

Using Digital Banking to Develop Organizational Resilience in Romania: Consumer Attitudes and Perceptions

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Abstract

The COVID-19 pandemic has transformed the banking sector through the massive acceleration of digital services, reshaping the experiential factors that influence the customer's attitudes towards digitization. The digital transformation of the banking system is strongly associated with the flexibility features of the banking services, where innovation is a way that increases the added value of financial institutions. The health crisis was an unexpected shock to demand for digital banking services, representing a test for the banks' digital capabilities to adapt and recover after a moment of discontinuity. The COVID-19 pandemic acted as a catalyst between banks and clients, a relationship that gradually became an opportunity for the entire sector. This paper explores the organizational resilience of the banking sector in Romania using a mixed-method approach based on case studies and empirical surveys, conducting a semi-structured questionnaire on 450 respondents. The main findings outline the strong correlation between e-banking security and loyalty towards the provider bank through trust, a relationship that is fully mediated by the customer e-banking satisfaction.

Key words: resilience, consumer, perception, digital banking

J.E.L. classification: G21, M10, M14

1. Introduction

From a conceptual point of view, the organizational resilience represents the ability of an organization to positively respond to the environmental changes, being usually measurable through the outputs. One significant outcome of the organizational resilience is maintaining a higher level of financial performance in the face of challenging business conditions. Corporate reputation can function as a defense mechanism towards changing business environment, while also becoming an offensive mechanism through which companies can create value. The engagement in corporate social responsibility (CSR) activities helps companies strengthen their reputation, functioning as an additional resource that can lead to increased financial performance.

The term *resilience* is also prominent in the banking sector. According to the Basel Committee report, a resilient banking sector refers to its strong ability to withstand shocks resulting from various financial and economic crises. While the funding structure, low capital ratio and low liquidity ratio can be considered strong determinants of a resilient banking system, the present paper will explore the role of digital transformation to develop organizational resilience for the Romanian banks during COVID-19 pandemic. In this context, the health crisis is seen as a catalyst between banks and clients, a relationship that gradually became an opportunity for the entire sector through the digital banking development. The research study will investigate the consumers' attitudes and perceptions by linking the organizational resilience with the CSR construct through *trust*.

2. Theoretical background

A positive reputation increases customer satisfaction (Singh, 2016) and trust, while establishing positive relationships with clients can contribute to a company's product diversification process. A deep social foundation together with goodwill and a network of relationships can act as a barrier that protects an organization from sudden negative events, offering time to absorb shocks and take the appropriate response measures. Innovation has been widely recognized as an essential way for companies to achieve their organizational resilience, as companies can absorb the environmental changes by developing new capabilities and adaptive strategies (Jaaron and Backhouse, 2014).

Winston (2014) outlines that good customer relationship management can provide protection against fluctuations in market demands, as companies can ensure financial stability by actively adjusting and innovating in line with new customer needs. Demmer and Vickery (2011) indicate that resilient organizations tend to integrate early into customer supply chains in order to fully understand customer needs and thereby continuously provide creative, satisfying solutions that distinguish them from their competitors during the economic downturns.

At the end of September 2021, the banking sector recorded increases in net profit up to 6.4 billion lei (an increase of 42% compared to the same period of the previous year) and an ROE indicator of 13.6%, above the European average values (7.4% in the EU27), but lower compared to the average of the sector of non-financial companies in Romania (18.9%, December 2020). The median ROE value of large banks, which concentrate 85.7% of the aggregate positive financial result, has returned to growth, at a higher level compared to European evolutions, while the market share of loss-making banks remains low (0.7%).

The most recent stress testing exercise of the Romanian banks' solvency attests to an adequate resilience of the local banking sector at an aggregate level, due to both a good operational capacity, especially in the case of large banks, and a significant level of solvency at the initial phases of COVID-19 pandemic (December 2020). The exercise covers a three-year horizon (Q1 2021 – Q4 2023) and includes two macroeconomic scenarios (baseline and adverse), suggesting a contraction in both scenarios.

