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THE IMPACT OF COVID-19 ON CONSUMER BEHAVIOR OF FINANCIAL-BANKING SERVICES

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Abstract: *The COVID-19 pandemic had a profound impact on the consumer of financial-banking services, changing not only his behavior but also the way they live. Banks are researching the evolution of customer requirements and needs to understand these behavioral changes and to discover how their offer will have to adapt and evolve to meet the future consumers needs in the "new normal". Many consumers have seen their personal finances negatively affected since the crisis hit. While lower disposable income and general economic uncertainty have led many to reduce their spending. The effects of the impact of the COVID-19 pandemic crisis were manifested by the decrease in GDP, the increase in the unemployment rate, the increase in the volume of deposits made in banks and the decrease in consumer spending. Because of the current environment, banks should better understand these new behaviors and meet the requirements of consumers with relevant products and convenient services.*
Key words: *consumer behavior, financial-banking services, Covid-19 pandemic, consumer needs.*

JEL CLASSIFICATION: G21, G41, M31

1. INTRODUCTION

Customers' buying behavior is changing, as is the way they sell banking products and services that require adjustments to the situation. It is important to know and focus on the main sales channels, which will have a continuous performance even after the crisis.

Consumers of financial-banking services adapt new shopping habits and opt for the use of online services, without visiting the physical subdivisions of banks, because this helps not only to solve security problems but also to obtain various advantages regarding the time, speed and cost of transactions.

As countries reopen, the question is: what are the longer-term effects on consumer behavior of financial services? Given that the challenging economic context is likely to suffer for a longer period of time, value and price considerations will most likely be on the minds of many customers, as well as the ability to obtain various financial benefits. On the other hand, certain categories of customers prefer to meet their needs in financial services through offline interactions.

People are living differently, buying differently and, in many ways, thinking differently. Consumers across the globe are looking at products and brands through a new lens (Accenture, 2020). A part of this behavior is permanent and brings in structural changes in the way we live, work and make buying decisions. (Mehta et al, 2020).

As only time will tell which changes in the buyer's behavior are more permanent, one thing is certain: we will see the impact of the crisis for a long time to come, and the rapid adaptation of banks' activity will be the key to successfully managing the effects.

The results of a new KPMG study (2020), "Adapting to consumer developments in the new reality" demonstrate that COVID-19 has a global and lasting impact on consumer needs, preferences and behaviors. Thus, four key trends were identified that affected consumers and changed consumption habits, referring to: economic impact, erosion of confidence, digital growth and the home as a new center of activity.

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For banks, it is more important than ever to perceive what motivates customers, to analyze their strategy and business model to determine how they can adapt to keep pace with the ever-changing needs of customers. Relationships between customers and banks could change permanently following the COVID-19 pandemic, which will lead them to analyze how they can gain customer trust in this new reality.

2. CONSUMER BEHAVIOR IN TIMES OF COVID-19 CRISIS

Globally, another client has emerged with new behavior and decision-making criteria, indicating the results of several surveys conducted around the world over several months. Quantifying the scale and nature of these changes specifies that this is a rapid change in the way customers see their world, which requires an equally rapid response to the way suppliers of products and services approach their markets.

Depending on the flexibility of the companies offering these services and products, as well as future restrictions, these changes in customer behavior may be permanent and may change the rules of business.

Consumers across the globe have responded to the crisis and its associated disruption to normal consumer behaviors by trying different shopping behaviors and expressing a high intent (65% or more) to incorporate these behaviors going forward. However, the change has been less pronounced in countries with a moderate degree of economic shock, such as Germany and Japan (Charm et al, 2020).

The outbreak of the COVID-19 pandemic caused substantial changes in the top of the procurement criteria, illustrating how consumption changed during this period. More than a third (36%) of consumers prioritize savings over spending and "Value for money" is the main purchasing criterion for 63% of respondents. (KPMG, 2020).

The "Future Consumer Index" study initiated by EY Global (2020) identified four consumer segments based on the dominant behaviors and opinions of 18 countries:

- saves and makes stocks (holds 35% of the total), which are pessimistic about the long-term effects, but are not so concerned about the pandemic, but concerned about the health of the family;
- drastically reduce spending (27%), the most affected by the pandemic and the most pessimistic about the future, spend less in all categories;
- keep calm and spend (26%), which are not directly affected by the pandemic and do not change their spending habits, they are just worried about others making stocks;
- hibernates and spends (11%), the most concerned about the pandemic, but best positioned to deal with the situation. They are optimistic about the future and spend more in all categories.

