

Jie Yang

School of Business of BSU, Minsk, Belarus, yengkit6666@gmail.com

ANALYSIS OF THE DEVELOPMENT OF SMALL AND MEDIUM-SIZED COMMERCIAL BANKS UNDER DIGITALIZATION

Commercial banks are an important part of the financial system, and these banks play a crucial role in the process of regional economic development. Small and medium-sized enterprises are the foundation of the stable operation of the national economy. The main responsibility and business of small and medium-sized banks is to provide financial services to small and medium-sized enterprises. In recent years, the assets of small and medium-sized banks have continued to increase, and some financial services and products have been launched one after another. However, the ensuing changes in the external environment have also brought enormous pressure. This article summarizes the opportunities and challenges faced by the development of small and medium-sized commercial banks at this stage, and gives a view of the transformation and development of small and medium-sized commercial banks in the context of digitalization.

Keywords: commercial banks, digitalization, development, application, advantages and disadvantages

Цзе Ян

Институт бизнеса БГУ, Минск, Беларусь, yengkit6666@gmail.com

АНАЛИЗ РАЗВИТИЯ МАЛЫХ И СРЕДНИХ КОММЕРЧЕСКИХ БАНКОВ В УСЛОВИЯХ ЦИФРОВИЗАЦИИ

Коммерческие банки являются важной частью финансовой системы, и эти банки играют важнейшую роль в процессе регионального экономического развития. Малые и средние предприятия являются основой стабильной работы национальной экономики. Основная обязанность и деятельность малых и средних банков заключается в предоставлении финансовых услуг малым и средним предприятиям. В последние годы активы малых и средних банков продолжали увеличиваться, а некоторые финансовые услуги и продукты запускались один за другим. Однако последовавшие за этим изменения во внешней среде также оказали огромное давление. В данной статье обобщаются возможности и проблемы, с которыми сталкивается развитие малых и средних коммерческих банков на данном этапе, и дается представление о трансформации и развитии малых и средних коммерческих банков в условиях цифровизации.

Ключевые слова: коммерческие банки, цифровизация, развитие, применение, преимущества и недостатки

Small and medium-sized banks are an important part of the national financial system and play an important role in the development of small, medium and micro enterprises and regional economies. And small and micro enterprises are the basis for the stable operation of the national economy, and the supply of financial services by large commercial banks to small and micro enterprises often cannot fully meet the financial credit needs of small and micro enterprises. With the continuous growth of small and medium-sized banks, small and medium-sized commercial banks around the world have successively launched a series of special products to cover market gaps. It is still an issue that small and medium-sized banks need to pay close attention to. This article summarizes the advantages and disadvantages of small and medium-sized commercial banks in adopting digital transformation at the current stage, and the development status of digital development in the transformation of small and medium-sized commercial banks.

Advantages and disadvantages of small and medium-sized commercial banks in development. As of January 1, 2022, the total number of commercial banks in the Republic of Belarus is 22, and

the assets of the banks of the Republic of Belarus amounted to BYN 100 billion (USD 34 billion), demonstrating an increase of 6 % over 2021 [1]. There are 12 small and medium-sized commercial banks with assets below 800 million, as shown below table.

Assets on small and medium-sized commercial banks of the Republic of Belarus

Bank	on 01.01.2022, million BYN
БНБ-Банк	794,90
Технобанк	743,20
Паритетбанк	665,90
БСБ Банк	454,10
РРБ-Банк	434,40
БТА Банк	395,00
Банк «Решение»	244,40
ТК Банк	210,40
Франсабанк	192,00
АБСОЛЮТБАНК	165,40
Цептер Банк	149,50
Статус Банк	89,50

Source: [2].

Under the circumstances of turbulent international situation, fierce competition in the industry, changes in customer needs and further improvement of financial regulatory laws, small and medium-sized commercial banks are facing problems of limited assets and liabilities, insufficient investment in technology and increased risks, small and medium-sized commercial banks have stood at the crossroads of transformation and development.

