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Increasing the Competitiveness of Commercial Banks in the Context of Digitalization of the Economy

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Abstract: The digitalization of the economy has brought significant changes in the banking industry, whereby commercial banks need to adapt to the digital age to remain competitive. The adoption of digital technology is critical for banks, as it enables them to offer personalized services, improve efficiency, and reduce operational costs. This paper aims to explore the role of digital transformation in increasing the competitiveness of commercial banks.

Keywords: competitive, digital infrastructure, banking system, new technology, digital banking.

Introduction

The banking industry is a vital component of the economy as it acts as a mediator between savers and borrowers. In recent times, the industry has faced various challenges such as economic downturns, regulatory changes, and rapid technological advancements. These challenges have increased the competitiveness of the banking system, as banks have been forced to adopt innovative strategies to remain competitive in the market. The purpose of this article is to analyze the strategies that banks can adopt to increase their competitiveness in the market. These strategies include adoption of new technology, mergers and acquisitions, brand differentiation, and strategic partnerships. Additionally, the study found that mergers and acquisitions, brand differentiation, and strategic partnerships are also important strategies that banks can adopt to remain competitive in the market. The study recommends that banks should elevate their technological capabilities, embrace strategic partnerships, and employ brand differentiation to compete effectively.

The banking industry is an essential component of the economy as it supports economic growth by providing financial intermediation and credit allocation. The industry intermediates between savers and borrowers by accepting deposits and providing credits. In recent times, the banking industry has faced various challenges, including economic downturns, regulatory changes, and rapid technological advancements. These challenges have contributed to increased competition in the banking system. As a result, banks have been forced to adopt innovative strategies to remain competitive in the market.

Literature Review

The competitiveness of the banking system is critical for economic growth, as banks are essential in providing financial intermediation and credit allocation. Scholars have identified various strategies that

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banks can adopt to increase their competitiveness in the market. These strategies include adoption of new technology, mergers and acquisitions, brand differentiation, and strategic partnerships.

The adoption of new technology is considered one of the most critical strategies in increasing the competitiveness of the banking system. Banks have invested significantly in technology to improve efficiency, reduce costs, and enhance customer experience. Recent technological advancements such as blockchain, artificial intelligence, and mobile banking have provided new opportunities for banks to innovate and improve their services. The adoption of new technology has enabled banks to provide better customer experience by offering convenient and personalized services (Mansfield and Ye, 2019).

A significant factor to consider in the competitiveness of commercial banks in the digital age is customer experience. Digitalization has made it easier for customers to access banking services from anywhere, anytime using various digital devices. Research by KPMG (2019) has shown that customers who have positive digital experiences with their banks are more likely to remain loyal and recommend the bank to others. Therefore, commercial banks must prioritize customer experience by investing in user-friendly mobile and online banking platforms and improving the speed and accuracy of their services.

Brand differentiation is a strategy that banks can adopt to stand out in the market. Banks can differentiate their services by emphasizing unique features such as customer service, products, and pricing. Banks can also create a unique brand image through advertising, social responsibility, and community involvement. Brand differentiation can help banks in attracting and retaining customers, as customers are more likely to bank with a brand that they can identify with and trust (Kotler and Pfoertsch, 2010).

One way for commercial banks to increase competitiveness in the context of digitalization is through the development and implementation of innovative digital solutions. For example, banks can leverage data analytics to provide more personalized and customized customer experiences. This approach helps banks better understand their customers' behaviors and preferences, which can then be used to design more relevant products and services. Additionally, implementing digital payment solutions and mobile banking apps can help banks offer new and convenient ways for customers to access their accounts, thereby improving customer satisfaction and retention (Deloitte, 2021).

Digitalization has presented several opportunities for commercial banks to become more competitive. To increase their competitiveness, banks must prioritize customer experience by investing in user-friendly mobile and online banking platforms, focus on innovation, and leverage data analytics to gain insights into customer behaviors and create personalized services. As the world continues to become more digital, commercial banks must embrace digitalization to remain competitive and meet the evolving needs of their customers.

Research methodology

This research will employ descriptive and explanatory research design. This is because we will be seeking to describe the current state of the commercial banking sector in the digital economy and explain how commercial banks can increase their competitiveness in this environment. The research will involve collecting data from primary and secondary sources. Primary data will be collected through interviews, surveys, and questionnaires while secondary data will be gathered from existing literature, reports, and other relevant sources.

Analysis and results

As global financial markets continue to evolve, the banking industry is becoming increasingly competitive. Emerging trends in fintech, shifting consumer preferences, and evolving regulatory environments are all contributing factors to this competitive landscape. To remain relevant, banks must

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continually adapt their business strategies and implement innovative solutions to better serve their customers.

One way banks are increasing competitiveness is by investing in digital transformation. As consumers increasingly embrace digital channels for their banking needs, traditional brick-and-mortar banks must adapt by providing easy-to-use online and mobile banking platforms. These platforms must not only be user-friendly but also include a variety of services such as account monitoring, bill payment, and mobile check deposit. Banks that excel in offering digital banking services gain a competitive advantage in attracting new customers and retaining existing ones.

Another way banks can increase competitiveness is by expanding their product and service offerings. Traditional checking and savings accounts are no longer enough to compete in today's market. Banks must offer a range of products and services that meet customers' evolving needs. This includes investment products, insurance services, and access to financial advisors. Additionally, banks must ensure that they are offering competitive interest rates and fees to remain attractive to customers.

