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## **ASPECTS OF MANAGING THE FINANCIAL SUSTAINABILITY OF THE BANK IN THE CONTEXT OF GLOBALIZATION**

**Abstract:** The importance and scale of the banks' activities are growing every year, as well as the banking competition and concentration. This makes it necessary to pay special attention to their functioning and sustainability since the stability of the economy as a whole depends largely on the financial condition of the banks. In the context of globalization, financial markets have ceased to serve the real sector of the economy and have acquired independent significance. Transnational corporations and financial institutions are increasingly actively pursuing their specific goals and influencing the formation and functioning of world markets. The problem is that foreign capital often does not even replace national financial companies, but replaces them, which creates the preconditions for their absorption and/or gradual disappearance. Therefore, the formation of nationally oriented commercial structures working, in the long run, is a crucial task in the context of economic globalization.

**Keywords:** Globalization, financial sustainability, banking management, economic processes.

### **Introduction**

Financial stability is of great importance for both the individual bank and the banking system as a whole. The sustainability and stability of the financial system are related to its features such as organization and self-organization. If the system is characterized by these features, it is adaptable, therefore will have

the ability to independently adapt to changes in operating conditions [1, 51–54]. This is especially true given the current situation in the world, which implies the development of new approaches to ensuring financial sustainability in relation to the financial sector. Determining and timely identifying more and

more factors directly affecting financial sustainability, the accuracy of its assessment and forecasting largely depends on determining the right development strategy. It is argued that the widespread introduction of a local-based sustainability assessment system tailored to local conditions in emerging economies will help to adapt the banking system and ensure its stable operation in the long run [2, 403–404].

The creation and operation of credit institutions with the participation of the state is a universally accepted world practice. The global financial crises have justified the need for further development of public sector regulation of the financial sector, strengthening of control over the activities of banks, and further refinement of existing approaches to assessing the sustainability of banks, in which the central bank has a primary role. A feature of the current stage of globalization is the transformation of the banking supervisory system from individual uncoordinated actions of supervisory bodies to a complex, well-structured system that includes all stages of the supervisory cycle – from the establishment of the supervisory period to the evaluation of the effectiveness of supervisory procedures [10].

The unsustainable global economic environment is a complex dynamic system that requires rapid changes in both the financial sector as a whole and the banks themselves to adapt to it, which is a very topical issue. Banks are changing under the influence of an unsustainable global environment [3], adapting to it and demonstrating the ability to withstand negative factors, constantly looking for ways and using opportunities to increase efficiency and profitability.

In modern developed countries, banks are more focused on attracting customers at the expense of improving the quality of their asset management and offering investment services. The physical proximity of the bank to the customers or the face-to-face relationship between the customer and the consultant is becoming less and less relevant. The pandemic crisis has given this trend an extra-strong incentive. It is no

coincidence that internet giants are so interested in developing new digital financial services.

Banks are not in a simple situation either. They have many competitors, including in the form of innovative digital financial service providers. They are forced to actively cooperate with research centres, universities, technology companies, and open innovation development centres. Moreover, it has become an integral part of the Bank's successful strategy to focus its activities on the client and tailor it to the client's needs. You need to "grow" your client, carefully analyze his data and even manage his thoughts.

The achievements and successes of digital companies confirm the beginning of fundamental structural transformations in the banking sector. High-tech firms with well-developed online platforms and customer bases have the potential to make the significant financial investments needed to reach scale and remain competitive. Recently, the study and management of environmental risks in the financial sector have become particularly relevant. Financial institutions will inevitably face significant financial risks related to climate change over time, which can only be mitigated through early, concerted and joint responses [4, 130–131].

In responding to environmental threats and climate change, financial institutions and the financial system as a whole face both opportunities and risks and challenges. Regulators closely monitor and assess the potential climate-related risks of financial institutions and markets. Regardless of their specificity, these risks affect all traditional risks, such as credit, market or operational risks [5]. Consequently, an analysis needs to be made of where financial institutions are exposed to the increased financial risks posed by climate change, and in particular the weakest institutions.