In terms of asset structure, since the scope of business is mostly limited to the local area and restricted by the local economic situation, small and medium-sized commercial banks account for a relatively low proportion, and the asset structure is relatively rigid. In terms of corporate business, small and medium-sized commercial banks still focus on traditional credit business, and the development of innovative credit products such as supply chain finance is lagging behind.

In terms of liability structure, compared with large commercial banks, small and medium-sized banks have fewer branches and lower office network density. These reasons make small and medium-sized commercial banks lack a customer base and have a low ability to absorb deposits [3]. In addition, due to differences in capital scale and shareholders, it is difficult for small and medium-sized banks to compete with large commercial banks in terms of credit ratings, resulting in customers lacking sufficient trust in banks, and these factors lead to costs on the liability side.

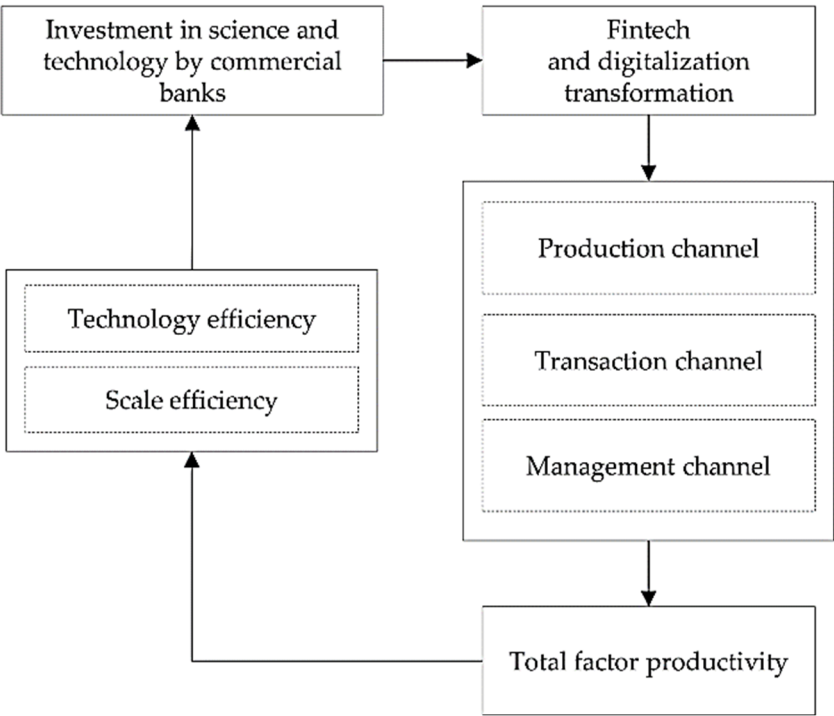
There is a gap between small and medium-sized commercial banks and large commercial banks in terms of business volume and variety, and it is difficult to replicate the successful experience of large commercial banks in developing economies of scale. However, small and medium-sized commercial banks have been rooted locally for a long time, have a more accurate grasp of the needs of customers in the region, and have more efficient information transmission with customers in the region, with certain regional and customer group advantages.

Digital transformation and applications for small and medium-sized commercial banks. In the context of digitalization, the financial industry is also actively seeking digital transformation. Scenario marketing is an indispensable part of digital finance. Scenario marketing directly determines the number of customers and the number of high-quality customers, and Chinese companies have achieved considerable results in this regard, such as, Ant Group based on the Taobao e-commerce scenario or WeBank based on WeChat social media scenario [4]. And these means of acquiring customers often do not take the financial ecology as the entry point, directing users to financial scenarios through non-financial scenarios is a new and more efficient method of customer acquisition [5]. For small and medium-sized commercial banks, there are only three options. One is to build an Internet digital scene by themselves, but this is not realistic. The second is to directly cooperate with Internet companies or social media companies that have a customer base to obtain a large number of customers in a short period of time, but this is only limited to China’s experience and does not prove whether it is also applicable to other countries. The third is to maintain the traditional commercial bank model, which is more mature and stable. This is one of the reasons why most commercial banks have not yet chosen digital reform.