3. Research methodology

The main objective of the present paper is to explore the effect of the COVID-19 pandemic on digital banking by using a google form focused on the digitization of the Romanian banking sector in the context of the COVID-19 pandemic. The questionnaire was distributed online on a sample of 450 respondents, in order to identify customers' perceptions of innovative technologies and their attitudes towards the digital transformation of the Romanian banking sector generated by the COVID-19 pandemic. The demographic profile of the respondents was included in the Table no. 1. The factual questions were mixed with the interpretative ones, being formulated both direct questions (*Which bank/banks do you currently collaborate with?*) or open questions (*Please specify the measures taken in this regard*). The themes addressed were organized in order to stimulate the respondent to formulate opinions that support the research hypotheses.

Table no. 1. The demographic profile of the respondents

	Frequency	Percentage (%)
Age		
21-30 years	234	52
30-40 years	121	26.88
41-50 years	72	16
≥ 51 years	23	5.12
Gender		
Male	263	58.44
Female	187	41.56
Education		
Undergraduate	285	63.33
Graduate	146	32.44

Postgraduate	19	4.23
Residence		
Urban	314	69.77
Rural	136	30.23

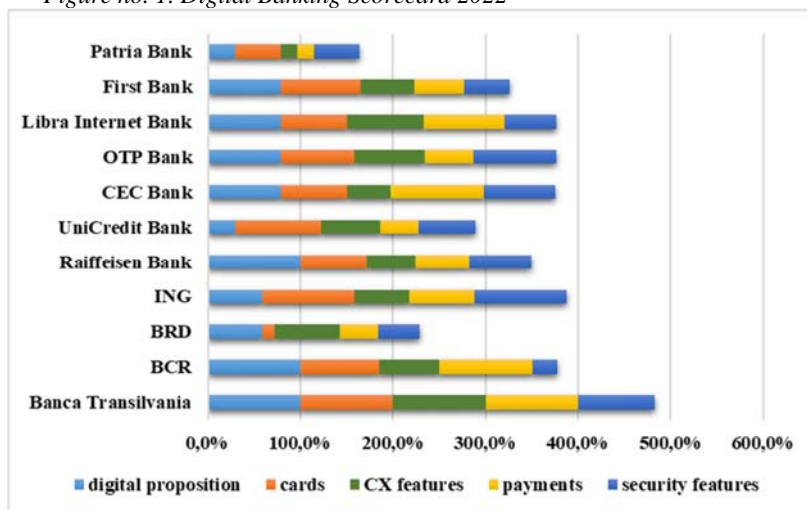
Source: author processing

The questions were also directed to the satisfaction felt by customers in relation to the needs regarding digitalization, the level of trust and knowledges about the actions of corporate social responsibility (*Have you ever heard about corporate social responsibility?*). These were followed by control questions regarding the source of this information (*Where did you first hear the term CSR?*), using single-choice, multiple-choice or Likert-scale items. Moreover, the questionnaire included questions regarding the emotional context (*To what extent do you feel that the bank you work with has adapted its services to your needs in the context of the COVID-19 pandemic?*), expectations (*Do you think the digital banking services will develop in the next three years?*) or respondents' experiences (*How often do you use the following payment methods: cash, debit/credit card, contactless debit/credit card, digital banking?*).

4. Findings

The COVID-19 pandemic has accelerated the digital transformation of the traditional banks, that are offering now at least two mobile payments options for their clients. According to the Digital Banking Scorecard 2022, Banca Transilvania (Transilvania Bank) is the best performer in terms of digital banking, while it's also the best performer in financial terms. Thus, the leading bank from the Romanian banking system ranks best in four analyzed categories (digital proposition, cards, CX features and payments), while for the security features it reached a score of 83.3% (Figure no. 1). For the digital proposition, BCR and Raiffeisen Bank are also best performers, with remote account opening (for both retail and SMEs), digital personal loan and SME digital loan. The second category (cards) has two best performers: Transilvania Bank and ING Bank. These banks offer remote acquisition for debit/credit cards, contactless and virtual cards, but also cardless ATM withdrawal.

