

## **CHANGING THE PERSPECTIVES OF BANKING – COVID-19 PANDEMIC AND ITS EFFECTS ON THE ROMANIAN BANKING SECTOR**

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### **Abstract**

*In the last decade, the banking system has seen increase and decrease, progress and stagnation, resilience and acceptance, in terms of digital. It is desired to automate a growing number of banking processes and adapt customers to the new digital phenomenon. But what actually happened before and during the COVID-19 pandemic? What was the behaviour of the customers? What about the banks? Looking both from the perspective of customers and banks, this research paper presents a comprehensive scrutiny of the impact that the pandemic had. Firstly, the article refers to the general background of Romania, by comparing the financial reports of the five most profitable banks in the national system and by analyzing the situation of cashless or closing local branches. Likewise, it is pursued the strategy embraced by the banks to deal with the global health crisis. Concerning the credit risk highly encountered in 2020, the paper analyzes how it has become more substantial due to the general circumstances, but also provides an overview of the situation in Romania. Furthermore, digitalization has spread to all areas, as lockdown has limited people's movement, so their quotidian activities needed to be carried out from home. Consequently, banks have been forced to quickly come up with a solution. In this way, e-banking has entered into a new stage. 2020 marked an unforeseen progress, something that banks dreamed of before. Finally, the paper aims to a blunt attempt into what the pandemic has brought to the Romanian banking system, making certain assumptions for the years leading up.*

**Keywords:** *banking system, COVID-19 pandemic, online banking, credit risk*

**JEL classification:** *G21, O10*

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## **1. Introduction**

The COVID-19 pandemic approached to the banking market as a business accelerator. The upheaval to cashless and contactless is an ongoing trend. It has been flourishing in the last years, but has been hastened during 2020. As an additional measure to ensure health, banks have a recommendation for clients: to make cashless payments – payments with debit or credit cards or online payments. The same occurs with employees. Teleworking or homeworking has become a normality. It will be demanding when this privilege is cancelled for the workers. Perhaps, banks will decide to have alternatives – online and on-site working days. Joy for employees and sadness for customers come from the transition of traditional banks into cashless banks or even the closure of a large number of bank branches. Essentially, in 2020, banking activity moved online, minimizing human interaction. Another issue to be debated in this context is credit risk. There are income losses, constraints in various fields of activity, but also health problems that have affected the personal finances of clients. Banks have helped customers who encountered financial difficulties, offering possible choices of easing the payment of the monthly bank installments.

In this regard, the aim of this paper, entitled *CHANGING THE PERSPECTIVES OF BANKING – COVID-19 PANDEMIC AND ITS EFFECTS ON THE ROMANIAN BANKING SECTOR*, is to analyze the national banking market compared to the European market, before and during the COVID-19 pandemic. Firstly, an analysis of the general situation of Romania was made, preconditioning the country's digital revolution in the banking system. Romania was viewed individually (regarding the broadband, internet connectivity and mobile banking users) and in comparison with Europe, through the overview on the degree of use of bank cards. Secondly, the analysis of the Romanian banking system was carried out at several levels: bank profit correlated with the number of employees and the tendency of closing bank branches; the credit risk, discussed in terms of loan deferral in 2020; the number of online banking users, in the context of lockdown.

Therefore, the main research question is *What is the new Romanian banking perspective, considering the significant impact of the COVID-19 pandemic in Europe?* It was intended to provide a cause-and-effect relationship between the COVID-19 pandemic and the Romanian banking sector. Regarding the methodology, a quantitative method was used, based on existing data. Mainly, data was selected from relevant online sources, with

particular interest in the main subject of this paper – Eurostat, Visa Inc., Mastercard Inc., Banca Transilvania, Banca Română pentru Dezvoltare (BRD – Groupe Société Générale), Banca Comercială Română (BCR), Raiffeisen Bank and Internationale Nederlanden Groep (ING Bank) official websites, together with specialized literature. These banks have been selected considering they are the most relevant source of information regarding the researched topic. Firstly, Eurostat, Visa Inc. and Mastercard Inc. provide statistical data on the evolution of digital Romania in general and of the banking system in particular. On the other hand, the financial reports of the most profitable banks in the national banking system reveal an overview of the financial results, the business condition and the perspective for the future of the analyzed banks.