The shift to digital persists across countries and categories as consumers in most parts of the world keep low out-of-home engagement. Online growth for China seems more moderate, as the country had a high level of online penetration prior to the pandemic (Charm et al, 2020).

Unquestionably, the biggest change this year is the accelerated shift to digital commerce (Goldberg, 2021). In January, e-commerce represented 13% of retail sales. That number spiked to almost 20% of sales in April and levelled back to about 16% by the end of the year. That 3% increase in share represents an additional $18 billion in digital sales in a month. Web traffic monitoring company Similar Web reports that, since the pandemic began, visits to the top 20 USA e-commerce sites has been up 31% versus 2019.

People are embracing technology more than ever to support all aspects and consequences of isolation. There is also positive evidence to suggest that this crisis will build communities, rather than separate them.

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The current context is rapidly changing the behavior of consumers, who seem to prefer digital channels, 66% saying that the pandemic has made them appreciate more quality technological solutions. The health crisis has contributed not only to the transition to digital technologies, but also to the creation of a model for the coming years, according to the results of the study, with 63% of respondents saying they will continue to use digital technologies more often even after the pandemic ends, stating that carrying out activities in a digital environment was even a superior alternative to in-person experiences. (Deloitte, 2021)

As customers become more comfortable with using digital to accomplish their high-value complex transactions, banks are having to accelerate their digital investment (KPMG, 2020). Larger, established banks have benefited from the "flight to safety" in these uncertain times with consumers looking for full-service banking both online and on mobile. Such banks are in a relatively strong position to develop their own technology, e.g. virtual assistants or credit decisioning. Banks must not only focus on digitization, but also on differentiation. Products and services need to be simplified to reduce cost. Personalization can be delivered through the point of interaction, making better use of customer data to help predict future situations and help inform decision-making.

The respondents of the study "Romanian consumer behavior in the context of COVID-19" initiated by EY Romania (2020) showed optimistic attitudes towards most consumption of banking products and services. Thus, only 6.6% of respondents indicated a pessimistic attitude regarding banking, 55.5% were optimistic, and 37.9% had a neutral attitude.

When asked to what extent they believe they will return to consumption habits after the end of the pandemic, 22.14% consider a major change in the banking products and services they will purchase and 52.93% believe they will return to past consumption habits.

Because of the events that are currently happening around the world, everyone wants to know what to do with their finances and investments and they feel the need to make decisions as soon as possible. (Pyle, 2021)

In the short-term savings may increase in the near-term, which can help cushion the liquidity demand for banks and retail investors may defer their renewal premia and/or opt for endowment products, which will adversely influence the flow to capital markets, but may prove positive banks having scale and strong balance sheet (Kumar, 2020). Retail financing industry, which was one of the key drivers of credit growth, will be impacted for at least two quarters, as the demand for housing assets, consumer goods and working capital financing will get hit due to general slowdown in economic activity. There is a potential risk of defaults and insolvencies unless the regulatory framework is tweaked urgently to address the unprecedented challenge that corporate sector, and retail sector is witnessing at present.

3. COVID-19 IMPACT ON THE CONSUMER OF FINANCIAL BANKING SERVICES IN THE REPUBLIC OF MOLDOVA

In response to the potentially serious threat to public health posed by COVID-19, the Moldovan authorities have implemented numerous measures to limit the spread and impact of COVID-19, which has led to a temporary reduction or suspension of trade operations. As a result, these measures severely restricted economic activity in the Republic of Moldova, had a negative impact and continue to have a negative impact on the business environment, market participants, bank customers, as well as on the economy of the Republic of Moldova, and the global economy, for an unknown period of time.

Thus, in the second quarter of 2021 (see figure 1), the situations caused by the pandemic manifested themselves as follows: every second person worked fewer hours per week (48.2%), every third person either worked from home / worked remotely, or was transferred to part-time work (37.5% and 37.6%, respectively) and one in four people (23.5%) did not work at all /

discontinued activity (in the second quarter of 2020, the highest value was recorded for people who did not work at all / interrupted activity - 60.7%, followed by people who worked fewer hours per week and people who performed work at home / distance (30.4% and 25.6%, respectively).

