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ORGANIZATION OF COMMERCIAL BANK ACTIVITIES IN A DIGITAL ENVIRONMENT

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Abstract: In modern economic conditions, there is a total digitalization of the economic activity of subjects. Digitalization affects all segments of society, especially the economy and business. Digital transformation opens up new unforeseen opportunities and new activities for a company that lead to new forms of strong relationships with its customers and employees, the transformation of its business processes and the creation of a new business model. Digital technologies as the main driver of change are at the epicenter of digital transformation. As digitalization is an important topic for many businesses today, this master's thesis explores the impact of digitalization on the business model of companies and how digital technologies are shaping the process of digital transformation of companies in the banking industry.

The purpose of the work is to determine the impact of digitalization on the activities of second-tier banks in the Republic of Kazakhstan. The study will be based on the financial statements of second-tier banks, company surveys and various reports from the National Bank of the Republic of Kazakhstan.

Moreover, the impact of one of the most significant phenomena for second-tier banks (bank digitalization) on the activities of banks is analyzed using data on the financial performance of each bank.

Key words: Banking sector, financial indicators, comparative analysis, digitalization, regression analysis, digital products, pandemic etc.

Does digitalization matter?

In modern economic conditions, there is a total digitalization of the economic activity of subjects. The banking sector and the activities of financial organizations in general, have found themselves in the center of global changes, the transition to a completely new plane of relationships with customers, the banking community and the state. Digitalization of production processes, the transition to the “digital” of the vast majority of customers, which requires banks to adequately develop and respond to the challenges of our time, developing global trends. The financial sector in particular fintech enterprises, virtual financial institutions based on digital technologies, will radically change the country's banking landscape in the near future.

According to Khin & Ho (2018), companies nowadays need to be involved in the digitalization process and succeed in digital transformation because digital technologies can bring important business improvements such as improved customer service and engagement, streamlined business operations, and even digitalization is creating entirely new business models. Otherwise, the firm may face stiff competition

and become weak in order to survive in today's market. Digitalization is changing and shaping the modern market, and one of its main characteristics is the extraordinary speed of change, volatility (constant and massive changes) and the growing level of connectivity and convergence of the worlds: physical, social and digital (Urbach & Röglinger). , 2019; Zaki, 2019). Thus, in the current market conditions, it is vital for modern companies to be flexible and open to technological changes, critically analyze the current business strategy and be ready for these changes in time (Zaki, 2019).

The topic of digital development and digitalization remains contemporary to this day, because among researchers in the academic literature (Bouwman et al; Ilcus; Rachinger et al; Schallmo & Williams), and among industry experts who conduct ongoing research in this area, such as McKinsey, Gartner, PwC, Deloitte, Ernst&Young (EY), Cisco.

To date, the concepts of digital products and services have been well understood already in the 1990s and 2000s (Schallmo & Williams, 2018). For example, when looking at retail marketing campaigns (Vogel & Hultin, 2018) as meaningful and effective digital channels, even consumers still shopped primarily in physical stores and for cash. Between 2000 and 2015, the proliferation of smart gadgets and social media platforms has fundamentally changed the way customers and businesses around the world communicate, as well as consumer expectations for omnichannel availability and response times. Companies have realized that there is an opportunity to communicate with their customers digitally and on a one-to-one basis. What's more, businesses have begun to discover the incredible opportunity to collect valuable real-time insights about their consumers, thanks to the greater interconnectedness of digital technologies. The ever-growing trend towards digital payments, such as PayPal, has also contributed to the formation and rapid development of the online market.

Digital trends shape customer behavior and set the direction for business development and growth. The integration of new technologies into the business as a whole can lead to improved operational efficiency and increase the company's competitiveness in the market. By going digital, companies can discover new perspectives and networking opportunities for collaboration between different market participants, face potential associated risks, and embrace modern digital technologies.

Impact of digitalization on banks

Back in 2019, an article published by the Eurasian Development Bank dedicated to the digitalization of Kazakhstan, where Kazakhstan, Russia and Armenia are leaders among the member states of the Eurasian Development Bank according to the Digital Implementation Index (DII). This stated in a special EDB report on the digital potential of the countries of the region. As the authors of the report note, in recent decades, the global economy has been undergoing a digital transformation, which causes significant changes in all spheres of life.

Assets of Kazakh banks by the beginning of this year amounted to 31.17 trillion tenge - 2.6% more than a month earlier, and immediately 16.3% more than a year

ago. In the crisis “pandemic” 2020, 19 out of 26 STBs of the Republic of Kazakhstan and 8 banks from the top ten managed to increase their assets.

Therefore, we see a certain paradox that the banking sector, despite the declining economy of Kazakhstan, even managed to increase its financial performance for 2020. It can be argued that even taking into account the pandemic, banks in Kazakhstan most likely had an additional advantage in the form of digital technologies, which they rapidly developed during this period.

To date, the digital revolution in the banking sector has led to the fact that the largest credit organizations are implementing online solutions, artificial intelligence, creating marketplaces and entire ecosystems that are easy to use, fast in service, carry a huge flow of information and, most importantly, already a third of Kazakhs actively use them. The image of a classic financial institution, conservative and sluggishly responsive to changes in reality, is no longer relevant. Nowadays, banks are forcing to develop and modernize the range of products and services in order to meet innovative technologies. Innovations are the most important condition for the promotion of the bank in the financial market, and, consequently, for increasing the client base and profit growth. The fierce pace of competition among credit institutions is a powerful impetus for the formation of a wide range of services, new forms of interaction with the client and new innovative products.

Customer focus, personalization of offers, detailed market segmentation, mobility, remote service are the key components of commercial banks' activities to provide digital products and services in today's economic realities. For their implementation, emphasis is placed on a successful customer experience, as well as on the introduction of technologies that support the loyalty of the customer base. At the same time, the digital bank must develop, keeping up with the speed of changes taking place around. To maintain an innovative rhythm, a bank needs the flexibility that an “Agile” culture can provide - both in the development of solutions and in the architecture of building IT systems. New digital products of the bank are increasingly creating their own digital teams that combine the competencies of business, IT and marketing. Most large banks tend to focus their digital expertise internally, historically having large IT departments.

More than 50% of the development of new services and the differentiation of the banking business today are provided through digitalization. This process is very costly: it “eats up” up to 80% of commercial banks' investments in business development.

Conclusion

In general, digitalization is a phenomenon that is happening everywhere. Summarizing all the facts described in the observations, we can say that digitalization is very closely related to the banking sector of Kazakhstan.

The main goals of the digitalization of financial institutions are obvious: the organization of accounting and business processes related to lending.

There is competition among second-tier banks. It was in 2020 that many banks began to follow the example of Kaspi Bank and improving their mobile applications and develop the digital ecosystem.

During the pandemic, digital technologies in the field of banking services have gained particular relevance. Many processes that were previously carrying out in the traditional format with visits to financial institutions, appeals to managers, have been transfer to an electronic format. In principle, this approach is very convenient for the population. Understanding this, second-tier Kazakh banks began to actively introducing new services.

For quite a few years now, experts have been talking about the breakthrough that digital transformation will lead. Covid 2020 largely stimulated the digital drift of both commercial banks and their clients. Digital services have become more than just familiar to them. Without them, interaction between business and its audience is no longer possible.

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