The research objectives aim to answer the previously formulated research question:

- Analyzing the challenges that arise in the European banking system during the COVID-19 pandemic;
- Identifying the performance of the top five banks in the Romanian banking sector;
- Profiling high risk clients for loans;
- Analyzing the impact of the global health crisis on the digital banking;
- Providing conclusions and future research perspectives regarding the general situation of the banking industry;

Accordingly, the paper contains the following subjects: an introduction that summarizes the entire article, followed by a brief literature review. In section three, Romania is analyzed in the context of Europe, emphasizing the situation before and during the current global health crisis. Furthermore, section four presents a critical examination of the financial situations of the five most profitable banks in Romania, in 2020 – Banca Transilvania, Banca Română pentru Dezvoltare (BRD – Groupe Société Générale), Banca Comercială Română (BCR), Raiffeisen Bank and Internationale Nederlanden Groep (ING Bank). The evolution of the employees in the Romanian banking sector will also be examined, coming up with the assumption that numerous bank branches will follow the worldwide trend by closing. Credit risk during COVID-19 pandemic, section five, presents the alternatives of the customers in paying back their loans, in the case of experiencing financial difficulties. Likewise, the evolution of requests of delaying the monthly installment in Romania from 2020 will be presented.

Finally, the conclusions assert the fundamental idea of the paper, while the findings provide a new perspective of what is about to come in the banking sector. An extensive-research is required in order to have a broader view of the impact of the COVID-19 pandemic on the financial field.

## **2. Brief literature review**

Despite the fact that the COVID-19 pandemic has generated multiple negative effects on humanity and worldwide economy, this period, that will remain historical, has created massive research directions. (Berger, Demirgüç-Kunt, 2021) However, the changes produced in the financial field were massive, especially in the banking sector. That is the reason why extensive research in this field is preferable.

In terms of online banking experience, Brett King (King, 2018) validates in his book *Bank 4.0. Banking Everywhere, Never at a bank* the fact that banks have adapted to the digital progress. In 1995, the American bank Wells Fargo launched the online banking service, where the customers could only view the account balance. Later, whilst the invention of smartphone took place, all the transactions that could be completed online were optimized for the phone.

That moment can be considered to be at the basis of the current online banking progress and should be correlated with the launch of new features, which come to the aid of customers during lockdown. This is also a starting point for research. Numerous research papers have been published on this theme, however the originality of the article *CHANGING THE PERSPECTIVES OF BANKING – COVID-19 PANDEMIC AND ITS EFFECTS ON THE ROMANIAN BANKING SECTOR* comes from the correspondence between different relevant elements for the banking sector: bank profit, number of employees, bank branches, online and mobile banking users, general digital environment of Romania compared to Europe and the use of bank cards.

Non-performing loans are familiar for numerous banking crises, generating the risk of default. In this regard, the paper, entitled *The dynamics of non-performing loans during banking crisis: A new database with post-COVID-19 implications*, examines the situation of non-performing loans in Europe after the COVID-19 pandemic. Authors, through their research, estimate that high non-performing loans will affect the bank balance sheets, due to the deep recession. Thus, the article presents a set of risk factors for

non-performing loans: *high credit growth and government debt, fixed exchange rates, low bank profitability, and high corporate indebtedness*. (Ari, Chen, Ratnovski, 2021) Continuing the idea, European Central Bank (ECB, 2021) expresses a series of banking supervision and monetary policy measures to mitigate the impact of the coronavirus pandemic. Through the current article, ECB urges banks to closely monitor the lending activity, protecting against customers that may generate non-performing loans. Consequently, in the context of this current research paper, an extensive analysis should be conducted in the Romanian banking system after the COVID-19 pandemic, in order to observe the long-term implications of the credit risk.

This brief literature review is just a starting point for the present research paper that tries to clarify the problem of the impact that the COVID-19 pandemic has had on the Romanian banking system, the implications that will mark the future of the banking in terms of reducing the number of banking branches and increasing the use of online platforms. Given the current unstable worldwide environment, there is taken into consideration a possible increase in non-performing loans.