Banks today have to deal with a new global threat – the coronavirus pandemic, which has no precedent. Despite the uniqueness of the existing volatile environment, the collective response to the pandemic in the financial system, including the banking sector, is

quite evident. It has not been easy to switch banks to the virtual mode in a few weeks, but the banks maintain stability despite the problems, and most of the banking operations are carried out smoothly [6, 30–31]. Banks have effectively introduced technology and demonstrated the greatest flexibility, durability and adaptability. Most importantly, they have played a crucial role in stabilizing the economy, as well as in implementing government incentives and assistance programs.

It is noteworthy that the sound capital level of the banks provided before the pandemic and the timely and purposeful actions provided by the supervisors significantly helped them to mitigate the negative consequences of the crisis, which should be the basis for the development of the global economy in the future.

It is clear that in the face of serious instability, uncertainty and threats are still very high. Today the world economy, including the banking system, is facing unprecedented challenges. Among them, the pandemic is, of course, the most important, but there are also other serious problems – income inequality by country, racial and gender issues, environmental and climate change risks/threats, etc. It is expected that in 2022 the banking sector will face a number of problems. Uncertainty and instability about the consequences of the pandemic will continue in the future. This should not prevent bank managers from taking advantage of opportunities and taking bold steps, summarizing existing lessons and setting new actions. Particular attention should be paid to increasing resilience and stability, adapting banks and accelerating transformation. Given the current reality, it is important to systematically address current issues related to the functioning of the banking system and the problems of banks in the current volatile environment, to develop conclusions and recommendations on ways and prospects for long-term sustainable development [9].

The pandemic, as an unprecedented challenge for the banking sector, has given us the opportunity to draw important conclusions – constant prepared-

ness for future crises is a prerequisite for maintaining the stability of the financial sector. He greatly contributed to the development of financial technologies, including the so-called. Enhancing the role of neo-banks and accelerated development. Prior to the pandemic, Fintech's strengths and advantages were thought to be the development of financial services and increased innovation and competition, but the pandemic revealed its great importance as a means of promoting financial stability [8, 148–151].

New digital financial institutions and banking providers – neo-banks – are rapidly gaining ground in the financial sector. Their service fully meets the requirements of the time. Bank cards and digital banking services are offered in an innovative way, with very favourable conditions for customers, while customer relations are carried out only through digital channels. Neobank offers online customers much more functional and fast solutions/services, ahead of traditional banks in terms of flexibility and innovation [7, 31–32]. Among them, they add popular payment services to their service portfolio much faster and easier.

Recently, the active acquisition of small banks by Fintech companies in a number of Asian countries has highlighted the possibility of major changes in the banking sector over time. This process is unlikely to be a big challenge for large banks in the near future, however, as these companies can operate quickly and on a large scale in the market without incurring additional costs, it is clear that these acquisitions will affect the profitability of traditional banks in the medium term.

Traditional financial institutions view their affiliates as a significant advantage over digital competitors. Indeed, when faced with difficult or unforeseen situations, the user almost always prefers personal relationships, consulting with a human rather than a robot. However, it is likely that in the future the main direction for banks to communicate with clients will be consulting to resolve complex financial issues as well as to learn more about the latest banking service packages, m. Sh. To offer digital services.

If traditional banks want to run a stable business in the long run, attract customers and generate revenue, following in the footsteps of Fintech companies, customers should be offered almost all forms of online banking, including mobile apps, as well as other digital innovations.

