payments and reporting. Liquidity of banks will also get heavily impacted as we may see in future customers moving their deposits to more larger and stronger banks from weaker and private banks, which may provide wider opportunities of restructuring within sector leading to mergers to bigger brands with more market credibility. The below table and chart shows the growth of revenue of different segments of HSBC bank. The widespread of pandemic has an unfavourable impact on revenue due to market volatility. In the above Table 2 and Chart 2 we can clearly see that the quarterly revenue for HSBC Bank Plc is getting adversely impacted across all major operating business of the

Bank. The above table shows that in retail banking and wealth management sector the revenue in Q1 2020 at \$ 3.8 billion has reduced by 33% as compared to Q1 2019, while we can see there was an increase in revenue by 5% in Q1 2019 as compared to Q1 2018. Similarly we can see the revenue of commercial banking in Q1 2019 was much in lines to Q1 2018 with just a 2% dip, while same has reduced significantly by 38% in Q1 2020 to \$ 2.3 billion as compared to same quarter in the previous year. The top line story for the other key business Global Banking and Markets is also not very different from the other to major business segment and we can see a dip in performance. While Q1 2019 revenue was slightly below Q1 2018 by 8%, we see a significant fall in the revenue in Q1 2020 by 17% to \$ 3.3 billion. The major factor directly or indirectly behind the recent decline in the revenue has been the global pandemic COVID 19. The reason can be either the lock down or self quarantine leading to market turmoil and fall in oil prices. The other two small segments Global Private Banking and Corporate Centre which doesn't contribute a lot to the total revenue of the bank as compared to the major three segments, showed a steady performance while contributing insignificantly to the bank's overall revenue. In the above Table 3 and Chart 3 it is evident that the quarterly profit before tax for HSBC Bank Plc is getting negatively affected across all major business segments of the Bank. The above table shows that in retail banking and wealth management sector the profit before tax in Q1 2020 at mere \$ 343 million has reduced by 84% as compared to Q1 2019, while we can see there was an increase in profit

before tax by staggering 17% in Q1 2019 as compared to Q1 2018. Similarly we can see the profit before tax of commercial banking in Q1 2019 was much in lines to Q1 2018 with just a 5% dip, while same has reduced significantly by 70% in Q1 2020 to \$ 609 million as compared to same quarter in the previous year. The top line story for the other key business Global Banking and Markets is also not very different from the other to major business segment and we can see a dip in performance. While Q1 2019 revenue was slightly below Q1 2018 by 15%, we see a significant fall in the revenue in Q1 2020 by 35% to \$ 995 million. The decisive factor behind the recent erosion in the profit before tax has been the global pandemic COVID 19. While the growth story for HSBC before Q1 2020 looked pretty optimistic, the factors like hit to investments and devaluation in other assets and lower yield. The residual segments Global Private Banking and Corporate Centre showed a stable performance while contributing to the bank's overall profit before tax Tables 4 & 5.

Findings and Conclusions

The HSBC bank has undertaken a stress test to identify the nature of material risk, count the impact of such risk and develop a reasonable strategy. As per the current scenario additional justifying actions are required. Foreign currency translation differences reflect the movement of US dollar against most major currencies. Bank has excluded them to

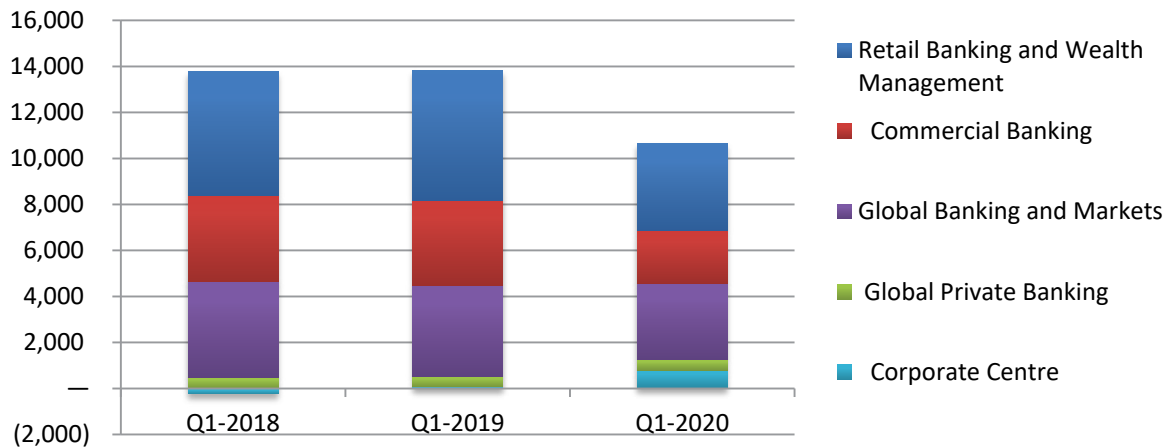


Chart 2: Analysis of Revenue of HSBC Bank Plc by Business.