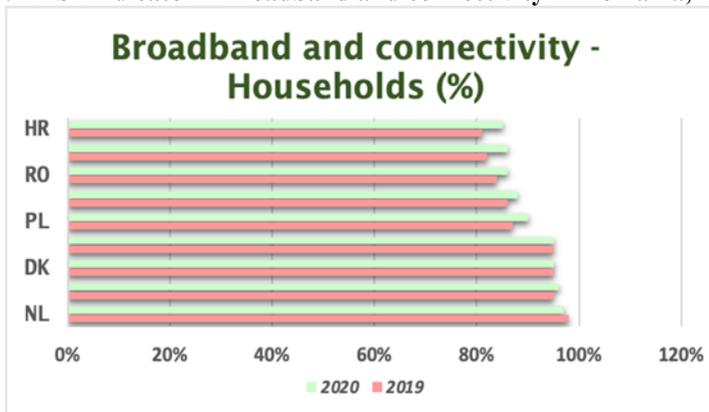
### **3. Overview of Romania and Europe. Before and during COVID-19 pandemic**

In the year 2019, and 2020 respectively, closure of numerous bank branches and massive investments in online banking platforms may be observed. After the financial crisis of 2008, it is easy to observe the fragility of the banking system. But what will the banking system look like after the global health crisis caused by the novel SARS-CoV-2 virus? It is difficult to make concrete predictions, in this unstable world. If bank branches were always crowded with customers, what will they look like after the pandemic? Nobody knows. There are countless predictions, but there are no certainties at all.

European banks have entered the crisis with strong capital and liquidity reserves. These banks were able to cope with the losses, keeping the supply of loans broadly stable. Also, there was made significant improvement in the context of digitalization. (BCE, 2020) Therefore, adding to the credit, market and operational risk, there should be considered the cyber security issue of the modern era. In this regard, banks have been trying to maintain their competitiveness, regardless of the COVID-19 pandemic. By creating interactive online sessions with their clients, banks improved their

communication strategies. Driven by the ambition to provide financial services above the expectations of the customers, digitalization facilitated an increase in profit. However, this may be motivated as well by closing numerous bank branches.

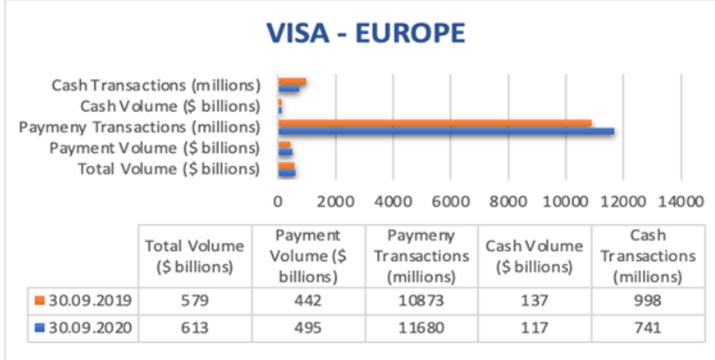
**Figure 1: DESI Indicator – Broadband and connectivity in Romania, 2019-2020**



Source: Author's construction, using data from Eurostat, February 2021

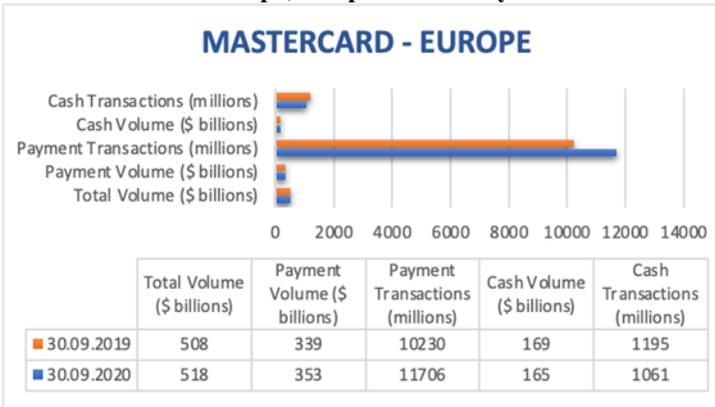
The internet infrastructure in Romania is a well-developed one. A large majority of Romanians have an internet connection – 86% in 2020, registering a progress of 2%, compared to 2019, as seen in Figure 1. This progress could have been triggered by the COVID-19 pandemic restrictions, including lockdown. The population was forced to work from home, to learn from home or simply to stay connected with people through various devices connected to the internet. However, this progress is an important opportunity for the banking system, as digitalized, as close to the customers and as financially efficient as possible. On the other hand, 4G coverage exceeded 85% in 2020, while in 2017, the coverage was only 44.7%. Even with this massive increase, Romania is ranked last in the European Union, being followed only by Bulgaria. Denmark and Malta recorded 100% 4G coverage. (InvestRomania, 2021)

**Figure 2: Visa in Europe, comparative analysis between 2019 and 2020**



Source: Author’s construction, using data from Visa Inc. Q4 2020 Operational Performance Data