The analysis of the Georgian banking system reveals that Coronavirus has changed the banks' approach and policies towards the implementation of activities, customer relations with banks and channels of communication with the bank, the method of customer banking, as well as customer payment habits: cards and smartphones have largely replaced them. This trend is not new, in previous years the volume of transactions using ATMs was reduced by about 5–10% annually. In 2019, the number of bank branches in Georgia increased by 58.5% compared to 2010, amid the reduction in the number of commercial banks in the banking system. In terms of ATMs, there is a significant increase in the number of ATMs in Georgia (76.2%) (Source: The data of the results of conducted research by the authors).

The pandemic has significantly changed the functioning and development vectors of the banking sector. The impact of the pandemic in Georgia has significantly increased the risks, including the risks of financial stability, but the banking systems of the countries met the pandemic prepared and most of the banks dealt well with the problems. It should be noted that despite the large credit losses, the Georgian banking system in 2021 shifted to profit. At present, the financial systems of Georgia are stable, enough buffers have been accumulated, which is the result of pre-crisis monitoring measures. This will help banks to overcome the crisis relatively quickly and with fewer losses. However, it is necessary to study in detail and evaluate the effectiveness of the measures taken before the pandemic, to eliminate the shortcomings, to accelerate the process of bank transformation, to develop new approaches, to become a closer, deeper and more comprehensive regulatory and supervisory cooperation.

## Materials and methods

Research tool is to obtain information through a survey (telephone interview); Both qualitative and quantitative research were used. The study covers the period from December 2020 to February 2021 inclusive. 22 managers of corporate and retail lending, risk management, internal audit, information technology and operating subdivisions of 8 commercial banks operating in Georgia (53.3% of the total banks) were interviewed. Out of the mentioned 8 banks – 3 banks are of systemic importance (all system banks present in the market are included). Consequently, the results obtained can be extended to the Georgian banking system as a whole.

## Results

**Survey Results:** 15 questions were offered to the respondents. Less than 1/4 of the respondents (23%) believe that the restrictions imposed due to the pandemic have affected their bank negatively or more negatively than positively, which can be said to be a better result than expected.

In order to adapt to working in unstable conditions, the main efforts of banks were aimed at making changes in the delivery of banking services and products (32%) and the development of remote channels (23%). Issues such as staff reductions and payroll optimization have not been a top priority for bank executives, which is certainly a welcome trend.

## Discussion

Due to the pandemic, traditional banks faced difficulties in attracting customers, offering various services and services, hence they resorted to the accelerated development of digital channels and active offering of products and services through remote channels (32%). Banks are still also paying close attention to introducing various types of innovations and providing personalized offers to customers (18%).

There is a tendency that despite the temporary closure of branches / service centers and the active transition to digital services, banks in Georgia are not ready (50%) to cancel branches in the next few years. At the same time, some of the respondents

confirmed that it is possible to optimize their number and introduce modern forms of service and technological innovations in the branches. The survey showed that the introduction of remote banking services alone is clearly not the closest reality to banks. It is possible to partially transfer employees to remote work (68%), but in the old days, great importance was attached to face-to-face communication with customers and in parallel with the activation of consulting services.

After transferring employees to remote work, only about 1/3 of them had difficulty getting used to remote work, and the biggest difficulty in the remote work process was providing teamwork, controlling their work and managing their efficiency, as well as lack of work space at home (41%)., Which is largely due to lack of experience (55%) and unsustainable environmental conditions. When it comes to remote work, most back office structures move effortlessly to remote channels, especially IT service, corporate customer service, financial services and accounting, which makes it difficult for the bank to move these services to part-time remote work. For him because of a number of aspects.

The National Bank of Georgia and its activities in the conditions of a pandemic are trusted by the vast majority of respondents (82%), which is undoubtedly the result of the great authority of the Bank and its correct, timely and planned measures. Based on the above, respondents believe that the banking system withstood the first wave of the pandemic with relatively few losses and was prepared to meet external shocks. According to the vast majority of respondents, the Georgian banking system is currently adequately coping with pandemic risks and, more importantly, has positive expectations for the future.