Table 3: Analysis of Revenue of HSBC Bank Plc by Business.

Business Segment In US\$m	Q1-2018	Q1-2019	Growth Q1 2018 vs 2019	Q1-2020	Growth Q1 2019 vs 2020
Retail Banking and Wealth Management	5,366	5,669	5%	3,803	-33%
Commercial Banking	3,763	3,674	-2%	2,288	-38%
Global Banking and Markets	4,156	3,975	-5%	3,308	-17%
Global Private Banking	485	448	-8%	462	3%
Corporate Centre	(230)	77	399%	799	938%

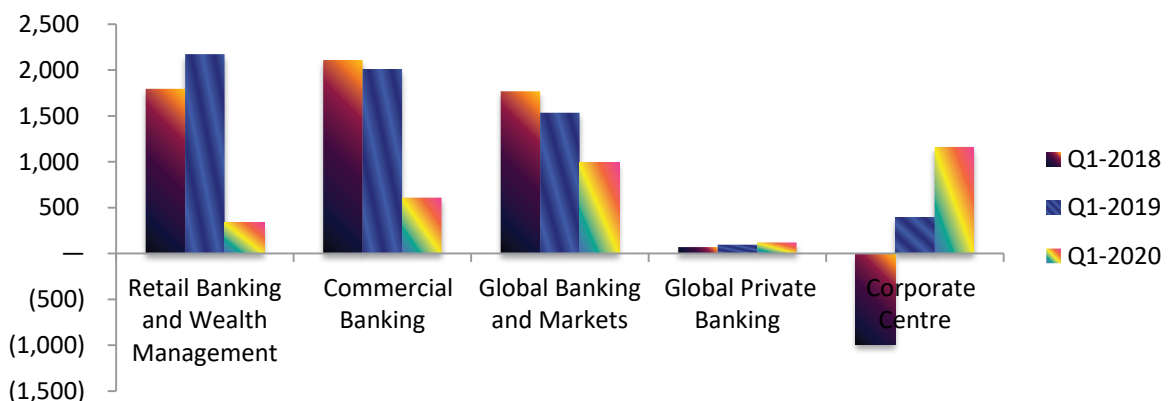


Chart 3: Analysis of Profit before tax of HSBC Bank Plc by business.

Table 4: Analysis of Profit before tax of HSBC Bank Plc by Business.

Business Segment In US\$m	Q1-2018	Q1-2019	Growth Q1 2018 vs 2019	Q1-2020	Growth Q1 2019 vs 2020
Retail Banking and Wealth Management	1,796	2,174	17%	343	-84%
Commercial Banking	2,110	2,012	-5%	609	-70%
Global Banking and Markets	1,769	1,535	-15%	995	-35%
Global Private Banking	70	96	27%	120	25%
Corporate Centre	(990)	396	350%	1,162	193%

Table 5: Revival strategies post pandemic Sources: HSBC Bank Plc Investor update.

Bank - Aspects	Revival Strategies
Asset classification norms	Regulatory support on asset classification and provisioning norms with forbearance period of upto nine months for stressed sectors and end user segments.
Restructuring	One Time Restructuring window to be permitted across all businesses without classification of the accounts from the provisioning perspective.
Securitization/Loan Assignment	COVID 19 related credit guarantee schemes to be extended to Banks supporting securitisation deals with NBFCs
PCA norms	Relaxation on implementation of PCA norms for a one year period may be accessed for Bank.
Digital Payments	Incentivising merchants, retailers and consumers through lower taxation, special incentive schemes to shift to digital payment transactions
Liquidity support	Moratorium for tax payments of atleast six months to enable enterprises overcome liquidity crunch.
Support package for stressed sectors	Subscribing to commercial papers and term asset back securities of financial institutions to ensure that retail and MSME lending is insulated from any liquidity shortfall.
Cost Efficiency	Usage of artificial Intelligence / Machine learning can assist in reduction of operating cost while increasing customer satisfaction during on boarding, claims, servicing and renewals processes.

derive at a constant data, no adjustments have been done to translate the foreign currency denominated assets and liabilities into functional currencies of HSBC branches, subsidiaries, joint ventures, associates. The pandemic has worsened the world economies in the past two months. Due to this tragedy HSBC bank have delayed some parts of transformation and expect restructuring cost for 2020 to be lower than indicated in 2019.

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