**Figure 3: Mastercard in Europe, comparative analysis between 2019 and 2020**



Source: Author’s construction, using data from Mastercard Incorporated Reports Third-Quarter 2020 Financial Results

Analyzing the previous figures (Figure 2 and Figure 3), several conclusions can be drawn. Firstly, the number of cash transactions decreased by 11.21% in the case of Mastercard and by 25.75% in the case of Visa. This can be explained by the coronavirus pandemic. Because there was lockdown, people could not go to ATMs to withdraw cash. Thus, people had to pay directly by the bank card. Financial institutions have been pursuing this for a

long time, being an important point in their annual development strategies. However, the lack of financial education in some European countries has led to the impossibility of rapidly teaching the population to use the bank cards properly. The COVID-19 pandemic came with a bonus – it may not have fully financially educated the population, but it has managed to digitalize them to a greater extent than financial institutions would in a year. Cash payments have also declined due to the fact that people considered the use of cash money risky in the light of catching the SARS-CoV-2 virus. This habit has been seen even after the end of lockdown periods and will probably increase in the long run. (Wisniewski, Polasik, Kotkowski, Moro, 2021) Another argument to support this belief is the number of card transactions. Therefore, the number of transactions with Mastercard cards increased by 14.42%, while those with Visa by 7.42%, in 2020 compared to 2019. Also, in terms of the volume of transactions, Mastercard increased by 4.1% and Visa by 11.99%.

Therefore, the vast majority of financial institutions that did not offer advanced digital services began to upgrade their services for their customers. Although there are people who do not have technological skills and do not know how to use digital devices, there are helpful tutorials on the websites of banks or other financial institutions, so that digital banking is accessible to everyone. According to Kearney's study, 53% of European banking customers use only online banking when researching and buying products, predicting to be an increase to almost 65% in 2025. (Kearney, 2021) Also, the market emphasizes on the users' experience, mobile applications and websites to be more user friendly. On the other hand, cashless bank branches are trending. In Romania, ING Bank has already implemented this system since October 2018 (Ziarul Financiar, 2020), while BCR started in 2018, continued in the following years and even today is in a full process of closing branches and changing the rest of them to cashless branches. (BCR, 2018)

#### **4. Comparative analysis of the financial reports of the banks in Romania**

Due to the fact that COVID-19 pandemic impacted the entire banking system and it is still continuing to affect it, The National Bank of Romania has adopted a series of measures:

- Monetary policy measures – reduction of the monetary policy interest rate, from 2.5% to 2%; providing liquidity to banks; purchasing of government securities on the secondary market;

- Operational measures – uninterrupted cash flows for all operations;
- Different measures for the flexibility of financial institutions, individuals and companies – suspension of loan payment;
- Different measures regarding the bank resolution - deferment of the yearly contributions to the bank resolution fund for 2020. (BNR, 2020)

In Romania, the top five of the most profitable banks in 2020 can be seen in Table 1. Cumulating the profit of Banca Transilvania, BRD and BCR (aprox. 3 billion Lei), it represents almost 58% of the net profit of the entire banking system in Romania. (Ziarul Financiar, 2021) However, the uncertainty created by the COVID-19 pandemic is also observed in the financial reports of the majority of banks, worldwide. (Baker, Bloom, Davis, Terry, 2020)

**Table 1: TOP 5 of most profitable banks in Romania, in 2020**

Source: Author’s construction, using data from Banca Transilvania, BRD, BCR, Raiffeisen Bank, ING Bank (Annual Report 2020), websites:  
<https://beta.bancatransilvania.ro/relatii-investitori/rezultate-financiare> ,

<b>Banks</b>	<b>2020 Profit (mil. lei)</b>	<b>Compared to 2019</b>
<b>BANCA TRANSILVANIA</b>	1197.3	-26%
<b>BRD</b>	951.5	-37.70%
<b>BCR</b>	814.1	37%
<b>RAIFFEISEN BANK</b>	644.0	-17%
<b>ING BANK</b>	574.0	-37%