Traditional commercial banks’ review of retail credit customers is based on the investigation and understanding of customers by credit account managers, as well as the knowledge of customers’ existing financial assets and transactions in the bank. The big data of digital application is through the in-depth analysis of data, commercial banks can easily obtain more extensive data information of customers, and provide rich information for commercial banks to better screen and judge customers in retail credit business methods. It can help banks improve lending efficiency while effectively preventing lending risks.

From the perspective of the overall structure, the following points need to be paid attention to in order to form positive feedback from digital reform:

1. As shown in Figure, commercial banks, especially large commercial banks in the leading position in the industry invest in new digital technologies, and large commercial banks begin to carry out digital reform, the first is the production channel, through which more efficient production technologies generate savings and lead to improved production efficiency.



An analytical framework for commercial bank productivity improvement

2. The transaction channel, through which commercial banks' transaction costs such as customer searching, transaction negotiation, and contract implementation are lowered through the adoption of fintech and digitalization toolkits.

3. The management channel, through which the internal management efficiency is advanced. The improvement of total factor productivity will boost the technology's efficiency and scale efficiency for commercial banks when the digital transformation reaches a certain level, the efficiency of productions, transactions and managements will be highly increased, this is the circle of positive feedback mechanism.

And for small and medium-sized commercial banks, this positive feedback mechanism is also applied, the reason is small and medium sized commercial banks have more flexibility in management than larger commercial banks such as low cost on management reform and personnel training, therefore, it is not necessarily big investment on technology gets big success.

In order to gain the competitiveness for small and medium size banks compare to large commercial banks due to its limited assets: 1. Digitalization will support small medium size banks such as new financial products(credit retail) or provide quick and easy operations for remote users to form a differentiated competition in the industry. 2. Less reliance on external investment because of the scale of small medium size banks, its management level of flexibility and low cost on digitalization transformation. 3. With the support of big data and in-depth analysis, small and medium-sized commercial banks can easily assess the status of customers and decide whether to lend, which can improve the loan recovery rate to a certain extent (less lending risk). 4. For traditional banks, digitalization and cooperation with Internet companies can gain a large customer base and increased retail sales in a short period of time (scenario marketing). Although the digital transformation of commercial banks is not groundless, and many countries have followed up. But, the application of digitalization in finance does not apply to all countries, but none of these prevents a country from being an observer.

References

1. Наривончик, Д. 1 января – День банковских и финансовых работников [Электронный ресурс] / Д. Наривончик // Экон. газета. – 2022. – № 99 (2596). – Режим доступа: <https://neg.by/novosti/otkrytj/bankovskij-sektor-itogi-raboty-za-iii-kvartal-2022/>. – Дата доступа: 15.03.2023.

2. Обзор банковского сектора Республики Беларусь и рэнкинг банков по итогам 2021 года [Электронный ресурс] // BIK Ratings. – 2022. – Режим доступа: <https://bikratings.by/wp-content/uploads/2022/06/renking-bankov-po-itogam-2021-goda-1.pdf>. – Дата доступа: 15.03.2023.

3. The emerging market MSME bank of the future [Electronic recourse] / M. Chironga [et al.] // Micro-, small and medium-sized enterprises in emerging markets:how banks can grasp a \$350 billion opportunity. – 2012. – P. 35–38. – Mode of access: <https://andeglobal.org/publication/micro-small-and-medium-sized-enterprises-in-emerging-markets-how-banks-can-grasp-a-350-billion-opportunity/>. – Date of access: 15.03.2023.

4. Kapron, Z. Social Networks, e-Commerce Platforms, and the Growth of Digital Payment Ecosystems in China: What It Means for Other Countries / Z. Kapron, M. Meertens // The better than cash alliance. – 2017. – P. 27–39.

5. Schmidt, J. Customer Acquisition Cost (CAC) [Electronic recourse] / J. Schmidt // CFI Education Inc. – Mode of access: <https://corporatefinanceinstitute.com/resources/accounting/customer-acquisition-cost-cac/>. – Date of access: 15.03.2023.