Globalization and related threats are of great importance to 82% of respondents, although they do not consider the activation of electronic banking as a threat to traditional banks at the global level. The banking system is considered by the vast majority of respondents as one of the key factors for the sta-

bility of the country's economy. It is clear from the answers received that the managers of the banks have assumed their great responsibility to the customers, shareholders, partners, investors, employees. Finally, there are some expectations in the Georgian banking system regarding the process of bank mergers in the post-pandemic period, which reflects the global trend in general.

As a result of research, analysis and evaluation of research issues, a number of suggestions and recommendations have been identified, which will undoubtedly help commercial banks in developing countries to maintain financial sustainability and make promising decisions. The following are particularly important:

- Assessing the financial viability of banks in developed countries is the basis of effective supervisory procedures, focusing not on coercive but on prophylactic impact measures. It turns out that the elements of this system, given the local specifics and the impact of the recent financial crisis, can be the basis for developing effective approaches to ensure the financial sustainability and monitoring of commercial banks in Georgia.

- We consider it right to re-understand the role of the central bank in the post-pandemic period. The pandemic has clearly revealed the place of the regulator in the financial system of the country, the special importance of the measures taken by it in a timely manner. Supervisors have a variety of, and effective, monetary and macroprudential policy instruments. There is no doubt that ensuring the proper functioning of banks during the pandemic period and the relatively smooth transition to the new virtual model is the result of many years of training and efforts made by the supervisory bodies to ensure the sustainability of banks.

- Banks should institutionalize the knowledge gained during the pandemic. It is necessary to analyze the lessons and experiences gained from the pandemic in detail and to develop further effective measures. The current situation makes it possible to

assess the effectiveness of the reforms carried out, to eliminate the shortcomings, to develop new approaches, to become a deeper and more comprehensive regulatory and supervisory cooperation at the global level. The future success of banks may depend entirely on how well they have learned the lessons of the past.

– The National Bank of Georgia has taken significant steps to mitigate the negative impact of the pandemic on the Georgian banking sector and to stimulate the country's economy, as well as to maintain and enhance the system: liquid funds are being provided smoothly to various sectors of the economy; A new mechanism of interventions. We can conclude that at the present stage the country's banking system is healthy, has sufficient buffers of capital and liquidity, which is mainly the result of a consistent supervisory policy of the National Bank in the pre-crisis period.

– Based on the study and analysis of the Georgian banking system, it is established that at present, the possible negative impact of the pandemic on the financial sector is largely reflected, but there is still high uncertainty, including Finally on the timing of vaccination and the end of the pandemic. It is noteworthy that most of the banks in the country have dealt well with pandemic problems. The country's banking system is resilient, supervision measures continue, and this is a prerequisite for neutralizing potential losses, continuing lending to the real economy, overcoming the crisis relatively quickly and with less losses.

– As capital suppliers, banks can help the private sector adapt to the new economic reality, as well as promote national sustainable development programs. But in order for banks to be able to do this, to effectively integrate new methods of risk management, green and inclusive lending, and to support environmentally and socially inclusive enterprises, there must be an appropriate regulatory environment that provides appropriate conditions and economic incentives.

– Banks, in order to carry out stable operations and generate revenue in the long run, together with a proven set of services should offer customers almost all forms of online banking, as well as other digital innovations. More clarity, the ability to transform and fast maneuvering, along with the latest technologies, should become the most important point of the banks' activity. We think the future of banking looks like this – close collaboration between banks and fintech companies, especially given that in a volatile environment it becomes increasingly difficult to maintain and increase customer and profitability by independently developing a full suite of financial services and products.

– In the post-pandemic world, the fundamental risk factors are unlikely to change, but older risk management models and ways of using them need to be revised. Priority should be given to a holistic, comprehensive, business-based, active monitoring and active risk-based approach to risk management to ensure a sustainable foundation in the long run.