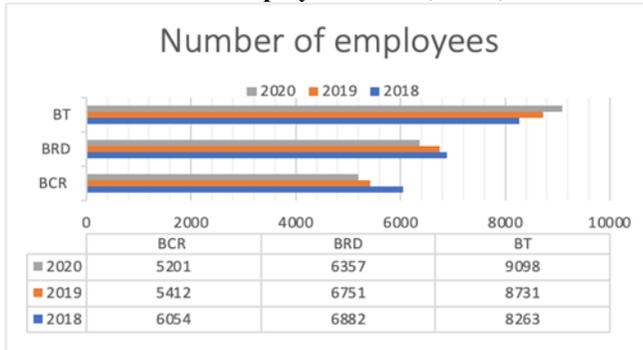
<https://www.brd.ro/despre-brd/investitori-si-actionari/comunicare-financiara/rezultate-financiare> , <https://www.bcr.ro/ro/investitori/rapoarte-financiare> , <https://www.raiffeisen.ro/despre-noi/guvernanta-corporativa/rapoarte-anuale/> , <https://www.ing.com/About-us/Annual-reporting-suite/Annual-Reports-archive.htm> ,  
Accessed on 19th May 2021

In this top five, BCR is the only bank that recorded an increase in profit in 2020, compared to 2019 – 814.1 mil. Lei in 2020, 168.3 mil lei in 2019. Numerically speaking, this increase is motivated by the reduction of expenses, revaluation reserve, exceptional revenues and the results of subsidiaries. (BCR, 2019, 2020) Likewise, the profit in 2019 was slightly

lower, due to exceptional provisions related to the activity of BCR Banca pentru Locuințe. Furthermore, in the first quarter (Q1) of 2020, the operating result increased by 9.3%, from 822 million Lei to 898.2 million Lei, considering the higher operating revenues and the lower operating expenses. Right at the beginning of the COVID-19 pandemic, BCR did not register losses and the whole year was successful for the bank. Even the cost-revenue ratio improved to 47.3% in Q1 2020, compared to 51.4% in Q1 2019. (BCR, 2019, 2020)

The international trend is to close as many bank branches as possible. However, Banca Transilvania has proposed for 2020, but also for 2021, a budget allocated to buildings – whether it is an acquisition or a modernization. The investment budget for 2020 was 47.93 mil. Lei, while for 2021 is 64.60 mil. Lei. (Banca Transilvania, 2019, 2020) Instead, in 2019, BCR decided to follow a strategy of optimizing the banking network, by selling certain properties. The implementation of this strategy continued in 2020, therefore increasing the number of properties approved for sale. (BCR, 2020) Regarding Raiffeisen Bank, the number of bank branches decreased by 5% in 2020, compared to 2019, while the number of employees decreased by only 1%. Even though the number of closed branches was relatively low, in 136 banking agencies, cash transactions were performed by multifunction ATMs. (Raiffeisen Bank, 2020) Corresponding to the same issue, the situation of the employees in the banking field must be analyzed. Starting from the basic question – is there a connection between the closure of bank branches and the reduction of the number of employees? – it is a whole discussion. Figure 3 shows the evolution of the number of employees in the period of 2018 – 2020. Banca Transilvania is the only one where the number of employees has increased progressively. In 2019, the increase was approximately 5%, while in 2020, it was approximately 4%. Not the same happened with BCR and BRD, where the number of employees decreased from one year to another. In 2018, there were 6054 employees at BCR, whilst in 2020 were 5201. The decrease was not that high at BRD – the number of employees decreased from 6882 (in 2019) to 6357 (in 2020).

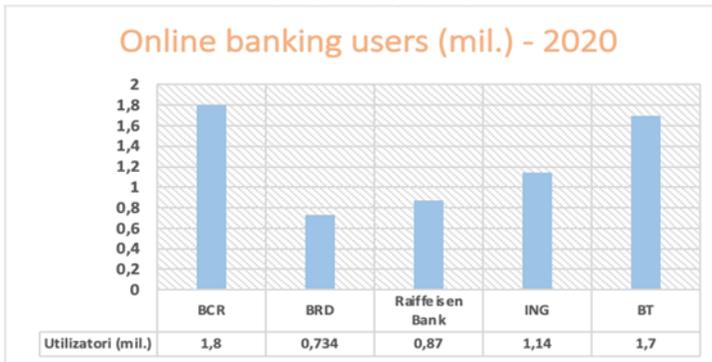
**Figure 4: Number of bank employees – BCR, BRD, Banca Transilvania**



Source: Author's construction, using data from BCR, BRD and Banca Transilvania (Annual Report 2018, 2019, 2020), websites: <https://beta.bancatransilvania.ro/relatii-investitori/rezultate-financiare>, <https://www.brd.ro/despre-brd/investitori-si-actionari/comunicare-financiara/rezultate-financiare>, <https://www.bcr.ro/ro/investitori/rapoarte-financiare> , accessed on 19th May 2021