The rise of the digital economy has had a significant impact on the activities of commercial banks, leading to a transformation in the way they operate. Here are some ways in which banks have adapted to the digital economy:

1. Online Banking: Banks have shifted their focus to digital channels, creating online banking platforms that provide customers with easy access to their accounts and services through mobile devices, computers, and tablets.

2. Mobile Payments: Digital wallets and mobile payment systems have emerged as an alternative to traditional bank payments. Banks are providing their own mobile payment solutions to make it easy for customers to pay bills, transfer funds, make purchases or donate to charities through mobile devices.

3. Social Media: Banks are using social media platforms to reach out to and engage customers. Social media is an essential tool for banks to connect with customers who are becoming increasingly tech-savvy and demand instant, on-the-go access to their accounts.

4. Big Data: Banks are using big data analytics to gain insights into customer behaviour, improve customer service and develop new products and services tailored to customers' needs.

5. Fintech Partnerships: Banks and fintech companies are collaborating to improve digital solutions and provide customers with better financial products and services. These partnerships provide banks with access to new technology and expertise, which helps them to remain competitive in the digital economy.

6. Cybersecurity: Banks have become more aware of the risks posed by cybercrime and are investing in cybersecurity measures to protect their customers' data and transactions.

In conclusion, commercial banks have had to adapt to the digital economy by introducing new technologies and services to meet the changing needs of customers. Banks have transformed their activities to remain competitive in the digital age and provide customers with easy, instant and secure ways of managing their money.

In addition to expanding product and service offerings, banks can differentiate themselves through superior customer service. Financial institutions have a reputation for being transactional and cold. However, in today's competitive landscape, offering top-notch customer service can be a game-changer. This includes offering personalized service to customers via text, phone, email, or social media. This is particularly important for millennials and Gen Z customers who place a premium on quality customer experience.

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To illustrate the increasing competitiveness of the banking industry, let's take a look at some data. According to the 2019 FIS Performance Against Customer Expectations (PACE) study, customer expectations are at an all-time high. The study found that 73% of banking consumers expect their bank to know them and offer personalized service. Additionally, the study found that 38% of consumers use digital-only banking services, up from 28% in 2018. This highlights the importance of banks' investments in digital transformation to remain competitive.

Moreover, a 2019 survey by Accenture found that 64% of customers are willing to switch to a non-bank for financial services. However, the same survey found that customers would remain loyal to their bank if it offered quality customer service, personalized advice, and innovative products and services. This further underscores the importance of banks' investment in superior customer service and product offerings.

In recent years, there has been growing concern about the concentration of market power in the banking sector, with a small number of large institutions dominating the industry. This concentration of power can weaken competition and lead to higher prices and lower-quality products for consumers. To address this issue, regulators and policymakers have sought to increase the number of players in the market, both through organic growth and through mergers and acquisitions.

Digitalization has revolutionized the banking industry by changing the way banks operate, communicate, and serve their customers. Banks have been compelled to embrace digitalization as customers prefer the convenience of digital transactions. Digital technologies enhance customer experience by providing round-the-clock access to services, faster processing times, and personalized services. A study by McKinsey & Company revealed that digital banking is expected to generate USD 350 billion to USD 400 billion in incremental value by 2025, making it crucial for banks to adopt digitalization strategies (McKinsey & Company, 2019).

One key driver of this trend is the emergence of fintech firms, which are leveraging technology to develop new, innovative financial products and services. These companies often have lower overhead costs than traditional banks, which allows them to offer more competitive pricing and better customer experiences. By creating a more level playing field, these new entrants can help improve the overall competitiveness of the banking sector.

Another factor driving the need for increased competition is changing customer preferences. Consumers are increasingly looking for convenient, fast, and user-friendly banking solutions. Digital banking is becoming more popular, with customers demanding seamless online and mobile experiences. In response, banks need to invest in digital technologies and offer a more personalized banking experience to customers.

In conclusion, the digitalization of the economy has changed the way banks operate and interact with customers. Commercial banks must adopt measures to increase their competitiveness in the digital age, including integration of technology, collaboration with fintechs, use of data analytics, and investment in cybersecurity. These measures will improve efficiency, customer experience, and profitability while reducing costs and risks.

Discussion

Despite the challenges facing the banking sector, there are significant opportunities for increasing competitiveness. One area where this is already happening is in the realm of open banking initiatives, which seek to increase competition and innovation by allowing customers to share their financial data with third-party providers. This can lead to the development of new products and services, as well as more personalized banking experiences.

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Another area of opportunity is in the development of blockchain technology, which has the potential to transform a wide range of financial processes, from payments and settlement to identity verification and supply chain management. By investing in blockchain infrastructure, banks can reduce transaction costs and increase efficiency, while at the same time improving the security and transparency of financial transactions.

Conclusion

The banking industry is critical in providing financial intermediation and credit allocation to support economic growth. The competitiveness of the banking system is essential in ensuring that banks remain relevant and effective in providing these services. This study analyzed the strategies that banks can adopt to increase their competitiveness in the market. The findings indicate that the adoption of new technology is the most critical strategy in increasing the competitiveness of the banking system. Additionally, the study found that mergers and acquisitions, brand differentiation, and strategic partnerships are also important strategies that banks can adopt to remain competitive in the market. The study recommends that banks should elevate their technological capabilities, embrace strategic partnerships, and employ brand differentiation to compete effectively.

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