– Regulators should pay particular attention to and assess potential climate-related risks and their systemic impacts on financial institutions and markets in order to develop modern framework documents with a broader list of expectations. It should be analyzed in detail where banks are exposed to the increased financial risks posed by climate change, and in particular – particularly weak institutions. Supervisors should work actively to better integrate climate change risks into risk management processes, to develop and implement appropriate approaches and tools for risk measurement and mitigation, and to ensure transparent disclosure of risk information. Significant financial risks related to climate change can only be mitigated through early, agreed and joint response.

– The pandemic has not only accelerated the introduction of digital technologies, but it has become a real challenge for the digital infrastructure of banks. Institutions that have made significant investments in technology have proven to be much stronger. Despite significant advances in cyber security, the

volume, speed, and variability of threats continue to grow steadily. Further technological transformation needs to be continued and accelerated (especially in terms of core banking operations), as well as the expansion of cyber defense capabilities.

- Banks should make a structural transformation of costs, rationalize branches and representative offices. Part of the traditional branches can be replaced by a new generation of branches, where the full realization of digital perspectives, the interaction of digital and human resources, the optimal combination of new partnerships and new models of service delivery will take place. This will improve the quality of customer service and ensure their maintenance, as it is likely that there will be a risk of customer retention after the pandemic is over.

- In order to respond quickly to future challenges, banks need to reassess their global importance, conduct simulation exercises frequently, and improve information systems. Adequate levels of bank capital in the last decade have reduced the short-term stress of the pandemic, while the influx of deposits and state support for capital markets has minimized liquidity problems. We think that banks should carry out cost transformation, which should remain their top priority in the coming years. Until economic instability subsides, they must continue to maintain liquidity and focus on capital growth.

- It is desirable that some banks, especially small banks, use the opportunity to merge. The underlying causes of these processes may remain the same as in recent years, although the pandemic has significantly altered catalysts and vectors. It is obvious that banks have to endure strong volatility to make a profit. They are likely to need large-scale economies of scale to save, rationalize costs, and succeed.

- Our research shows that banks in Georgia pay great attention to the development of digital channels and offering products and services through remote channels, as well as the introduction of various innovations, but still attach great importance to face-to-face customer relations and consulting services. It is note-

worthy that the banks have a high level of trust in the pandemic activities of the National Bank of Georgia, which is undoubtedly the result of the bank's authority and timely and planned measures. Respondents believe that the banking system withstood the first wave of the pandemic with relatively few losses and was prepared to meet external shocks. According to the vast majority of respondents, the Georgian banking system is currently coping well with the increased risks associated with the pandemic.

In the form of recommendations, in order to increase sustainability, competitiveness and efficiency in an unstable global environment, the following may be offered to banks:

- Adjusting and optimizing business models, accelerating transformation processes, focusing on risk management in non-traditional risks;

- Focus on niche, specific groups of customers, retail, small and medium enterprises, as the main competitors of banks are non-financial and fintech companies, which are focused on these segments and quickly conquer the market;

- Transformation of the corporate culture of the bank – Introduction of a more customer-oriented model, which includes interaction with customers within the latest technologies, raising the qualifications and creative potential of the bank's employees;

- Active introduction of modern digital technologies, close cooperation with neo-banks / fintech companies / scientific and training centers, wider use of remote channels.

### **Conclusion**

Experience from the pandemic has once again confirmed the interconnectedness of the modern global financial system. Against the background of further uncertainty in the pandemic, the full, timely and consistent implementation of reforms requires close cooperation, accelerated crisis response, concerted action, adaptation and transformation processes, which will help increase the resilience of banks.

Thus, our conclusions and recommendations will help increase the efficiency and stability of the

banking system in an unsustainable economic environment, which should be taken into account by Georgian commercial banks and regulators. Scientific results of the research, the proposed directions of the functioning and development of the banking

sector can be used to study the stable functioning of the banking sector, further refinement of supervisory measures, further research and management of the impact on climate financial stability, as well as specific banking issues.

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