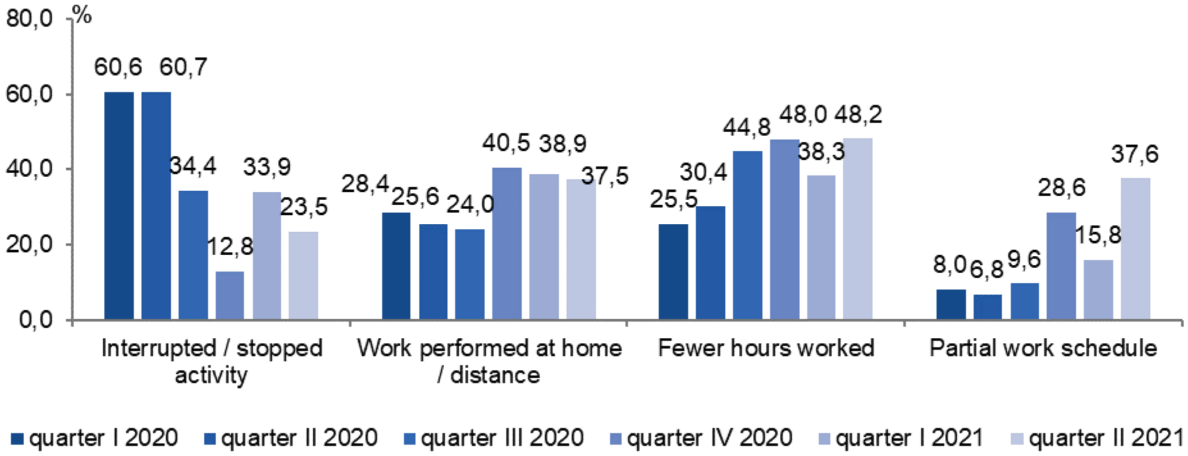
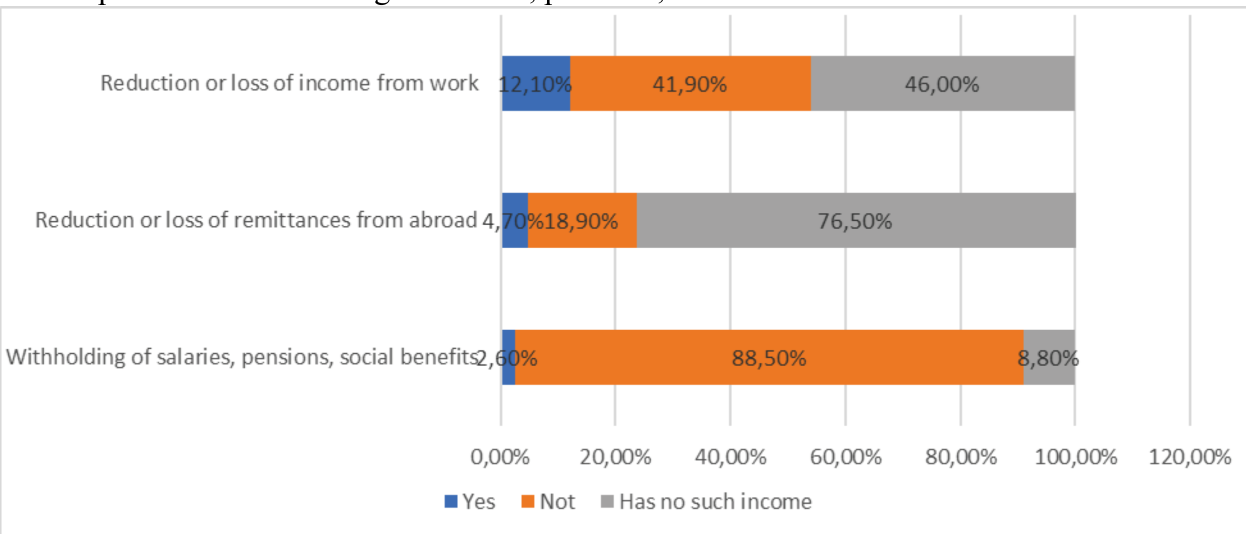


Figure 1. Persons affected by the situation at work by category, by quarters, 2020-2021, % of the total affected persons
Source: https://statistica.gov.md/

The population faced financial difficulties, expressed by the reduction or loss of income from work and remittances.

About 91.2% of households had income from salaries, pensions, social benefits (see figure 2), Just over half of households (54%) had income from work in the country, and 23.5% had income from remittances. At the same time, 12.1% mentioned the reduction or loss of income from work, 4.7% reported the reduction or loss of remittances from abroad, and only 2.6% reported the withholding of salaries, pensions, social benefits.



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Knowing that customer revenues have been severely affected by the restrictive measures imposed in the context of the pandemic, banks in the Republic of Moldova have launched a comprehensive loan-rescheduling program.