The COVID-19 pandemic has accelerated the digitalization and the digitization of the banking sector, as customer expectations have changed all this time, causing structural changes, accelerating the growth of FinTech companies at an extraordinary level. With the temporary restrictions, banks were forced to quickly adapt to current circumstances in order to continue their business, surviving the crisis. Thus, this digital change will be considered an important step in increasing profitability in the entire financial sector. Referring to the Romanian banking market (Figure 5), it may be noticed that BCR and Banca Transilvania are market leaders in terms of the number of users of digital platforms. Banks will have to offer speed, flexibility and ease-of-use for customers, at any time and in any situation. If banks do not adapt to the requirement of the moment, then will not be able to withstand to the market demand. Consumers in Romania seek communication, interacting with bank representatives either online or offline. Thus, each bank must adapt to its customers, as the profile of the clients differ from one bank to another. The Romanian banking market has suffered a continuous change for over 20 years, a dynamic that was accelerated in the last year in two directions: technology and services. In fact, technology generated new services and contributed proactively to the inherent change in customer behavior.

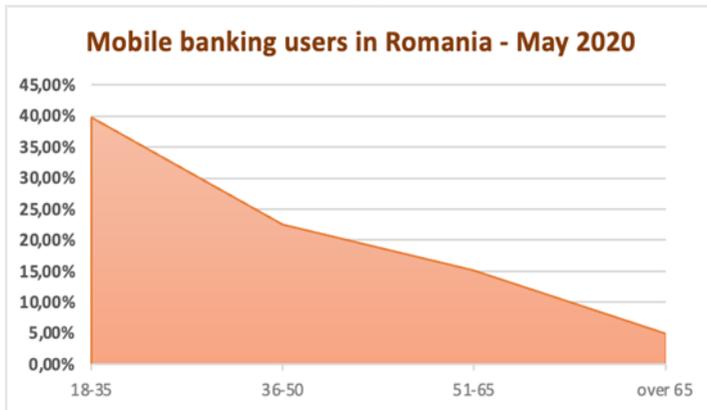
**Figure 5: Online banking users in 2020 - BCR, BRD, Raiffeisen Bank, ING and Banca Transilvania**



Source: Author's construction, using data from BCR, BRD, Raiffeisen Bank, ING and Banca Transilvania own websites

Generally, the predominant category of mobile banking users in Romania is the one where customers are aged between 18 – 35 years old, according to Figure 6. Over the years, the whole financial industry has developed various tools through which laptops, smartphones, tablets or even smartwatches have been transformed into a digital bank, with the help of Near Field Communication (NFC) technology. Using these tools, customers do not have to go to a bank branch as often as before. The results can be motivated by the ease of use of the digital platforms by young people. They do prefer to use different devices, understanding all the advantages and using them to their full potential. Although with a percentage of less than 10%, customers over 65 years old still use mobile banking applications. This percentage is gratifying, as this category of customers is reluctant to involve technology in their daily life. However, they gradually begin to use and enjoy the benefits of online banking.

**Figure 6: Mobile banking users in Romania before COVID-19 pandemic – May 2020**



Source: Author's construction based on Statista, Share of people who used mobile banking before the COVID-19 epidemic in Romania by age group, <https://www.statista.com/statistics/1121480/romania-mobile-banking-users-by-age/> , Accessed on: 20th May 2021

Finally, analyzing the general situation during a year ruled by the coronavirus pandemic, it stood out with both positive and negative elements in the banking industry. Even if it was a brilliant year for BCR, ending 2020 with a 37% higher profit compared to the previous year, the rest of the top banks in Romania (Banca Transilvania, BRD, Raiffeisen Bank and ING Bank) did not enjoy such a success. However, a positive element to point out is the digital progress. It should be noted the high number of digital customers (1.8 million – BCR and 1.7 million – Banca Transilvania), which increased contrary to expectations in 2020.