Figure no. 1. Digital Banking Scorecard 2022



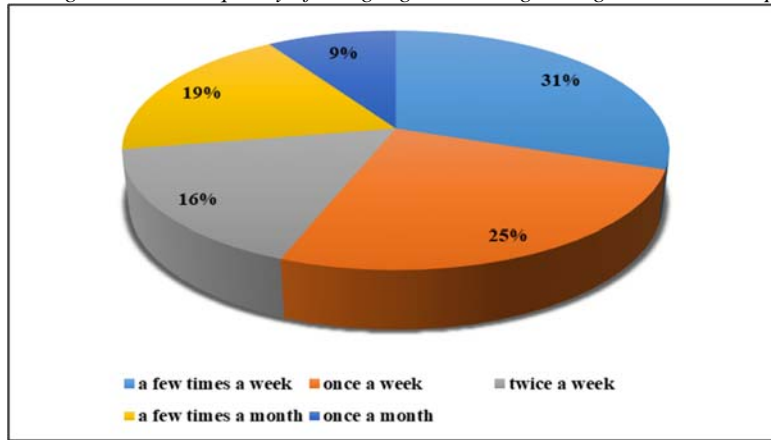
Source: author processing based on DBS2022

Only Transilvania Bank performs best for the CX category and none of the banks included in the analysis has exactly the same set of CX features. The most mentioned features were biometric login, budgeting and categorization, in-app provisioning or automated saving tools. With a maximum score for payments, Transilvania Bank, BCR and CEC Bank perform best, offering own digital wallets, instant payments, direct debit, Google Pay, Apple Pay, Garmin Pay and Fitbit Pay. The last category refers to security features, which is still a sensitive point for most banks included in the analysis. ING

Bank is the best performer for security features, including in-app PIN change, push notifications, location-based security, offering in the same time the possibility to freeze or block the card or to deactivate contactless/online payments, POS transactions or ATM withdrawal.

According to the Figure no. 2, 31% of the respondents have used the digital banking services a few times a week during the COVID-19 pandemic, 25% of them have used digital banking once a week and 16% twice a week. Only 9% of the respondents have used digital banking once a month and 19% of the total respondents have used digital banking a few times a month. More than 25% of the respondents have declared that they have used the digital banking services for the first time during the pandemic. Moreover, digital banking was perceived by the respondents as a form of social responsibility towards clients in the coronavirus context, significantly contributing to reducing the spread of infections during the COVID-19 pandemic waves. Most of the respondents relate *corporate social responsibility* concept with terms like *care* (14.3%), *goodwill* (9.82%) or *charity* (7.51%).

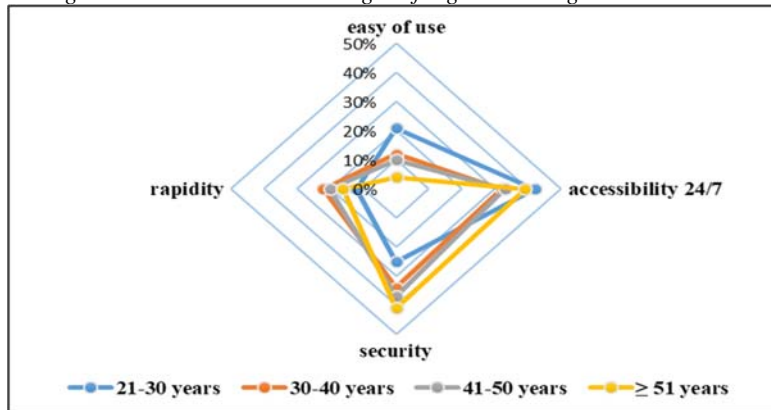
Figure no. 2. Frequency of using digital banking during the COVID-19 pandemic



Source: author processing

There are significant differences between the answers regarding the main advantages of digital banking depending on distribution of the sample by age (Figure no. 3). Young people (21-30 years) find digital banking easier to use than the other groups, while security issues evolve in the same direction as the age of the respondents. However, the accessibility 24/7 is the most important advantage for all respondents, regardless of age category. This feature was also mentioned by 12% of the respondents as a strong argument for using digital banking services after the COVID-19 pandemic. Approx. 36% of the respondents intend to continue to use exclusively digital banking after the pandemic, to the detriment of the physical interaction with the bank.