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Under the given conditions, the banks offered their clients several facilities, for each category of clients (both individuals and legal entities), both for loans, advances granted to clients, as well as leasing receivables, such as: payment of installments at loans and interest payments for the first months of the pandemic were transferred for payment in subsequent months; no penalties and / or interest for late payment were charged; the loan repayment schedule was modified without charging the clients the commission for modifying the contractual clauses, etc. This ensured that the quality of the loan portfolio was maintained.

The non-performing loans rate increased in the second quarter of 2020 (8.74%), and at the end of the year it reached a more favorable level (7.38%) than until the beginning of the pandemic (see table 1).

Table 1. The quality of the credit portfolio of the banks in the Republic of Moldova

	Quarter 1, 2020	Quarter 2, 2020	Quarter 3, 2020	Quarter 4, 2020	Quarter 1, 2021	Quarter 2, 2021
Balance of credit debt, mil lei	42.031,98	41.509,70	43.504,95	45.643,21	46.643,12	49.932,36
Non-performing credits (NPC), mil lei	3.565,14	3.629,30	3.721,79	3.369,65	3.373,62	3.739,71
NPC debt/ Total own funds, %	30,29	28,81	27,87	24,74	25,01	25,99
NPC debt/ Balance of credit debt, %	8,48	8,74	8,55	7,38	7,23	7,49

Source: https://bnm.md/

Guided by the same desire to be close to their customers, banks have developed remote service systems, offering consumers more convenience and security. Thus, banks provide consumers with access to banking services and products from home, from any geographical point the customer feels comfortable and safe 24/7. Many remote services require a bank card in order to be used.

Table 2. Information regarding services with payment cards in the Republic of Moldova

	Quarter 1, 2020	Quarter 2, 2020	Quarter 3, 2020	Quarter 4, 2020	Quarter 1, 2021	Quarter 2, 2021
Cards in circulation	**2.047.832**	**2.088.822**	**2.153.139**	**2.182.076**	**2.184.418**	**2.252.973**
active cards	1.235.470	1.213.476	1.264.739	1.324.843	1.341.038	1.386.696
salary cards	978.188	975.412	954.825	961.321	935.804	943.851
social cards	402.218	408.989	418.269	395.033	404.908	420.057
Number of operations	**21.657.791**	**21.760.308**	**24.930.257**	**27.679.650**	**28.252.558**	**31.937.534**
cash withdrawals	6.398.692	5.815.075	6.645.069	6.911.528	6.381.593	7.183.109
non-cash payments	15.259.099	15.945.233	18.285.188	20.768.122	21.870.965	24.754.425
Value of operations	**17.451.082.612**	**16.889.120.218**	**19.692.825.402**	**21.614.322.561**	**20.638.828.086**	**24.056.628.225**
cash withdrawals	12.580.537.460	12.058.540.617	14.154.257.534	15.089.306.583	13.746.243.475	16.267.271.802
non-cash payments	4.870.545.152	4.830.579.601	5.538.567.868	6.525.015.978	6.892.584.611	7.789.356.423

Source: https://bnm.md/

The impact of the current crisis, as well as the active promotion of banking products through cards and the promotion of e-commerce, have led to an increase in the number of active cards and the number and volume of transactions (see table 2).

Physical channels (obtaining the product in the bank's subdivisions) will remain important, but banks should not focus on a particular channel, but on the customer, as competition becomes stronger.

4. CONCLUSION

To the extent that one can predict what will be the "new normal" in the behavior of the process of procuring financial services, there are several assumptions. In order for financial institutions to respond effectively to their customers' specific purchasing patterns after overcoming the coronavirus crisis, they should recognize the following expected trends:

- access to online financial products and services will become the main trend - after a period of intensified digital connectivity, customers have become much more receptive to banks' offers on remote banking channels, namely in such situations appreciating the convenience of using them. Thus, customers will perceive fewer barriers to seek the assistance of technology in their daily lives;
- professional assistance during the client-bank relationship to ensure its consolidation and customer loyalty;
- the need for high transparency and information on the supply of products and services of banks and the conditions for their purchase by different categories of customers, in particular, information on the cost;
- personalization will be essential to meet consumer needs as a result of deeper understanding of consumer groups, through the segmentation generated by Artificial Intelligence and psychological cues.

The next normal in behavior of financial banking services consumer may likely be explored on dimensions mentioned below:

- rethinking about considering psychological approach in understanding consumer behavior, taking into account factors such as economies of consumption, saving and mental health;
- mobilization of financial and personnel resources at speed and scale as central focal point of bank's activity to respond to their consumers behavior changes;
- rewiring COVID generation: opportunity to realign the present young generation to new principles of life and business to build a new segment of consumers;
- creating new products or services that fully satisfy the client's contemporary needs and requirements.

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