##### **5. Credit risk during the COVID-19 pandemic in Romanian banking sector**

Although the pandemic and the general crisis started suddenly and unexpectedly, banks in the Central and Eastern European region have drastically improved their quality of assets since the worldwide financial crisis, by having higher capital reserves and by strengthening their liquidity positions. Thus, banks have entered a period of economic downturn in a better form than in the case of the financial crisis. (Deloitte, 2020) At the same time,

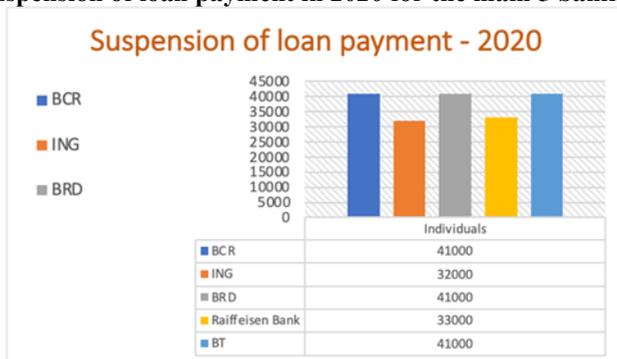
the speed of reaction from governments and national banks to mitigate the negative economic effects was highly appreciated by the banks.

In Romania, the suspension of payment, according to OUG 37/2020 changed by OUG 227/2020, consists in the suspension, at the customer's request, of the loan payment (capital, interest and commissions), with up to nine months. This facility is granted to the customers of banks with ongoing loans:

- Whose income was directly or indirectly affected by the situation generated by the COVID-19 pandemic;
- Who have not already applied for a loan suspension before, for up to nine months;
- Which does not register default at the moment of requesting;
- Loans that have not reached maturity and for which no early maturity has been declared, until 31.12.2020;
- Loan must be granted before 30.03.2020. (BNR, 2020)

In 2020, the number of those who benefited from the suspension of loan payment is significant, there are hundreds of thousands of people. Banks have been able to defer the payment to all customers affected by the crisis caused by the spread of the SARS-CoV-2 virus. In order to approve the facility, the affected population had to submit only a form that the income was affected during that period. In this regard, Figure 7 presents the real situation of the suspension of loan payment for BCR, ING Bank, BRD, Raiffeisen Bank and Banca Transilvania.

**Figure 7: Suspension of loan payment in 2020 for the main 5 banks in Romania**



Source: Author's construction, using data from BCR, BRD, Raiffeisen Bank, ING and Banca Transilvania own websites

However, banks in Romania took credit risk even during the peak of the COVID-19 pandemic. Thus, the total portfolio of net loans granted to customers by BCR increased by 7.4% in 2020, compared to 2019. The increase comes not only from retail customers, but also from corporate customers. Also, important to mention: 1 in 5 Romanians purchased a house through a BCR loan, while 1 in 6 Romanians contracted an unsecured loan. On the other hand, 30% of unsecured loans were signed 100% online, while half of these customers chose a life insurance or other types of insurance contracts. (Economica.net, 2021)

Generally, given the credit risk, the bank goes through a series of steps:

- *Accepting the loan application.* At this step, the personal data of the client, the income and the period of employment are checked, as well as the credit history. If another person participated in the credit application, then his/her financial background is also verified. A novelty that has become commonplace since 2020, in Romania, is the acceptance of online credit application. Basically, the client applies for loan through internet or mobile banking, while the bank remotely verifies the client's personal data and accepts or rejects the request.

- *Loan evaluation or classification into creditworthiness groups.* Creditworthiness is a synthetic indicator of the economic-financial and non-financial performance of an economic agent, according to which, they are classified in order to grant credit, in several groups, known as performance categories. (Caplinska, Tvaronaviciene, 2020)

- *Granting the loan and transferring the money to the holder's account.* Loans are either approved by credit committees or approved directly by the front office employee. Lately, the target of some banks to own as many loans granted as possible, has led to streamlining the process. On the other hand, loans can also be granted through online banking platforms. It is easier for a client to compare online the offers before taking a decision. The bank or financial institution must provide the customer with the European Standard Consumer Credit Information Form, explaining the complete information on the terms and conditions of the credit agreement that is about to be signed. (Your Europe, 2021)

According to this, banks have to take into consideration two aspects in order to successfully manage credit risk – risk sharing and risk limitation. Essentially, risk sharing represents the diversification of a bank's loan

portfolio, investments and the pursuit of financed economic sectors and the diversity of maturities. In this way, the risks are minimized. Limiting risks is a rule imposed by the Central Bank – banks are required to comply with a number of minimum conditions of prudence. (Sudacevschi, 2014)

Indeed, financial, personal or social problems existed for clients even before the COVID-19 pandemic began. Banks had solutions for any unforeseen situation that a customer might face. The affected customer can opt for a loan repayment option that suits him perfectly – voluntary sale of goods brought as collateral asset, debt restructuring (the conditions of the loan agreement can be renegotiated), debt consolidation, giving in payment or forced execution against the debtor. The last one is implemented only when the client is not eligible for another option to repay the loan or vehemently refuses this, so the bank may impose a lien on all income and can sell all goods. Thus, customers who can no longer pay their monthly loan installments are helped by banks. The eagerness of banks is not to have bad paying customers, but to help them pay their debts on time. Although in 2020 there was an option to defer a loan offered at the national level, there are still available different options.