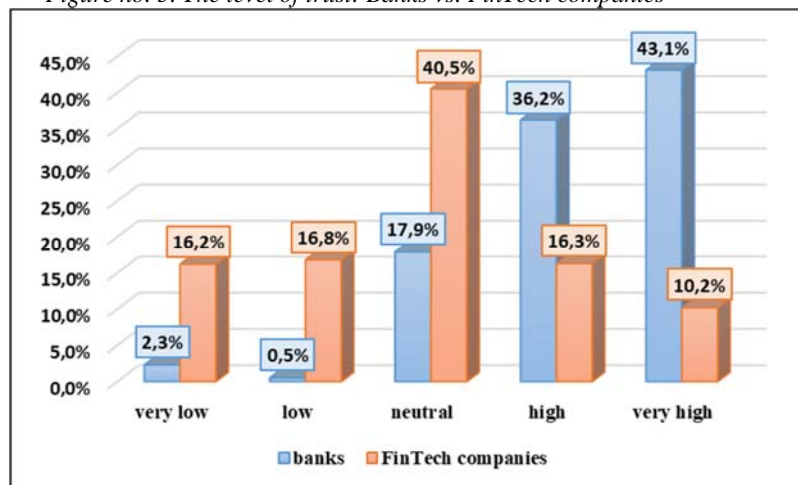
Figure no. 3. The main advantages of digital banking



Source: author processing

There is a very high level of satisfaction related to the digital banking, which has a positive influence on its acceptance after the COVID-19 restrictions. According to the frequency analysis, the majority of respondents mentioned service quality to explain a possible switch from traditional banks to Fintech companies, while price is still important for a significant number of customers (128 respondents). Thus, the role of price as a major determinant for switching from banks to Fintech companies is no longer valid, emphasizing a more sophisticated consumer who can find a balanced ratio between the most significant features of a financial product. The main finding suggests the role of trust (Figure no. 5) and reputation of traditional banks as primary determinant for using digital banking, beyond the cost-centric drivers.

Figure no. 5. The level of trust: Banks vs. FinTech companies



Source: author processing

5. Conclusions

Unlike the global financial crisis of 2007-2009, banks entered the COVID-19 pandemic with stronger capital and liquidity positions, adapting to the new circumstances through the rapid digitization and product diversification process. The health crisis was as a catalyst between banks and clients, a relationship that gradually became an opportunity for the entire sector through the digital banking development. According to the clients' opinions, the organizational resilience of the credit institutions was strongly correlated to the CSR concept through trust, digital banking being perceived as a form of CSR directed to both clients and employees in the COVID-19 context, after the restriction measures decided by the authorities.

The data provided by the Digital Banking Scorecard 2022 suggests significant improvements of digital services for all traditional banks included in the analysis, with Transilvania Bank as the best performer both in terms of digital banking and in financial terms. More than 25% of the respondents of the questionnaire have declared that they have used digital banking services for the first time during the pandemic, while more than 35% of the sample intend to use exclusively digital banking after the pandemic, to the detriment of the physical interaction with the bank.

This result is in line with the high level of satisfaction related to the digital banking and the significant level of trust in traditional banks, compared to the FinTech companies. On the one hand, reputation is formed based on satisfaction. On the other hand, reputation is amplified by the corporate social responsibility actions, perceived by the general public. In this sense, reputation was a primary determinant for using digital banking during the COVID-19 pandemic, beyond the cost-centric drivers, leading to a more sophisticated client.

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