In fact, there were numerous customers who chose this option (188.000 customers, analyzing the data for 2020 from BCR, BRD, ING, Raiffeisen Bank and Banca Transilvania), indicating that many people were financially affected by the COVID-19 pandemic. The research of the credit risk had a limitation, as only the number of customers who requested the deferral of the monthly payment was analyzed, not taking into consideration whether they lost their jobs, their salaries were reduced or they had health issues.

## **6. Conclusion – the unforeseen digital progress of 2020 and perspectives for future research**

Banks play a key role in a country's economy and a strong banking system is an important pillar in the optimal functioning of all other industries. Banks are a priority, an indispensable element of any community. Even in the midst of the pandemic, people needed financial services. The population continued their life, despite all the restrictive conditions. They still made payments and they needed to take out bank loans, and without a well-founded system, banks would have collapsed.

2020 was the year in which certain trends accelerated and around which all banks are concentrated to a greater extent. Consolidation, digitalization, restraint of human interaction, reduction of the number of banking branches are the leading goals of banks around the world. In a not-so-distant future, there is a possibility for banks to encounter certain liquidity problems, maybe even insolvencies and numerous non-performing loans. Internationally, banks should set as a fundamental objective the increase of the operations performance. Likewise, COVID-19 pandemic accelerated the automation and digitalization process. Adopting technologies, developing the online platforms and improving the user experience are the main ways in which banks increased their performance.

Through this research paper, it was noticed that Romania has an adequate infrastructure, in terms of internet connection. This means that banks operating in Romania can well develop the online banking services. In addition, the electronic payment system in Europe has improved, this being observed through the reducing number of cash transactions. However, a limitation of research is that it was only analyzed the year of 2019 in comparison with 2020. A future paper could discuss at least ten years, which would include the pre-pandemic, the pandemic and the post-pandemic periods.

Regarding the banks operating in Romania, the analysis of the five banks (BCR, BRD, Banca Transilvania, Raiffeisen Bank and ING Bank) may be considered a limitation of the research paper, as they registered a profit, with BCR registering an increase in profit (+37% in 2020, compared to 2019). However, a high impact of the coronavirus pandemic could be seen in the case of banks with lower market share. They are more sensitive to change, as their financial balance may not be as stable.

One surprising element, contrary to initial hypothesis, it was observed that the number of employees at Banca Transilvania have increased in 2020, compared to other banks (BCR and BRD), where the number of employees decreased.

Decisively, a new reality of the banking system is flourishing. The ever-changing financial environment forced banks to quickly adopt measures, not having lots of time to make long-analyzed decisions. Innovation, creativity and trust went hand in hand. The first cases of infection with the new SARS-CoV-2 virus in Romania and the establishment of the state of emergency forced the banks to adapt to the environment in no time. The efficiency of the continuous communication with clients was a critical concern. But still,

through digital means, the bank-customer connection remained faithful. The development of mobile banking applications and the innovation of internet banking have not gone unnoticed. Massive investments were made in these digital platforms long before the pandemic. But now, everything materialized much faster than the banks would have predicted and with less effort. The number of customers with financial problems may have increased, but the help received from both the state and the banks was convenient.

Consequently, it is suggested for the banking system to be up to date with technology. It was easy to notice that different devices facilitated the customer-bank relationship during the time of lockdown. This link can be maintained in the long run if banks invest continuously in automation. Of course, it is relevant for online banking to be adapted to the market, to overcome the shortcomings and to always be advanced.

Finally, it is recommended to make a more detailed analysis of the banking environment at the end of the year 2021 to see the evolutions compared to 2020. Also, observing the profitability of Romanian banks in the coming years, it can be analyzed the long-term impact that the COVID-19 pandemic has had on the bank finances. A possible research on banking systems in several Central and Eastern European countries may also be considered, observing the impact of the global health crisis.

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